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PRESIDENT'S 1967 SURTAX PROPOSAL: CONTINUATION OF HEARING TO RECEIVE FURTHER ADMINISTRATION PROPOSAL CONCERNING EXPENDITURE CUTS—NOVEMBER 1967

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

FIRST SESSION

ON

PRESIDENT'S 1967 SURTAX PROPOSAL: CONTINUATION OF HEARING TO RECEIVE FURTHER ADMINISTRATION PROPOSAL CONCERNING EXPENDITURE CUTS

NOVEMBER 29 AND 30, 1967

Printed for the use of the Committee on Ways and Means

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PRESIDENT'S 1967 SURTAX PROPOSAL: CONTINUATION OF HEARING TO RECEIVE FURTHER ADMINISTRATION PROPOSAL CONCERNING EXPENDITURE CUTS—NOVEMBER 1967

WEDNESDAY, NOVEMBER 29, 1967

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

As will be recalled, on October 3 last, the committee adopted a resolution temporarily laying aside the administration's tax surcharge proposal until such time as an understanding could be reached between the President and the Congress on a means of employing more effective expenditure reduction and controls as an essential corollary to further consideration of the tax increase.

Without objection, I would like the text of that committee resolution in the record at this point.

(The resolution referred to follows:)

MOTION OFFERED BY MR. WATTS OF KENTUCKY

I move that the Committee temporarily lay this matter on the table and that further consideration of the tax increase be deferred until such time as the President and the Congress reach an understanding on a means of implementing more effective expenditure reduction and controls as an essential corollary to further consideration of a tax increase, and that at such time this matter will again be given priority in the Committee's order of business.

The CHAIRMAN. Since that date, the committee schedule has been kept open, and we have had no meetings in order that we might be in a position to immediately consider any further proposal of the administration on this subject.

Several days ago, Secretary Fowler advised me that the administration did have a new proposal to make with respect to expenditure reductions and controls. We, therefore, announced this public hearing in order that the committee might receive from officials of the administration this new proposal.

We are pleased to have with us today the Secretary of the Treasury, Hon. Henry H. Fowler, and the Director of the Bureau of the Budget, Hon. Charles L. Schultze, to present the administration's expenditure reduction proposal.

We also have as a witness the Chairman of the Board of Governors, Federal Reserve System, Hon. William McChesney Martin, Jr., who

will present a statement to the committee and be available for questions from the committee.

If it is agreeable with the committee, I shall suggest that we receive all three statements first and then the committee interrogate the three winesses following the conclusion of their statements.

No objection is heard so we will proceed in that order.

Mr. Secretary, I understand you want to make the opening statement, Mr. Schultze the second statement, and Mr. Martin the third statement. Is that right?

STATEMENTS OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; AND HON. WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Secretary FOWLER. That is correct, sir.

The CHAIRMAN. All right, sir. Mr. Secretary, we are always glad to have you with us, and you are recognized, sir.

STATEMENT OF HON. HENRY H. FOWLER

Secretary FOWLER. Thank you. Mr. Chairman and members of the committee, I am here today to present the administration's specific recommendations, in the words of your resolution of October 3, for "an understanding between the President and the Congress on a means of implementing more effective expenditure reduction and controls" as a corollary to the President's tax increase proposals. That was the language of the resolution which has just been made a part of the record.

Permit me to appeal to you both on an official and personal basis to report promptly and favorably a bill to the House embodying these recommendations.

I have appeared before this committee many times in the last 6 years. We have faced many situations together. I am proud of the record of fiscal initiative, flexibility, and responsibility we have built together with beneficial results to the Nation's economy.

But never have we been confronted by a fiscal problem which, in my judgment, was more decisive for our country and the free world. Never have I been more convinced of the appropriate course of action to meet the problem.

It is my deep-seated, personal conviction, which I wish to stress with all of the earnestness at my command, that favorable action by the Congress on the proposals to be placed before you cannot be further deferred without undue and unacceptable risk to the Nation's economic and financial structure and the international monetary system.

We should not wait any longer. Delay can be as damaging as defeat. It is unthinkable to me to allow this session of Congress to conclude without an all-out effort by all responsible forces to enact into law the proposals to be presented today.

In order to be specific, I am submitting our recommendations in the form of a bill. This bill has two titles—one embodying the President's tax increase proposals; the second presenting a specific statutory plan

and provision for expenditure reduction and control for the fiscal year 1968.

The prompt enactment of this proposal at this session of Congress would:

Reduce the deficit in the administrative budget by more than $11 billion.

Bring the currently estimated deficit from a range upward of $25 billion to below $14 billion.

Reverse the trend toward increased deficit financing which began with our increased participation in hostilities in Southeast Asia in the fiscal year 1966.

Take a giant step in providing the confidence and stability in financial markets here and abroad which is based on the strength of the dollar and the U.S. economy.

Reduce appreciably the most important source of pressure on our credit markets: the huge overhang of Federal borrowing which steadily moves up interest despite an easy monetary policy.

Remove the threat to our housing industry which is in the process of a needed recovery.

Remove the risk of a credit crunch that will deprive States and local governments and small business of ready access to credits.

Reverse the trend from a creeping to an accelerating inflation and turn the economy back toward price stability and wage changes more closely related to increased productivity.

Halt movement toward another disruptive inventory cycle.

Prevent our returning to the old pattern of "boom and bust."

Protect, maintain, and expand our trade surplus which is the mainstay of our balance-of-payments position and which is vitally important to the preservation of international confidence in the dollar.

When I appeared before this committee on August 14, I presented these basic overall reasons which had led us to the conclusion that the prompt enactment of the President's fiscal program—tax increases joined with expenditure reductions—was the "sound, fair, and fiscally responsible choice of the alternatives open to this committee, the Congress, and the American people."

Developments since August 14 serve to confirm those overall reasons advanced on that day and underscore the urgency of the administration's request for action. A supplementary statement to my statement summarizing the intervening economic and financial developments supporting these overall reasons is submitted for the convenience of the committee. But in the interest of time and getting on to the plan of expenditure control I will omit any reference to it here.

The CHAIRMAN. Mr. Secretary, that will be included, without objection, in the record immediately following your statement.

Secretary FOWLER. The supplementary statement deals on pages 1 through 9 with the general economic outlook and pages 9 through 16 with what has happened to the money and credit markets and the interest rate outlook, and then finally pages 16 to 20 deal with the balance of payments and the position of the dollar.

TWO NEW REASONS FOR PROMPT ACTION

Now, Mr. Chairman, two significant reasons not present in August make the prompt adoption of proposals along the lines of those in the bill before you an inescapable responsibility of the Congress.

The first reason is that the devaluation of the British pound last Saturday a week, with the ensuing disturbances in the gold and financial markets, calls for prompt and special measures to protect the dollar and the international monetary system. Dealing decisively with our budget deficit has the highest priority.

We must recognize that the gold exchange standard which is the basis of the international trade and payments system on which the world trade and prosperity has been based since World War II is being tested, and tested very seriously, by those who speculate, by those who are fearful, and by some in official positions who prefer a different system.

We must recognize that this Nation's political, military, diplomatic, and commercial position outside our borders, and, with it, our national security, depends in large measure on the maintenance of financial stability in the free world.

We must recognize the need to take steps designed to assure confidence and stability in financial markets here and abroad which depend on a sound dollar and a prosperous, stable U.S. economy.

We must recognize, in short, that the dramatic international financial events of the past 2 weeks underline more forcefully than could any rhetoric and argumentation on my part the high responsibility that we bear for the maintenance of a stable international economic system.

There are two means by which we can preserve these stakes. First, by practicing multilateral financial cooperation with other leading financial nations in the International Monetary Fund and other related multilateral economic and financial institutions.

Second, by maintaining a strong dollar through positive decisive action to reverse the current trend to increasing deficits in our budget and our balance of payments.

The sterling devaluation—even though it was felt necessary by the United Kingdom and is being supported by all the major countries of the world—is a shock to markets, domestic and international. The dollar is basically strong, and by reaffirming our determination to buy and sell gold at $35 an ounce, we are maintaining the system of fixed exchange rates in which world trade has flourished.

But—even before a sterling devaluation—delay and inaction on taxes and on diminishing our prospective deficit was weakening confidence in the dollar and the gold exchange standard. These are the foundations of the international monetary system.

The present situation makes it even more imperative that we insure the strength of the dollar by insuring the strength of the U.S. economy.

Make no mistake about it—confidence in the dollar and the international monetary system depends on the ability and determination of the U.S. Government to act responsibly.

There is a widely held feeling in financial circles at home and abroad that a meaningful reduction in our budget deficit by reducing expenditures and a tax increase is an essential element of responsible financial policy.

The second new reason for prompt adoption of the proposals presented is the clear and evident truth that only by the passage of this type of measure can the U.S. Government substantially reduce the budget deficit and keep this Nation on the course of fiscal responsibility.

There were some in the Congress in August who would have met the

challenge of the deficit by a temporary tax increase plus some minor economies; there were some who would rely on massive, long-range economies without a tax increase or a minor and belated one; there were some who wanted a specific program of expenditure reduction and controls, balanced with a meaningful but temporary tax increase; and there were some who wanted neither a tax increase nor economies, following a "the sky's the limit" policy as far as deficit financing is concerned.

It seems high time for the first three groups who are in agreement on the need to reduce the deficit to pool their forces to take decisive action, rather than by inaction and delay forfeit the fiscal responsibility of this Congress.

In August when the President reported a prospective deficit of $29 billion only three of the 14 appropriation bills for fiscal 1968 had been enacted. The President, in his message, urged "the Congress to exercise the utmost restraint and responsibility in the legislative decisions which are to come."

As of today, the Congress has passed all but two of the appropriation bills for fiscal 1968.

Both the House and Senate, therefore, have taken legislative action in the normal fashion dealing with expenditures in the face of this deficit.

The chairman of the House Appropriations Committee has stated that congressional action taken and anticipated in the traditional process is likely to reduce new spending authority proposed in the budget by up to $6 billion—thereby reducing actual expenditures this year, next year, and in some cases, in the years to follow, by that total.

As a result of appropriation actions to date (amounting to appropriation reductions of $4.5 billion) actual expenditures in the form of cash outlays in fiscal 1968 will be reduced by only about $1.5 billion because much of the appropriation action affected spending in future years.

Therefore, it is clear to all who would exercise any realism that the deficit for fiscal 1968 will not be reduced sufficiently by these actions. Both larger expenditure reductions and a substantial tax increase are needed to reduce the deficit to manageable proportions.

It is equally clear that the best way for Congress and the administration to join together in a combined effort reflecting the will and decision of both branches to reduce meaningfully this deficit is to enact the President's tax proposals, and special legislation that will insure additional expenditure reduction.

That is the plan before you.

BACKGROUND OF PLAN

In January the President recommended that a temporary tax increase in the form of a 6-percent surcharge be adopted in the summer of this year as a part of the fiscal 1968 budget to help finance the increased costs of the war. The level and timing of that recommendation were based on the anticipated course of the economy as the facts then in hand indicated.

The President reviewed that recommendation last summer in the light of both the outlook for increased expenditures and reduced

revenues and the economic and financial situation that then existed and the expectations for the months ahead.

He concluded that the situation called, as it did before, for a tax increase. But in view of the substantial increase in the prospective deficit he concluded that his January tax proposals should be enlarged and a determined effort inaugurated to reduce controllable expenditures in the January budget.

In his tax message of August 3, he recommended a 10-percent surcharge and continuation of expiring excise taxes. Moreover, that message contained a fiscal program for reducing the prospective deficit by combing a tax increase and expenditure reduction and control.

As you will recall, in his tax message the President declared that to accept the prospective deficit and totally finance it "by additional borrowing, which itself would drive up interest rates * * * would be fiscally and financially irresponsible under present conditions."

He posed a second alternative; namely, that "the deficit could be reduced by regularly controlling expenditures, raising as much money as possible through increased taxes, and then borrowing the difference."

He declared the second alternative "is the only way to maintain a strong and healthy economy." Accordingly, he presented for "the judgment and action" of the Congress a fiscal program with two essential elements:

"Expenditure restraint to which this administration is committed and which I urge upon the Congress," and

"Tax measures to increase our revenues."

With most of the appropriation bills still pending then before the Congress, the President urged "the Congress to exercise the utmost restraint and responsibility in the legislative decisions which are to come and to make every effort not to exceed the January budget estimates."

The President in his message also noted that the Congress was considering a bill which would raise civilian and military pay by more than $1 billion above the administration's pay proposal. The Congress acceded to his persistent urging that proposals for the extra $1 billion pay raise above his budget not be adopted and, in fact, the pay scale for this fiscal year exceeds the President's budget by only a small amount.

For his part, the President pledged to the country and the Congress that he would make every possible expenditure reduction—civilian and military—in the budget submitted last January, short of jeopardizing the Nation's security and well being.

He stated that as Congress completes each appropriation bill affecting fiscal 1968 expenditures "we will examine at once very, very carefully" the results of these actions and "determine where, how, and by how much expenditures under these appropriations can be reduced."

Moreover, following the presentation of his message the President invited every Democrat in the House of Representatives and at least 50 Republicans to meetings in which he personally described the serious problems presented by the prospective deficit without a tax increase and the reduction of expenditures.

An accurate contemporary picture of the President's program to reduce the prospective $29 billion deficit described in his message by combining expenditure reduction and control with a tax increase

may be obtained from the following series of excerpts in his press briefing on the tax message on August 3:

> What are we going to do about the $29 billion? We hope, first, that we can take $1 billion off here by the pay bill if the Congress will stay with the budget estimates, and we so recommend.
>
> We hope we can take $2 billion more off by giving us the authority to sell $2 billion in PC's * * *
>
> Under that tax bill, that 10 percent surcharge that expires in 1969 or when the Vietnam problem is over with, plus the extension of the excises due to expire next April—and they will give you the details—that will raise $7.4 billion, so that will give us $10.4 billion if we get everything that we are asking for * * *
>
> Take the $10.4 billion from your $29 billion. That gives you an $18.6 billion. Then we only have three appropriation bills. We expect to get another 10, or 12, probably 12 more. We will take each one of those 15 and see what we can cut out of there * * *
>
> Whatever we can squeeze out will be deducted from the $18 billion. It could be as much as $4 billion. The deficit will likely be somewhere in the area of $14 billion to $18 billion, depending on the appropriations * * *

The need for combining expenditure reduction with a tax increase in order to deal adequately with the budget deficit was stressed in numerous statements by the President and on August 14 before this committee by me and the Director of the Budget.

Testimony was taken from representatives of a number of interested business, financial, and labor organizations, and leading academic economists and experienced leaders in the field of business and finance. A tax increase was opposed by only one economist, a couple of businessmen, and only one business organization.

The others strongly urged the enactment of a meaningful tax increase. Many of the proponents of a tax increase urged that it be combined with expenditure reduction and control.

Since the hearings concluded, the one business organization that presented testimony in opposition to a tax increase, the U.S. Chamber of Commerce, has reversed its position and announced publicly as of November 2:

> Following a commitment by the administration to a program of expenditure reduction, the Chamber will support an across-the-board temporary tax increase.

In the executive sessions of the committee, following the conclusion of the public hearings, I expressed the hope that we could find some procedure for dealing in a combined fashion with the two aspects of the proposed fiscal program because I thought it was primarily a procedural problem.

The task confronting us was how, in terms of specific commitments, pledges, provisions, statements or procedures, we could achieve the common result most of us wished of combining expenditure reduction and control with a tax increase.

It was against this background that I stressed publicly in my remarks at the National Press Club on September 21 that there were "various provisions in the law or statements in the House committee report that could be devised to protect the position of the House in any final insistence its members may require on expenditure policy as a prerequisite to voting a tax increase."

In accordance with that view I prepared four procedural plans and obtained the President's approval to present to the committee as suggested ways in which to accomplish the desired linkage between expenditure reduction and the tax increase. I had these plans ready

to present to the committee when it decided instead to put aside the tax proposal on October 3.

With the now detailed impact of congressional appropriation action, the analysis of the appropriations picture that emerges from this action, and the administrative review by Departments and agencies conducted at the President's instructions referred to in his August 3 message, we have been able to develop a plan which we feel is specific, feasible, and should be acceptable.

THE PLAN

The plan for implementing significant expenditure reductions and obtaining more effective expenditure control as a corollary to the tax increase proposal is specific. It is a statutory plan. Its details are contained in the proposed bill which I am submitting with this statement. That bill has two parts:

Title I contains the proposals for a tax increase.

It conforms to the proposals submitted to you on August 15 in the draft bill you requested. It includes the 10-percent surcharge, effective July 1, 1967, for corporations and October 1, 1967, for individuals; an acceleration of the time for payment of corporate estimated taxes; and postponement of the rate reductions in the excise taxes on automobiles and telephone service scheduled for April 1, 1968.

In the case of individuals, the surcharge for 1967 will amount to only 2½ percent of their 1967 tax. Since it will not be feasible to collect any of this increased 1967 liability through withholding, its effect will be through the final payments made in 1968 on account of 1967 tax liabilities.

We estimate that for about two-thirds of individual taxpayers subject to the surcharge, it will be reflected through reduced refunds in 1968 rather than by any requirement for additional payments.

In the case of corporations, the bill includes a provision which will insure that every corporation will have at least the normal 2½ months after the surcharge is enacted in which to file their 1967 tax return and pay their surcharge for 1967. This is essentially the same procedure that was followed with respect to the 1951 tax increase, which was enacted approximately 7 months after its effective date.

Title II represents a specific, statutory plan for expenditure reduction for fiscal year 1968. It involves a specific formula which would be applicable to each Department and agency of the Government. It involves reductions in both nondefense expenditures and in non-Vietnam defense expenditures. It involves reductions in both payroll expenses and in nonpayroll expenses.

It not only incorporates the reductions which have already been achieved through the appropriation bills, it goes beyond those reductions.

The plan calls for a reduction in total obligational authority for the fiscal year 1968 for each civilian Department or agency of at least the following combined sum:

A 2-percent reduction in the January budget estimated for personnel compensation and benefits, plus a 10-percent reduction in such estimate for controllable programs other than personnel compensation and benefits.

These percentage reduction in obligational authority do not extend to those items described in the budget as uncontrollable.

For the Defense Department, the reduction is 10 percent of the new obligational authority requested in the January budget, excluding special Vietnam costs.

I have said that the reductions for each Department and agency shall be at least the above amounts. If for any Department or agency Congress in the appropriation bills has reduced the obligational authority below the reduction that would be achieved through the formula, then the lower appropriation for the Department shall prevail.

The application of this plan will apply to the total controllable obligations of each Department and agency. Each Department and agency will therefore be required to examine its individual programs and activities and to apply these reductions to the lowest priority items.

FISCAL IMPACT OF THE PLAN

The Congress has to date reduced the obligational authority requested by the President in January by roughly $4.5 billion. Applying the 2 percent—10 percent formula in combination with this congressional action will result in a total combined reduction of obligational authority of over $9 billion for various programs in the January budget.

This reduction in obligational authority will produce an expenditure reduction in fiscal year 1968 of over $4 billion. The $4 billion expenditure reduction will be almost equally divided between defense and nondefense expenditures.

Let me sum up how this plan, and the bill, will affect the fiscal 1968 deficit. The tax proposals will increase fiscal 1968 revenues by $7.4 billion. The expenditure reduction plan will cut fiscal 1968 expenditures by $4 billion. The combined total reduction of the deficit is thus $11½ billion.

We said on August 14 that the fiscal year 1968 deficit under certain contingencies could amount to about $29 billion and that we were desirous of reducing that presumptive deficit to a range of $14 to $18 billion. Since then we have successfully averted two of these contingencies, the likelihood of a $1 billion higher payroll increase and a $2 billion reduction in authority of sales of participation certificates.

Other changes in expenditure estimates have also occurred since our August testimony, which Director Schultze will explain. But taken all together, passage of the proposals before you should keep the deficit close to the lower end of the $14 to $18 billion range which was our target in August.

The allocation of national resources to Federal program has always involved a cooperative effort between the Congress and the President—the President proposes and the Congress disposes. The President is most anxious to cooperate with the Congress in developing a meaningful statutory package of fiscal restraint. The plan that we have before you today is our best answer to resolving the procedural dilemma that has confronted all of us since August 14.

Director Schultze will further describe the operations of this plan.

A TASK FORCE TO STUDY FEDERAL AGENCIES

In addition, the President is prepared to establish a special bipartisan task force of outstanding Americans to take a look at long-range Federal program priorities. The task force would examine:

(1) The effectiveness of each such program or activity in the context of its present and projected costs;

(2) Whether and at what level the program or activity should be contained; and

(3) The relative priority it should be assigned in the allocation of Federal funds.

ACTION ON THE PLAN

Of course, the procedure by which this committee and the other committees concerned—the House Appropriations Committee and the House Rules Committee—move this legislation to the floor, is not for me to suggest. That is a matter for the leadership of these committees and the House to determine.

However, the precedent comes to mind of the handling of the highway legislation which is of joint concern to the House Public Works Committee and the House Ways and Means Committee.

Whatever procedure is chosen, I ask only that Congress act promptly. For the time for action is now.

Undoubtedly each committee may find it desirable to make changes in the title of the proposed law which is in its particular jurisdiction. The administration will be flexible in its reactions to any changes provded they do not thwart the primary objective—the enactment of a law prescribing a combined package of expenditure reduction and control and a timely and meaningful tax increase that will reduce the budget deficit for fiscal 1968 to manageable proportions.

For example, title II is our recommendation on expenditure reduction and control. It is based on all of the discussions the President, the Director of the Budget and I have had with the leadership of both Houses, members of the Appropriations Committee and other informed persons. It represents our best judgment of what is appropriate under all the circumstances.

If there are those who can persuade the House Appropriations Committee or the Senate or the Congress to accept a larger measure of reduced expenditures by changing the percentage figures in title II of the proposed bill, let them proceed.

If a law providing deeper cuts should be passed by the Congress, I can assure you that the President will give it the most sympathetic consideration.

The Director of the Budget and I will be at the disposal of the other committees ready to make a presentation, answer questions, or supply information on these proposals. We will try to cooperate in every way. And I am sure that Chairman Martin will be available.

CONCLUSION

In conclusion, members of the committee, virtually every responsible businessman and economist, every fiscal advisor to the President, and the Chairman of the Federal Reserve Board have again and again

stressed the urgent need for a tax increase coupled with a program of expenditure reduction.

The President's proposal has been before this committee since early August. And today, in the Administration's recommendation, we have tried to go one step further in response to your request. Now, a specific formula for expenditure control is written into the same law providing for increased taxes.

That tax increase, I might add, is modest by every standard. It averages about 1 penny on the dollar for individuals. And millions of Americans in the lower brackets will not be affected by the surcharge at all.

With the overriding necessity to support our fighting men in Vietnam, to keep our economy prosperous and our dollar sound, we seek only what the situation urgently requires.

We seek only to ask the American taxpayer to return temporarily to his Government less than half of the $24 billion in tax cuts which the President recommended and the Congress approved over the past 4 years.

That, I believe, is a small price to pay and a small burden to bear to help keep our Nation on a sound fiscal course and to provide responsible financing for the arms and equipment American soldiers in Vietnam must have for their missions and to protect their lives.

A higher tax is unpleasant. Reducing or postponing less essential expenditures in an already tight budget is unpleasant. But far worse are the drastic consequences to every American which will flow from inaction and delay—the higher, crueler, and unrepealable tax of inflation, weakened confidence in the dollar, brutally high interest rates, and the risk of a return to the old cycle of boom and bust.

Time does not stand still. We dare not lose the opportunity—and the obligation—to join together in responsible fiscal action. That is what I have proposed here today.

The eyes of the world are on this Congress. There is much at stake. Now the issue is squarely up to you.

(The supplemental statement, proposed bill, and technical explanation referred to follows:)

SUPPLEMENT TO THE STATEMENT OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY

The purpose of this supplementary statement is to review events relating to the general economy, our money and credit markets, and our balance of payments, as they have developed since August 14 when Chairman Ackley, Director Schultze, and I appeared before this Committee.

At that time hard facts and a careful appraisal of the outlook were presented to you, and they strongly supported the conclusion that enactment of the fiscal program recommended by the President was urgently needed. Since that time events have only served to reinforce the necessity for such immediate fiscal action.

THE GENERAL ECONOMY

First as to the general economy, in his testimony to this Committee on August 14, Chairman Ackley presented a careful appraisal of the outlook which led to "the verdict of a buoyant economy in which the pursuit of a highly stimulative fiscal policy would be inappropriate—indeed, perilous." He went on: "I have far more confidence in this over-all judgment than in any quantification I can offer of just how fast the economy is likely to advance and just where the gains will take place."

At the same time, Chairman Ackley outlined in some detail the Council's numerical projections for the period from the second to the fourth quarter of

1967, assuming "no major disruptions from strikes or developments abroad" and no Congressional action on taxes within 1967. After surveying the various components of national expenditures, Chairman Ackley concluded, "Even at the lower end of this range, the increase in GNP [from the second to the fourth quarter] would be $29 billion. At the upper end, the $35 billion advance would nearly match the hectic pace of gain between the third quarter of 1965 and the first quarter of 1966. If unchecked, the pace of advance would accelerate in the first half of 1968. . ."

Developments in the past three months have validated Mr. Ackley's appraisal. Even though strikes have had a major impact in holding economic activity down, the increase in GNP from the second to the fourth quarters should still lie within the range of $29 to $35 billion that Mr. Ackley specified. In the absence of major strike activity, the rate of advance might well be exceeding the upper end of the range.

In light of the strong $16 billion advance registered in the third quarter and the available evidence on the performance of the economy so far in the fourth quarter, the pattern as well as the total magnitude of the gain is matching closely with Mr. Ackley's earlier assessment. In several areas, the projections of mid-August remain realistic estimates today: this is the case for the $4½ billion increase in spending by State and local governments that Mr. Ackley projected, the range of $3 to $6 billion for the rise in Federal Government outlays, and the $1 billion prospective increase in plant and equipment spending. Needless to say, however, some revisions are in order. The gratifying rebound in homebuilding has exceeded expectations and now seems headed toward a rise of about $4½ billion over the two-quarter interval rather than the $3½ billion that was projected in August. And the earlier assessment that inventory investment would recover by $1 to $2 billion may also turn out to be conservative, even with auto stocks depressed by strikes.

On the other hand, consumer spending has risen somewhat less rapidly than expected. It will most likely fall short of the $16 to $18 billion range that Mr. Ackley outlined—in large part, but not entirely, because of the strike-induced shortfall in auto sales. Consumer spending is the one spot that has not firmed up markedly in recent months. If it had, we would already be riding a runaway economy. As it is, the smaller advances in the consumer area have merely kept the over-all pace within safe speed limits. While nobody can predict the consumer's mood with any confidence, it would be most precarious to bet that the saving rate will rise further in the months ahead.

The other major recent development which deserves some comment is the rise in the unemployment rate during September and October to a level of 4.3 percent of the civilian labor force. This movement is clearly associated with the phenomenal labor force growth of recent months rather than with any notable surprises in the course of employment. The behavior of the labor force has been puzzling throughout 1967. In the early months of the year, when employment was stagnant and there was marked softening in key labor market indicators (like insured unemployment, factory layoffs, and help-wanted advertising), the labor force did not grow and hence the over-all unemployment rate held steady. More recently, employment has been performing well and the other indicators have strengthened consistently, but the labor force has spurted. From May to October, the seasonally adjusted labor force grew by an enormous 1.8 million, largely concentrated among adult females and younger workers. Since the growth of employment could not keep pace, the over-all unemployment rate rose, reflecting marked increases among women and teenagers. The spurt in the labor force does not have significant implications for demand—output, employment, or spending. It does tell us something about supply, namely that we have some extra margin in the availability of female and teenage workers. But since there is virtually no margin of slack in the availability of adult male workers, we are highly vulnerable to inflationary pressures in the labor market.

The general assessment of economic developments in recent months has been immensely complicated by widespread strike activity. Strikes have dominated the performance of our key measures of manufacturing activity—industrial production, orders, and shipments. It is impossible precisely to disentangle strike impacts and trace their ramifications forward to retail sales and backward to supplier industries. A few facts and estimates are nevertheless worth noting. In both September and October, major strikes directly held about 300,000 workers off their jobs—far exceeding any monthly figures in three years. Trade publications in the auto industry estimate that strike activity so far has cut back output by

362,000 cars in the current quarter. This means a dent of more than $4 billion (annual rate) in this quarter's GNP, following a $2 billion loss in the third quarter. The continued rise of over-all backlogs in durable goods manufacturing in September and October also points to the dominance of strikes in curbing both orders and shipments.

If there are no further strikes in the automobile industry, a considerable catch-up of output will be forthcoming early in 1968. The swing reflecting the strike and its aftermath could easily exceed $6 billion (annual rate) from fourth to first quarter. An appraisal of the near-term outlook must also recognize the likelihood that production and accumulation of steel will soon begin to be influenced by the anticipation of next summer's labor negotiations in that industry. One might hope that any enormous rises in sales and output in the opening months of 1968 would be properly interpreted and discounted by the business and financial community as reflecting strike make-ups and anticipations. But most likely that will not be the case. Just as the recent strikes have temporarily calmed down the boomy atmosphere that was beginning to emerge late this summer, so the aftermath could contribute to a dangerously inflationary fervor early in 1968. If the strikes have given us a little more time on the economic front, they have also made it more urgent than ever that fiscal policy should be moderating the pace of advance right at the beginning of 1968.

This is the season when economists throughout the land are sizing up the economic outlook for the year ahead. Among private forecasters, a consensus view is shaping up; it places the GNP for 1968 at $840 billion or a little higher, assuming a tax increase. It seems significant, in itself, that the overwhelming majority of private forecasters are assuming the prompt enactment of a surcharge on income taxes for 1968. They generally regard fiscal restraint as essential to the health of our economic and financial system and have confidence that this need will be met through our democratic process.

With a tax increase, the standard forecast calls for a rise in GNP of a little more than $55 billion in 1968. Of this gain of 7 percent or more, about 3 percent is typically expected to represent price increase and the remaining 3½ percent to 4½ percent a gain in real output. The unemployment rate is usually projected at between 3¾ percent to 4 percent.

All-in-all, this standard private forecast—assuming a tax increase—represents a fairly reassuring picture. Our real output would grow in pace with capacity. To be sure, prices would be increasing considerably faster than we like, but primarily because of pressures on costs that were initially generated during last 1965 and 1966, and not because of new demand pressures straining our capacity. If these same forecasters were obliged to reassess the economic outlook assuming *no* tax increase, they would see potentially serious trouble with respect to prices, interest rates, credit availability, our international trade position, and the health of our homebuilding industry.

There are good reasons to be skeptical about economic forecasts, but there is simply no way to avoid or ignore them. The decisions of this Committee are bound to affect the economy in 1968. Failure to enact the surcharge would be a decision to maintain a highly stimulative fiscal policy with a large deficit at full-employment. This would be appropriate only if private demand could be counted on to be especially weak next year—if the recent private surveys pointing to rising business investment are all too high, if housing demand were about to level off abruptly, if the consumer saving rate were going to rise to unprecedented heights. No expert in the world can give Congress a guarantee that any—or all—of these things will not happen. But no prudent man would wish to gamble that they will take place.

Mr. Ackley concluded in August: "There is nothing to suggest that a powerful stimulus is called for in order to support healthy economic growth. On the contrary, the maintenance of such stimulus is most likely to undermine our prospects for prosperity." That judgment is every bit as valid today as it was then, and it is shared by the overwhelming majority of informed opinion throughout the land.

MONEY AND CREDIT

Turning to the money and credit markets, on August 14 we stated our expectations of an undesirable rise in interest rates and an unhealthy condition in those markets if a tax increase were not forthcoming. The facts since August 14 are:

Interest rates declined briefly on the announcement of the President's tax proposals, but it was only a short-lived decline because the market soon

concluded that the tax proposals would encounter delays; in the meantime, the market appraised quite soberly the mounting evidence of excessive credit demands that would emerge in the absence of prompt and effective action on taxes and expenditures.

Thus interest rates moved higher, across-the-board, from early August onward. A particularly steep rise occurred in rates on Treasury securities during October, following the temporary shelving of active consideration of the tax proposals by this Committee.

Since early August the rate on 3-month Treasury bills has risen by three-fourths of one percent. Long-term Treasury bonds are up more than ½ percent. Yields on new high-grade corporate issues are up more than ¾ of 1 percent. Yields on State and local government issues are up nearly ½ percent.

These increases have proceeded from a level of interest rates that was already high—generally approaching the 40-year highs that had been reached in August and September of 1966. By now, because of the further increases, the high points of 1966 have been reached and surpassed, except in the relatively short-term maturities. For example, in the case of high-grade corporate bonds, the latest rate level of 6.99 percent compares with the high of 6.35 percent in August-September 1966.

These increases in interest rates, moreover, have taken place despite continued growth in the money supply and bank credit. The money supply has risen at an annual rate of 6.8 percent thus far in 1967 in contrast to increases of 2.2 percent in all of 1966 and 4.7 percent in 1965. Bank credit has grown at an annual rate of 12.5 percent for the first 10 months in 1967 compared with increases of 5.7 percent in 1966 and 10.2 percent in 1965.

Rather than a stringency on supply, recent interest rate increases reflect very strong demands for credit from virtually every sector of the economy. An overhanging fear of excessive Federal Government borrowing is a key factor.

Last year corporations borrowed a record $17.6 billion in the capital markets. This year, in just the first 10 months, they have already borrowed $20.3 billion. The 10-month period is running about 35 percent ahead of the comparable months of 1966.

In my presentation to this Committee last August, I cited a similar comparison but at that time the margin of increase of corporate borrowing over a year ago—applying then to the first 7 months of the year—was 23 percent rather than 35 percent. That is one measure of the current pressures on the capital markets.

There is a similar story to tell for State and local governments. Last year these governmental units borrowed $11.3 billion in the capital markets—a record amount up to that time. That figure has already been surprassed in just the first 10 months of this year, with borrowing of $11.9 billion. This is 27 percent ahead of the amount borrowed in the first 10 months of 1966. It maintains about the same margin of increase that I referred to in my statement to this Committee on August 14.

The major change from a year ago, however, is in the area of Federal Government borrowing. Let me shift here to talk about fiscal years rather than calendar years because this points up the contrast more distinctly. In the fiscal year that ended last June 30, the Federal Government had an Administrative Budget deficit of $9.9 billion. In addition to financing that deficit there were net borrowings by Federal agencies and sales of participation certificates in Federally-owned financial assets, which also exerted a demand on the credit markets. On the other side substantial financing was provided through net purchases of securities by Government investment accounts, purchases by the Federal Reserve System, and a reduction over the year in the Treasury's cash balance. After netting out all of these factors, the Federal sector did not make a net demand on the private credit markets but rather *repaid* about $6 billion to these markets.

In the current fiscal year the Federal sector will instead be making a significant net demand on the private credit markets. It will be a substantial demand even with the benefit of the proposed tax surcharge and tight restraints on expenditures. Without these fiscal constraints, it will be a clearly excessive demand—far more than the credit markets would be able to handle without drastic cuts in the availability of funds to meet private credit demands, which are also substantial.

The rough orders of magnitude run something like this: given the President's program of fiscal restraint, applying to both the tax and expenditure sides, the Federal sector's net credit demands on the private markets in this fiscal year might be held to the neighborhood of $12 or $13 billion. Without the tax rise and

spending restraints, the net Federal credit demand could soar above $22 billion.

In the current half year period, which covers the portion of the year when credit demands are seasonally heavy, the Federal sector's net credit demands on the private market are working out to about $16 billion. That compares with net credit demands of roughly $5 billion each in the July–December periods of 1964, 1965 and 1966.

A key question, however, is what the Federal sector's net demands will be in the January-June 1968 period, and beyond. With a program of rigorous fiscal restraint it will be possible to make some seasonal repayments to the market during the January-June period in 1968. It will not be as large as was the $11 billion repayment in January-June 1967, but it could fall somewhere between the $1.9 billion repayment of January-June 1966 and the $4.7 billion repayment of January-June 1965.

Without the proposed tax measures, however, and with only modest success in restraining the level of Federal expenditures, it would be necessary to press an additional credit demand of at least $6 billion on the markets at a time when seasonal repayment is the normal course of events. A $6 billion net demand would contrast very sharply indeed with the $11 billion net repayment achieved in the January-June period of 1967—an adverse swing of some $17 billion.

This may not sound like a very large number against the background of an approximately $800 billion annual rate of GNP. The relevant comparison, however, is not with GNP but with the annual flow of credit through our credit markets which has run roughly in the neighborhood of $70 billion a year. In that context, a swing of $17 billion within a half-year period—would constitute an extraordinary overload that could not be met out of anticipated levels of savings or new credit formation.

In the process of meeting excessive Federal Government demands, many private credit needs would go unmet. Home buyers, small businessmen and farmers would feel a particularly tight pinch.

Nor would it be any better a solution if one attempted to let all the credit demands be met through pumping in unlimited additions to money supply. That might produce some temporary euphoria but also some very serious problems of inflation and economic distortion that would haunt us for many years to come.

BALANCE OF PAYMENTS AND THE DOLLAR'S WORLD POSITION

Turning to the international aspects, I said in August that tax and expenditure actions are vitally important to the protection of our balance-of-payments position and to the maintenance of confidence in the dollars. This statement bears even greater emphasis now. The devaluation of sterling—considering its psychological effect of focusing the eyes of the world upon us as keepers of the world's major currency, and also its expected economic effects on world trade and our balance-of-payments accounts—makes responsible fiscal action in the United States doubly imperative.

All of our efforts to improve our balance-of-payments position may be for naught—

unless we maintain relative price stability and cost competitiveness in the United States economy;

unless we resist and avert the threat of excessive demand which could damage our trade balance; and

unless we play a responsible role by assuring the healthy state of our capital markets so important to the balanced workings of the international monetary system.

Statistical evidence of action or inaction by this session of Congress will be read in annals yet to be published. These indicators will reflect in the months and years ahead whether the foreign holder of dollars today is convinced about our capacity to manage our economy effectively and responsibly. Investors traditionally have been as impressed by imponderables as they have been by facts. They have seized upon our handling of the surcharge and the accompanying expenditure restraints as the measure of our capacity and our intention to act responsibly.

In a very real sense, the size of our gold reserves reflects the judgment by those abroad who now hold dollars of the ability of the United States to exercise fiscal and budgetary responsibility. We must not give the many cause for doubt of our ability or our resolve to act in a responsible and timely manner.

The delay in acting on the tax increase, with the resulting rise in interest rates here, has already caused many foreign central banks to take defensive action. This moves us away from what we were achieving through the Chequers meet-

ing last January in England. High interest rates in the United States, due to excessive borrowing by the Government, are disturbing influences that have implications far beyond our own border.

All of us realize that the international trading game is made more competitive by the British devaluation. Obviously a part of whatever total improvement the British may achieve in their trade balance will probably be reflected in a correspondingly adverse impact on our own trade surplus. Most likely it will become apparent in our reduced exports to various world markets.

This points up the fact that any deterioration in our competitive position due to rising costs in the United States, or due to abnormally high United States imports because of excessive demand and capacity pressures in our domestic economy, could have the effect of diverting a substantially larger portion of the impact of the British action towards our own country and away from Europe. With Europe in a surplus position as to balance of payments, it is vital that such a shift be avoided.

The facts and trade statistics speak for themselves:

During the 1961–64 period of substantial but clearly sound and well-balanced domestic growth, and with high rates of economic advance in Europe, our trade surplus increased almost $2 billion—from $4.8 billion in 1960 to $6.7 billion in 1964.

During the following two years, with accelerating domestic demand and increasing pressure on our productive capacity, and slower growth rates in Europe, the trade surplus fell—back to $4.8 billion in 1965 and down to only $3.7 billion last year.

With a slower rate of growth again and less inflationary and capacity pressure in our domestic economy so far this year, our trade surplus has, despite the continued slower pace of business activity in Europe, shown significant improvement—from a last-quarter 1966 low of $2.9 billion (annual rate) to an annual rate of $4.4 billion for the first three quarters of this year.

This offers no cause for complacency: in fact, the developments of the months since August only accentuates the need for tax and budgetary action now.

In summary, then, the import of this review of developments since August 14 is clear: namely whether from the viewpoint of promoting a balanced and healthy domestic economy, or of maintaining stable and orderly conditions in our money and credit markets, or of protecting our balance of payments and the strength of the dollar in the international monetary system—the case for the recommended program of fiscal restraint becomes even more compelling today than it was last August.

A BILL To amend the Internal Revenue Code of 1954 to impose a temporary tax surcharge, to provide for expenditure reductions, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) SHORT TITLE.—This Act may be cited as the "Tax Surcharge and Expenditure Reduction Act of 1967."

(b) AMENDMENT OF 1954 CODE.—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

TITLE I—TAX PROVISIONS

SEC. 101. IMPOSITION OF TAX SURCHARGE

(a) IN GENERAL.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar

year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

Calendar year	Percent	
	Individuals	Corporations
1967	2.5	5.0
1968	10.0	10.0
1969	5.0	5.0

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) Ten percent of the adjusted tax for the taxable year, multiplied by

"(A) A fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) July 1, 1967, in the case of a corporation. and

"(B) October 1, 1967, in the case of an individual.

"(b) LOW INCOME EXEMPTION.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(1) $290, in the case of a joint return of a husband and wife under section 6013,

"(2) $220, in the case of an individual who is a head of household to whom section 1(b) applies. or

"(3) $145, in the case of any other individual (other than an estate or trust).

"(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871(a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation), and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(d) AUTHORITY TO PRESCRIBE NEW OPTIONAL TAX TABLES.—The Secretary or his delegate shall prescribe regulations setting forth modified optional tax tables for calendar years 1968 and 1969 computed upon the basis of composite rates incorporating the rate at which tax is imposed by this section. The tax tables so determined may be rounded to the nearest whole dollar. When pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for calendar years 1968 and 1969, then, notwithstanding section 144(a), in the case of a taxpayer to whom a credit is allowable for either such year under section 37 the standard deduction may be elected for such year regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the enactment of this section—

"(1) In the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201(a) or subchapter L;

"(2) The term 'tax shown on the return of the individual for the proceding taxable year', as used in section 6654(d)(1), and the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if tax had been imposed by this section for such preceding taxable year at the rate applicable to the current taxable year.

"(f) WITHHOLDING ON WAGES.—In the case of wages paid after January 1, 1968, and before July 1, 1969, the tax required to be deducted and withheld under section 3402 shall be determined in accordance with the following tables in lieu of the tables set forth in section 3402 (a) or (c)(1)—

(Tables to be Used in Lieu of Tables in Section 3402(a).)

(Tables to be Used in Lieu of Tables in Section 3402(c)(1).)

"(g) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) Section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) Section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) Section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(h) SPECIAL RULE.—For purposes of this title, except as otherwise expressly provided in this section, to the extent the tax imposed by this section in attributable (under regulations prescribed by the Secretary by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.

"(i) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentage set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a)."

(b) MINIMUM DISTRIBUTIONS.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", AND

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", AND

(3) by adding after the table in paragraph (3) the following:

"In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the close of the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

"As used in this subsection, the term 'surcharge period' means the period beginning on July 1, 1967, and ending at the close of June 30, 1969."

(c) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"PART V. TAX SURCHARGE."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply—

(1) Insofar as they relate to individuals, with respect to taxable years ending after September 30, 1967, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after June 30, 1967, and beginning before July 1, 1969.

SEC. 102. RAISING FROM 70 PERCENT TO 80 PERCENT THE ESTIMATED TAX WHICH MUST BE PAID IN INSTALLMENTS BY CORPORATIONS.

(a) IN GENERAL.—Section 6655(b) (relating to amount of underpayment), and section 655(d) (relating to exception), are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(b) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 103. PAYMENT OF FIRST $100,000 OF ESTIMATED TAX.

(a) REQUIREMENT OF DECLARATION.—Section 6016(a) (relating to requirement of declaration of estimated tax in case of corporations) is amended by striking out "$100,000" and inserting in lieu thereof "$40".

(b) REDUCTION OF EXCLUSION FROM ESTIMATED TAX.—Section 6016 (b) (relating to the definition of estimated tax in the case of a corporation) is amended to read as follows:

"(1) DEFINITION.—For purposes of this title, in the case of a corporation, the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, reduced by the amount which the corporation estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1, over

"(B) an amount equal to the applicable exclusion percentage (determined under paragraph (2)) multiplied by the lesser of—

"(i) $100,000, or

"(ii) the amount determined under subparagraph(A).

"(2) EXCLUSION PERCENTAGE.—The term 'exclusion percentage' means—

If toe declaration is for a taxable year beginning in	Toe exclusion percentage is
1968	80
1969	60
1970	40
1971	20
1972 or later	0"

(c) EXCEPTION FROM ADDITION TO TAX.—Section 6655(d)(1) is amended by striking out the phrase "reduced by $100,000" and inserting in lieu thereof "reduced by an amount equal to the applicable exclusion percentage, determined under section 6016(b)(2), multiplied by the lesser of $100,000 or the amount of such tax".

(d) ADDITION TO TAX FOR UNDERPAYMENT OF ESTIMATED TAX.—Section 6655(e) (relating to the definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—For purposes of subsection (b), (d)(2), and (d)(3), the term 'tax' means the excess of—

"(1) the amount of tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, reduced by the sum of any credits against tax provided by part IV of subchapter A of chapter 1, over

"(2) an amount equal to the applicable exclusion percentage, (determined under section 6016(b)(2)), multiplied by the lesser of—

"(A) $100,000, or

"(B) the amount determined in paragraph (1)."

(e) TECHNICAL AMENDMENT.—Clause (v) of section 243(b)(3)(C) is amended by stirking out "$100,000".

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 104. POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to imposition of tax) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"7 percent for the period March 16, 1966, through June 30, 1969.

"2 percent for the period July 1, 1969, through December 31, 1969.

"1 percent for the period after December 31, 1969."

(2) Conforming amendments.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969" and inserting in lieu thereof "July 1, 1969, or January 1, 1970".

(b) COMMUNICATION SERVICES.—Section 4251 (relating to tax on communications) is amended—

(1) By striking out subsection (a)(2) and inserting in lieu thereof:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered:	*Percent*
"Before July 1, 1969	10
"After June 30, 1969, and before January 1, 1970	1"

(2) By striking out subsection (b) and inserting in lieu thereof:

"(b) TERMINATION OF TAX.—The tax imposed by subsection (a) shall not apply to amounts paid pursuant to bills first rendered on or after January 1, 1970."

(3) By striking out subsection (c) and inserting in lieu thereof:

"(c) SPECIAL RULE.—For purposes of subsection (a), in the case of communications services rendered before May 1, 1969, for which a bill has not been rendered before July 1, 1969, a bill shall be treated as having been first rendered on June 30, 1969. For purposes of subsections (a) and (b), in the case of communications services rendered after April 30, 1969, and before November 1, 1969, for which a bill has not been rendered before January 1, 1970, a bill shall be treated as having been first rendered on December 31, 1969."

(c) EFFECTIVE DATE.—The amendments made by this section shall be effective on the date of enactment of this Act.

SEC. 105. FILING OF CORPORATION RETURNS FOR TAXABLE YEARS ENDING AFTER JUNE 30, 1967, AND BEFORE DECEMBER 1, 1967.

In the case of a corporation subject to a tax imposed by chapter 1 of the Internal Revenue Code for a taxable year ending after June 30, 1967, but prior to December 1, 1967, such corporation shall after the date of the enactment of this Act and on or before March 15, 1967, make a return for such taxable year with respect to the tax imposed by chapter 1 of the Internal Revenue Code for such taxable year. The return required by this section for such taxable year shall constitute the return for such taxable year for all purposes of the Internal Revenue Code; and no return for such taxable year, with respect to any tax imposed by chapter 1 of such Code, filed on or before the date of the enactment of this Act shall be considered for any of such purposes as a return for such year. The taxes imposed by chapter 1 of such Code (determined with the amendments made by this Act) for such taxable year shall be paid on March 15, 1968, in lieu of the time prescribed in section 6151 of the such Code. All payments with respect to any tax for such taxable year imposed by chapter 1 of such Code under the law in effect prior to the enactment of this Act, to the extent that such payments have not been credited or refunded, shall be deemed payments made at the time of the filing of the return required by this section on account of the tax for such taxable year under chapter 1 determined with the amendments made by this Act.

SEC. 106. SPECIAL PROVISION WITH RESPECT TO INTEREST AND PENALTIES ON PAYMENTS BY INDIVIDUALS OF SURCHARGE FOR 1967

Notwithstanding any provision of the Internal Revenue Code, no interest or penalties shall be imposed on account of the late payment by an individual taxpayer of the tax imposed by section 51 for 1967 if such tax is paid within 30 days after a bill therefor has been rendered to the taxpayer by the Secretary or his delegate.

TITLE II—EXPENDITURE REDUCTIONS

SEC. 201. The Congress hereby finds and determines that it is necessary to reduce budget expenditures for the fiscal year 1968 below the budget estimates therefor, and that the limitations on obligations required by this Title are necessary for that purpose.

SEC. 202. (a) During the fiscal year 1968, no department or agency of the Federal Government, including the Legislative and Judicial branches, shall incur obligations in excess of the lesser of—

(1) the aggregate amount available to each such department or agency as obligational authority in the fiscal year 1968 through appropriation acts or other laws, or

(2) an amount determined by reducing the aggregate budget estimate of obligations for such department or agency in the fiscal year 1968—

(i) 2 percent of the amount included in such estimate for personal compensation and benefits, plus

(ii) 10 percent of the amount included in such estimate for objects other than personnel compensation and benefits.

(b) As used in this section, the terms "obligational authority" and "budget estimate of obligations" include authority derived from, and estimates of reservations to be made and obligations to be incurred pursuant to, appropriations and authority to enter into contracts in advance of appropriations.

(c) The references in this section to budget estimates of obligations are to such estimates as contained in the Budget Appendix for the fiscal year 1968 (House Document No. 16, 90th Congress, 1st session), as amended during the first session of the 90th Congress.

SEC. 203. (a) This Title shall not apply to obligations for (1) permanent appropriations, (2) trust funds, (3) items (except legislative and judiciary) included under the heading "relatively uncontrollable" in the table appearing on page 14 of the Budget for the fiscal year 1968 (House Document No. 15, Part 1, 90th Congress, 1st session), or (4) programs, projects, or purposes, not exceeding $300,000,000 in the aggregate, determined by the President to be vital to the national interest or security.

(b) This Title shall not be so applied as to require a reduction in obligations for national defense exceeding 10 percent of the new obligational authority (excluding special Vietnam costs) requested in the Budget for the fiscal year 1968 (documents Nos. 15, Part 1, and 16), as amended during the first session of the 90th Congress: *Provided*, That the President may exempt from the operation of this Title any obligations for national defense which he deems to be essential for the purposes of national defense.

SEC. 204. In the administration of any program as to which (1) the amount of obligations is limited by section 202(a)(2) of this Title, and (2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution, the amount available for obligation as limited by that section or as determined by the head of the agency concerned pursuant to that section shall be substituted for the amount appropriate or otherwise made available in the application of the formula.

SEC. 205. The amount of any appropriation or authorization which (1) is unused because of the limitation on obligations imposed by section 202(a)(2) of this Title and (2) would not be available for use after June 30, 1968, shall be used only for such purposes and in such manner and amount as may be prescribed by law in the second session of the 90th Congress.

TECHNICAL EXPLANATION—TAX SURCHARGE AND EXPENDITURE REDUCTION ACT OF 1967

This bill, which is entitled the "Tax Surcharge and Expenditure Reduction Act of 1967", has two titles:

(1) Title I sets forth the tax provisions of the bill in four substantive sections:

(*a*) Section 101 imposes a temporary surcharge on both individual and corporate income tax liabilities at an annual rate of ten percent.

(*b*) Section 102 raises from 70 percent to 80 percent, the percent of its estimated tax which a corporation may pay by installments without incurring a penalty

(c) Section 103 eliminates, over a five-year period, the $100,000 estimated tax exemption presently granted corporations.

(d) Section 104 suspends the schedule for the reduction of the excise taxes on passenger automobiles and telephone service during the period of the temporary surcharge.

(2) Title II provides for expenditure reductions for fiscal year 1968.

There follows a more detailed description of each of these provisions.

TITLE I—TAX PROVISIONS

Section 101. Tax surcharge

(a) *Imposition of tax.*—Subsection (a) of section 101 adds a new part to subchapter A of chapter I of the Internal Revenue Code which consists of a new section 51 imposing a temporary tax surcharge on corporations and individuals.

General Provisions.—Subsection (a) of the new section 51 provides for the imposition of the surcharge. The tax is at an annual rate of ten percent of tax liability (adjusted as provided in section 51(c)) and is effective from July 1, 1967, through June 30, 1969, for corporations and from October 1, 1967, through June 30, 1969, for individuals. For taxpayers who report their income on a calendar year basis, the rate of the surcharge for the calendar years involved is as follows:

[In percent]

Calendar year	Rate of tax	
	Individuals	Corporations
1967	2.5	5
1968	10	10
1969	5	5

In the case of taxpayers who report their income on a fiscal year basis, the rate will be ten percent for years falling entirely within the effective dates, whereas, in the case of taxable years that straddle either the commencement or termination date, the tax will be prorated depending on the number of days in the taxable year falling within the period the tax is in effect.

Low income exemption.—Subsection (b) of the new section 51 provides an exemption from the surcharge for individuals (other than estates and trusts) whose tax does not exceed that generally applicable to the first two brackets of taxable income. More specifically, the surcharge will not apply to a husband and wife filing a joint return if their tax does not exceed $290. It will not apply to a head of household whose tax does not exceed $220, or to a single individual (or a married individual filing a separate return) whose tax does not exceed $145. In the case of a head of household, the exemption level is determined on the basis of the tax applicable to $1,500 of taxable income which is midway between the first two tax brackets of a single individual and the first two tax brackets of a married couple filing a joint return.

Tax base on which surcharge is computed.—Subsection (c) of the new section 51 provides that the surcharge shall be computed as a percentage of the tax otherwise imposed by chapter 1 of the Internal Revenue Code, with the exception that it shall not be imposed (1) with respect to the 30 percent tax under sections 871(a) and 881 on nonresident alien individuals and foreign corporations receiving income not effectively connected with a business in the United States, or (2) with respect to any increases in tax under section 47(a) (relating to certain dispositions of section 38 property) and section 614(c)(4)(C) (relating to deductions taken under section 615(a) prior to aggregation). In the case of an elderly person who is eligible for the retirement income credit, the surcharge will be computed as a percentage of his tax liability after subtracting his retirement income credit. Similarly, tax liability shall be reduced by the retirement income credit in determining whether such an individual is eligible for the low income exemption. This treatment is afforded the retirement income credit in order to give it the same effect on the surcharge as the exclusion for social security benefits. Tax liability would not be reduced by any other credits in computing the amount of the surcharge. On the other hand, once the surcharge has been computed, it may be offset by credits to which the taxpayer is entitled and which are not absorbed by his regular tax liability.

Authority to prescribe new optional tax tables.—Subsection (d) of the new section 51 provides that the Secretary of the Treasury or his delegate shall prescribe regulations setting forth modified optional tax tables computed on the basis of composite rates incorporating the surcharge. The tables may be rounded to the nearest whole dollar.

The usual rule that a taxpayer with less than $5,000 of income may take the standard deduction only if he uses the optional tax tables will be waived in the case of a taxpayer who is eligible for the retirement income credit. This special rule is to reflect the fact that the effect of the retirement income credit on the surcharge cannot be accurately incorporated into the optional tax tables, with the result that those claiming the retirement income credit will almost universally use the regular tax computation. Under these circumstances, without the special rule, most taxpayers claiming the retirement income credit would be precluded from using the standard deduction.

Estimated tax.—Subsection (e) of the new section 51 contains provisions conforming the estimated tax provisions to the new surcharge tax. Under present law, corporations are required to pay estimated tax only with respect to taxes imposed by section 11 of 1201(a) or subchapter L (relating to insurance companies). The new subsection (e)(1) provides that any surcharge that is attributable to a tax imposed under these sections or subchapter shall, for estimated tax purposes, be treated as a tax imposed under these sections or subchapter and, therefore, subject to estimated tax payments. Paragraph (2) of the new subsection (e) provides that, in the case of the option under which individuals and corporations may pay their estimated tax on the basis of their prior year's tax liability, their prior year's liability shall be adjusted to reflect the surcharge tax.

Under the provisions of the new subsection (e), corporations would be required to reflect the surcharge in their first estimated tax payment due more than 15 days after the bill is enacted. For individuals, the surcharge would have to be reflected in the first estimated tax payment due more than 45 days after the enactment of the bill. Thus, individuals will not have to reflect the surcharge on their final estimated tax return for 1967 which is due on January 15, 1968. Hence, no underpayment of estimated taxes for 1967 will result because of the surcharge.

New withholding tables.—Subsection (f) of the new section 51 will set for new tables for computing the amount of income taxes to be withheld from wages paid on or after January 1, 1968, and before July 1, 1969. These tables will reflect an increase in the withholding rates of ten percent.

Western Hemisphere Trade Corporations and dividends on certain preferred stock.—The following two provisions of the Internal Revenue Code provide a special deduction with respect to certain income which has the effect of reducing the corporate tax rate applicable to that income by 14 percentage points. These provisions are:

(1) Section 922, relating to the taxable income of Western Hemisphere Trade Corporations; and

(2) Section 247, relating to dividends paid by a public utility on its preferred stock.

Section 244 provides a reciprocal deduction with respect to amounts received as dividends on certain preferred stock of a public utility. In order to maintain the 14 percentage point differential under these sections, subsection (g) of the new section 51 provides that the computation shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, to reflect in the regular corporate tax rate the surcharge imposed under the new section 51.

Special rules.—Subsections (h) and (i) of the new section 51 insure that, under regulations to be prescribed by the Secretary, the surcharge interacts properly with other tax-imposing sections of the Code. Thus, for example, these subsections insure that the provisions of sections 72(n)(3) and 1378(b) (relating to reduction of taxes by certain credits), sections 815(b)(2)(B) and 815(c)(3)(B) (relating to adjustments to the shareholders and policyholders surplus accounts), sections 535(b)(1), 545(b)(1), and 556(b)(1) (relating to adjustments for taxes of personal holding companies), section 852(b)(3)(D) (ii) and (iii) (relating to treatment of undistributed capital gain by shareholders of regulated investment companies), section 1361 (a) and (h) (relating to unincorporated business enterprises electing to be taxed as domestic corporations), sections 1373(c), 1375 (a)(3) and 1378 (relating to subchapter S corporations), and sections 515 and 841 (relating to the credit for foreign taxes) will properly reflect the application of the surcharge. (This list is not intended to be exhausted.)

(b) *Minimum distributions by foreign subsidiaries.*—Subsection (b) of section 101 of the bill amends section 963(b) (relating to receipt of minimum distribu-

tions by domestic corporations from their foreign subsidiaries) to provide for the use of a minimum distribution table reflecting the surcharge. The table is to be used for taxable years all or part of which fall within the surcharge period. It is the same table that was applicable for taxable years beginning in 1963 when the corporate tax rate was 52 percent (the present corporate tax rate including the additional surcharge is 52.8 percent). In the case of taxpayers with taxable years falling only in part within the surcharge period, the 52 percent minimum distribution table is to be used on a pro rata basis.

(c) *Clerical amendment.*—Subsection (c) of section 101 of the bill makes a clerical amendment to reflect the addition of the new Part V imposing the surcharge.

(d) *Effective date.*—Subsection (d) of section 101 of the bill provides the effective dates for the surcharge. These dates are explained in the discussion under subsection (a) of section 101 of the bill.

Section 102. Increase from 70 to 80 percent the amount of estimated tax which corporations must pay in installments

Under present law, a corporation is not penalized for an underpayment of estimated tax if its payments equal or exceed those which would be required on the basis of estimated tax liability of 70 percent of actual tax liability (less $100,000). Section 102 of the bill amends section 6655 to raise the 70 percent figure to 80 percent. This conforms the percentage for corporations to that made applicable to individuals beginning in 1967. This change would be effective for taxable years beginning after December 31, 1967.

Section 103. Payment of first $100,000 of estimated tax

Under present law, corporations are required to make estimated tax payments only with respect to their estimated tax liability in excess of $100,000. They are not required to make any estimated tax payments on their first $100,000 of estimated tax liability and, if their annual estimated tax liability is $100,000 or less, they are not required to file a declaration. Under section 103 of the bill, the $100,000 exclusion would be repealed over a five year period.

More specifically, subsection (a) of section 103 of the bill would amend section 6016(a) to require a corporation to file a declaration of estimated tax for a taxable year if it can reasonably be expected that its tax liability for the year (after taking into account credits) will exceed $40. As indicated above, the present exemption level is $100,000.

Subsection (b) of section 103 of the bill amends section 6016(b) to provide a new definition of "estimated tax" (which is the basic amount subject to payment by installment) reflecting the removal of the existing $100,000 exemption over a five year period. During the transition period, a corporation, in determining the amount of its estimated tax liability, would be permitted to exclude an amount equal to the applicable "exclusion percentage" multiplied by the lesser of (1) $100,000, or (2) the amount which the corporation estimates as its income tax for the year less the estimated amount of its credits. The revised subsection (b) of section 6016 would define the term "exclusion percentage" as follows:

If the declaration is for a year beginning in—	The "exclusion percentage" is—
1968	80
1969	60
1970	40
1971	20

In the case of taxable years beginning after 1971, there would be no special exemption.

As an example of the transition rule, a corporation which estimates its income tax less credits for 1968 to be $80,000 would be entitled to an estimated tax exclusion of $64,000 for 1968; 80 percent (its exclusion percentage) times $80,000. Its estimated tax liability would, therefore, be $16,000. If the corporation estimates its income tax less credits for 1968 to be $120,000, its estimated tax exclusion would be $80,000 (80 percent times $100,000) and its estimated tax liability would be $40,000.

Subsection (d) of section 103 of the bill amends section 6655(e) to reflect the repeal of the $100,000 exemption in the provisions for determining whether, and if so, to what extent, an addition to the tax should be imposed for underpayment of estimated tax. The same transitional rules apply. Thus, for example, assume

a corporation's tax return for the taxable year ending December 31, 1968, indicates an income tax liability of $150,000. To utilize the exception provided in section 6655(d)(1) permitting estimated tax payments to be based on the prior year's tax, such corporation would be required to pay for 1969 an estimated tax of $90,000, computed as follows:

1968 Income Tax Liability	$150,000
Less: $60,000; 60 percent (the exclusion percentage for 1969) times $100,000	60,000
Total	90,000

Subsection (e) of section 103 of the bill amends section 243(b)(3)(C) (relating to estimated tax exemption for members of an affiliated group) to reflect the repeal of the $100,000 exemption.

Subsection (f) of section 103 of the bill provides that the amendments made by this section shall apply to estimated tax payments for taxable years beginning after December 31, 1967.

Section 104. Postponement of certain excise tax rate reductions

(a) *Passenger Automobiles.*—Under present law, an excise tax of 7 percent of the selling price is imposed on the sale by the manufacturer, producer, or importer of passenger automobiles. This rate is scheduled to be reduced to 2 percent on April 1, 1968, then to 1 percent after December 31, 1968.

Subsection (a) of section 104 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 7 percent rate will remain in effect until July 1, 1969. A rate of 2 percent will apply to sales between July 1, 1969 and December 31, 1969, with a 1 percent rate applying to all sales after December 31, 1969. Conforming amendments are made so that floor stocks refunds will apply on the corresponding date of each reduction.

(b) *Communication Services.*—Under present law, an excise tax of 10 percent is imposed on amounts paid for local and long distance telephone service (including teletypewriter service). A reduction of the rate to 1 percent is scheduled to apply to amounts paid pursuant to bills rendered on or after April 1, 1968, with the tax scheduled to terminate entirely as to bills rendered on or after January 1, 1969.

Subsection (b) of section 104 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 10 percent rate will continue to apply until July 1, 1969, at which time the scheduled reduction to 1 percent will take effect. The tax will terminate on January 1, 1970. A conforming amendment makes corresponding changes in the dates applicable under the special rules established under present law to adjust for billing practices.

(c) *Effective Date.*—Subsection (c) of section 104 of the bill provides that the amendments made by this section shall apply as of the date of enactment of the bill.

Section 105. Filing of corporation returns for taxable years ending after June 30, 1967, and before December 1, 1967

A special rule is provided for corporations whose taxable year ended after June 30, 1967 and before December 1, 1967, to grant such corporations an automatic extension of time within which to file their income tax returns for such taxable year. The return of such corporations will not be due until March 15, 1968. This will give these corporations at least the normal 2½ months to file a return reflecting the surcharge for the appropriate period after June 30, 1967. March 15, 1968, will replace the ordinary due date for returns for such corporations for all purposes, such as the time to begin computing interest, filing claims for refund, computing the statute of limitations, etc. A corporation covered by this special provisions that has already filed a return prior to the enactment date will file a new return reflecting the surcharge (the original return will be disregarded for all purposes).

Section 106. Special provision with respect to interest and penalties on payments by individuals of surcharge for 1967

Notwithstanding any provision of the Internal Revenue Code, no interest or penalties shall be imposed on account of late payment by individual taxpayers of the tax imposed by section 51 for 1967 if such tax is paid within 30 days after a bill therefor has been rendered to the taxpayer by the Secretary or his delegate.

TITLE II—EXPENDITURE REDUCTION PROVISIONS

Section 201 is a declaration of the intent of Congress to reduce budget expenditures for the fiscal year 1968 below the budget estimates. Expenditures result almost automatically from obligations, which consist of contracts awarded, materiel ordered, loan contracts entered into, grants approved, salaries of employees hired, etc. This section recognizes that a reduction in expenditures can be effected only if projected obligations are controlled and reduced.

Section 202 prescribes a formula for establishing a limitation on obligations which may be incurred during the fiscal year 1968. The section is applicable to each department and agency of the executive branch and to the legislative and judicial branches. The limitations are computed in the aggregate in each case—that is, they apply to the sum of the appropriations for each department or agency rather than to individual appropriation accounts.

To apply the formula prescribed by section 202(a), each agency will be required to add the estimated obligations for personnel compensation and benefits (object classes 11, 12, and 13 in the uniform object classification) and multiply the result by 2%. It will then add the estimated obligations for all object classes, deduct therefrom the estimated obligations for classes 11, 12, and 13, and multiply the remainder by 10%. The sum of the 2% and the 10% is then to be deducted from the budget estimate of obligations, and the remainder is the maximum of obligations which may be incurred under subsection (2) of section 202(a).

In the event that the maximum, determined as described above, exceeds the obligational authority available to an agency—either because Congress has cut the appropriations further below the budget estimates, or because balances brought over from the prior year in continuing appropriations are appreciably less than estimated in the budget—the agency will be limited, under subsection (1) of section 202(a), to the amounts actually made available to it in accordance with appropriation acts and other laws.

The provisions of section 202 are not intended to apply to reimbursable obligations—that is, those financed by reimbursements and therefore not a final charge against the appropriations of the spending agency. In short, the bill is applicable to "net obligations" (the concept used in the Government-wide Budget table on obligations, page 50), which represents gross obligations incurred less reimbursements.

Subsection 202(b) defines the terms "obligational authority" and "budget estimate of obligations" which are employed in subsection 202(a). Under these definitions, "obligational authority" includes authority derived both from appropriations and from authority to enter into contracts in advance of appropriations (often referred to as "contract authority"). "Budget estimate of obligations" includes estimates both of obligations to be entered into and of reservations to be made; this is intended to apply the limitation on obligations to administrative reservations in those instances where such reservations represent a firm commitment even though the funds technically may not be obligated until a later date. (An example of this use of administrative reservations is the program for urban renewal capital grants as set forth on pp. 516–517 of the Budget Appendix.)

Subsection (c) of section 202 adopts the Budget Appendix (the official document of detailed estimates, numbering more than 1,300 pages) as the basic point for figuring the computations required by the bill. However, to the extent that the President has formally amended the Budget during the first session of the 90th Congress, the figures in the Appendix will be replaced by the revision in estimates resulting from the amendments. (Budget amendments customarily are printed as either House documents or Senate documents promptly upon transmission by the President to the Congress.)

Section 203(a) provides certain classes of exemptions from this Title:

Clause (1) exempts obligations for permanent appropriations; these are appropriations under which new amounts become available in succeeding years without a new action by Congress. They are regularly identified by the use of the word "permanent" in the listing in the Budget and in the schedules in the Budget Appendix.

Clause (2) exempts obligations for trust funds; these funds, considered to be held in a fiduciary capacity, are identified by these words and appear in a separate listing in the Budget and in a separate part in the Budget Appendix.

Clause (3) exempts obligations for certain items described as "relatively uncontrollable" in a table on page 14 of the Budget. In this group are obligations

for items such as interest on the public debt, public assistance grants, veterans' pensions, and continuation of contracts entered into in prior years (a situation which occurs primarily in the water resources field).

Clause (4) provides a degree of flexibility by enabling the President to exempt from the limitations of this Title obligations up to an aggregate of $300 million for specific programs, projects, or purposes which he may determine to be vital to the national interest or security.

Subsection 203(b) provides a special rule relating to national defense. (The term "national defense" in the context of the budget relates to those activities set forth on page 76 of the 1968 Budget; it comprises the military functions of the Department of Defense together with the programs of the Atomic Energy Commission, military assistance, and a very small number of other defense-related activities.) The first part of this subsection indicates that the maximum reduction required by this Title, in the case of national defense, is 10% of the new appropriations and contract authorizations requested in the Budget for the fiscal year 1968, exclusive of "special Vietnam" costs. Nothing in this Title is intended to restrict the amount which would otherwise be available for defense activities pertaining to the conflict in Vietnam.

The second part of subsection 203(b) gives the President authority to exempt from the operation of the Title any obligations for national defense—whether incurred in the Department of Defense or elsewhere—which he deems to be essential for national defense purposes.

Section 204 relates to programs which require the distribution of funds in accordance with a formula set forth in the legislation establishing the programs. In many of these programs (usually for grants-in-aid), the amount appropriated or otherwise made available by law for distribution to a class or classes of recipients is one of the factors which must be considered in the application of the formula. Section 204 would require that, in applying the formula prescribed for any such program, the amount determined to be available for that program by the head of the department concerned, in accordance with the provisions of section 202, would be substituted for the amount appropriated. In any particular program, the amount to be substituted for the appropriated amount in applying the formula might be smaller or larger than the budget estimate of obligations as affected by the 2%–10% limitation prescribed in section 202.

Section 205 relates to the disposition of the amounts reserved from use under this Title. In the case of those appropriations and contract authorizations which are available without time limitation, or which already extend into fiscal year 1969 or a later specified year, unused balances at the end of the current fiscal year would be carried forward as contemplated by existing law; the forthcoming 1969 budget and the action by Congress on that budget can, of course, take suitable account of the balances thus brought forward in determining the amounts to be appropriated for 1969. However, in the more common type of account in which unobligated balances lapse at the end of the fiscal year and cannot be carried forward, section 205 provides that the amounts which are unused because of the limitation on obligations imposed by section 202 shall be used only as Congress may determine in its next session. If, in the second session of the 90th Congress, there is no specific provision enacted which permits such funds to be used, they will revert to the general fund of the Treasury as provided by existing law (31 U.S.C. 701(a)(2)).

STATEMENT OF HON. CHARLES L. SCHULTZE

Mr. SCHULTZE. Thank you, Mr. Chairman, members of the committee. Secretary Fowler has described for you in his testimony the basic outlines of a bill which would accomplish two basic objectives: increase taxes and reduce expenditures.

I would like to present to the committee a detailed explanation of the expenditure reduction proposal, indicate how it would affect each major Federal agency, and spell out the consequences of the expenditure reductions on the overall level of federal spending and the budget deficit for fiscal 1968.

BACKGROUND

Let me preface my presentation with a few comments about the background of this proposal.

Reductions in Federal spending have been, since the beginning, an integral part of the President's program of fiscal restraint. The President, in his January budget, recommended a 6 percent tax surcharge. And in preparing that budget, he applied every stringent criteria to expenditures. Agency budget requests were reduced by some $27 billion before the budget was submitted to the Congress.

In August, after a review of prior year fiscal results indicated the likelihood of increased expenditures and a shortfall in revenues, the President revised his fiscal recommendations. The request for the surcharge was raised from 6 percent to 10 percent. At the same time, the President pledged himself to make "every possible expenditure reduction—civilian and military—short of jeopardizing the Nation's security and well-being."

He stated his intention of reviewing each appropriation bill as it was completed, to determine where, and by how much, expenditures could be reduced. He urged the Congress to exercise the utmost care and responsibility in its legislative and appropriation actions, to avoid increases in the budget which, at the time of the August 3 message, seemed to be potentially forthcoming.

In public statements, on August 12, August 18, August 21, September 4, September 30, October 5 and November 1, the President reiterated his intention of combining expenditure reductions with tax increases as a joint approach to fiscal restraint.

In my appearance before this committee on August 14, I indicated that we were seeking reductions of $2 billion in civilian controllable expenditures. I also told the committee that Secretary McNamara was reviewing the Defense budget to find economies, savings, and deferrals which—without adversely affecting the national security—could be made in order to offset increases in Defense costs associated with Vietnam. Later, in executive session, I told the committee that the Secretary was seeking to identify $1½ to $2 billion of savings in the Defense budget.

There has never been the slightest question, therefore, of the administration's determination to make significant expenditure reductions—acting to the maximum extent possible in cooperation with the Congress. The difficulty has lain, rather, in the specific means for providing that joint executive-congressional action.

At the time of the President's August 3 message, only three of the 14 major appropriation bills for fiscal 1968 had been enacted. Since that time, the Congress has completed action on all but two of the appropriate bills.

In action to date on these appropriation bills, the Congress has reduced the President's request for new obligational authority by $4¼ billion. (Action has not yet been completed on two appropriations—foreign assistance and the 1968 supplemental, which latter bill will include the appropriation for the Office of Economic Opportunity). This $4½ billion cut in appropriations will have the effect of reducing 1968 expenditures by about $1½ billion.

This reduction of $1½ billion in 1968 expenditures, however, is not sufficient to achieve, in conjunction with the tax icrease, the overall degree of fiscal restraint which the administration, large segments of the Congress, and virtually every domestic and international monetary expert believe is required. The Appropriations Committees and the

two Houses of Congress have reviewed the President's budget request in great detail.

On the basis of line-by-line examination, the Congress—after detailed reviews by individual subcommittees, full committee reports, floor debate and amendment, and conference committee compromises—has worked its will on almost all of the specific items in the President's budget request.

Yet, there appears to be wide agreement that further cuts are necessary. In short, we face the traditional conflict between the desire for overall economies, on the one hand, and the difficulty of selecting specific items to be cut, on the other.

The proposed title II of the tax bill represents an attempt to overcome this dilemma, and to meet the request of this committee for a specific means of securing an expenditure reduction. Like all such attempts to bridge a difficult gap, it is undoubtedly imperfect. Yet, in the specific situation we now face, it does have three major advantages:

It provides for significant further budget reductions as part of an overall fiscal program;

It is specific enough to furnish the executive with congressional guidance on generally where, and by how much, to cut;

Yet, it is not so specific as to require a time-consuming and probably fruitless line-by-line reenactment of each appropriation bill.

SPECIFIC PROPOSAL

Let me turn to the specific proposal. Title II of the tax bill achieves expenditure reductions by applying a control to the obligation of Federal funds. Appropriations, in effect, grant the executive the authority to obligate money—that is, to enter into contracts and commitments, and to hire personnel. It is in the payment of these obligations that expenditures are made.

As a general proposition, reductions in expenditures must primarily be accomplished by a reduction in the obligations which later give rise to expenditures. Title II recognizes this fact of life by providing, in law, a mandatory requirement for a specified reduction in the obligations of each Federal agency by an amount designed to result in a total $4 billion reduction in fiscal 1968 expenditures.

More specifically, title II provides—

(1) that the obligations of each civilian agency be reduced below the President's budget proposals by an amount equal to 2 percent of obligations for personnel compensation and benefits and 10 percent of obligations for other controllable items.

(2) that obligations of the Department of Defense shall be reduced by an amount equal to 10 percent of the new obligational authority for non-Vietnam purposes shown in the budget.

(3) That wherever Congress has reduced the appropriations of an agency by more than the amounts specified in the title II formula, the congressional cut shall prevail. The National Aeronautics and Space Administration is a case in point. The Congress reduced the NASA appropriation by more than the amounts which would result from the application of the formula under title II. The congressional reduction would govern in this case.

(4) The President may modify the reductions provided in title II whenever he determines that such a modification is vital to the

national interest or security, so long as the sum total of such modifications does not exceed $300 million.

The application of any uniform formula, no matter how well conceived, to a Government and budget as complex as ours, is bound to cause some unforeseen problems. The $300 million "contingency" item is designed to take care of such problems.

By way of a less technical summary, title II requires each civilian agency to reduce its controllable obligations by an amount equal to 2 percent of payroll and 10 percent of other programs or by the amount Congress reduced its appropriation, whichever reduction is the larger. It provides for a reduction in Defense obligations equal to 10 percent of non-Vietnam programs. And it allows the President a small leeway in restoring reductions whose effect would vitally impair our national security or well-being.

The "controllable" obligations to which the reductions would apply are those obligations which do not fall under the heading of "Relatively Uncontrollable" in the table on page 14 of the President's January budget message. The controllable obligations are shown, for each major agency of the Federal Government, in table 2 attached to this statement.

Application of title II to the Federal Government's budget would produce reductions in fiscal 1968 obligations of at least $9.1 billion, and expenditure reductions of at least $4 billion.

As I indicated earlier, the Congress, in appropriation actions to date, has reduced appropriations by some $4½ billion and fiscal 1968 expenditures by $1½ billion. The proposed title II would, therefore, double the obligation reduction so far made by the Congress, and more than double the expenditure cut it has made.

EFFECT ON THE 1968 BUDGET

Let me now turn to the question: From what level are you proposing to cut, and what is the resulting estimate of budget expenditures in fiscal 1968?

Tables 1, 2, and 3, which are attached to my statement, are designed to answer this question.

Table I summarizes the relationship of the cuts under title II to the overall budget level. The committee will recall that when I appeared before you on August 14, I presented a reestimate of fiscal year 1968 budget expenditures amounting to $136.5 billion, excluding potential increases in Vietnam costs, and certain other contingencies. The first two columns of table 1 show in summary the obligations and expenditures which underlie that $136.5 billion estimate.

The first row of numbers in table 1 relates to controllable civilian programs. You will note that controllable civilian obligations in fiscal 1968 were estimated at $38.4 billion, and controllable civilian expenditures at $22.2 billion.

Let me interpolate, Mr. Chairman, that you may recall at times that we have used the number of $21 billion in talking about controllable expenditures. The reason why this figure is higher is that, for purposes of reductions, we have shifted the AEC out of the Defense segment of the budget into the civilian area. So there is no real change in the $21 billion; it is simply that we have added another agency—the AEC—

to it. That is why the figure in table 1 is $22 billion rather than the $21 billion previously used.

Now, application of the title II formula would reduce controllable civilian obligations by $3.6 billion and controllable civilian expenditures by $2.1 billion below the estimate I presented to this committee last August. This you will find in the third and fourth columns of table 1.

Other small changes in controllable obligations account for a further reduction of $300 million. As a consequence, the new fiscal 1968 estimate of controllable obligations under title II would be $34.5 billion and the new estimate of controllable civilian expenditures would be $20.1 billion—compared to the $22.2 billion of the August estimate.

The next two rows of numbers in table 1 relates to the Defense Department and military assistance. The January budget estimated non-Vietnam new obligational authority at $54.1 billion and expenditures at $50.4 billion. Application of the title II formula would reduce Defense obligations by $5.4 billion and expenditures by $2.0 billion below the amounts contained in the January budget and in my August 14 testimony. Reductions of $86 million and $30 million in military assistance obligations and expenditures are similarly shown. They are rounded to tenths of billion in this table but amount to $86 million and $30 million.

Taken together, obligations for specific items in the Defense budget and for controllable civilian programs will be reduced by $9.4 billion from the President's budget—from $93.1 billion to $83.7 billion. Expenditures for these same programs will be reduced by $4.1 billion—from the $73.4 billion that you can see in the table to $69.3 billion, which you can also see all the way over to the right, which is a $4.1 billion reduction.

The next line shows the Vietnam cost of the Defense Department. You will recall that in my testimony before the committee on August 14, I stated that the costs of Vietnam were rising and could require additional expenditures of up to $4 billion. Our best estimate at the present time, however, is that increased costs primarily due to Vietnam may be held to approximately $2 billion above the 1968 budget estimate.

As I said before to this committee and as the President and Secretary McNamara have stressed, predicting the costs of a war can never be precise. Requirements can and do change. The $2 billion estimate of added costs for Vietnam is obviously subject to that necessary qualification. But it does represent our best estimate, based upon the latest review of requirements.

Let me summarize at this point the expenditure situation in the Department of Defense. Under title II of the proposed bill, specific program obligations for items contained in the January budget would be reduced by $5.4 billion. Expenditures would be reduced by $2 billion. At the same time, we estimate that increased costs in other areas, primarily associated with Vietnam, will add $2 billion to expenditures. Barring unforeseen changes in the international situation or Vietnam requirements, these two changes will offset each other. Our present estimate of 1968 Defense expenditures, therefore, remains unchanged from the January budget estimate.

The next, and final, component of table 1 relates to uncontrollable civilian obligations and expenditures. In my August testimony, uncon-

trollable civilian expenditures were estimated at $45.5 billion. Since that time, we have had to review upward our estimates of uncontrollable expenditures by $1.7 billion. Table 3 gives the major components of this increase.

In each case, the increase stems from changes in the private sector of the economy, or other events outside of budgetary control:

Expenditures for farm price supports are up by $672 million, primarily on account of increases in the feed grains and to a lesser extent, wheat programs.

Public assistance grants are up by $475 million, principally because of medicaid payments which have risen due to increased doctors' fees and hospital charges and a larger-than-anticipated number of beneficiaries.

For example, Mr. Chairman, we had estimated in the budget an increase in doctor fees of 4 percent and hospital costs of 8 percent. It now turns out that the doctor fees may be up 8 percent and hospital costs 16 percent, and that is responsible for the largest part of this increase.

General revenue payments to the health insurance trust funds will rise above earlier estimates by $217 million, again because of rising doctors' fees and hospital charges.

Veterans' pensions, compensation, and insurance payments will increase by an estimated $127 million because the Congress enacted veterans' legislation more generous than the President's budget requested and failed to enact certain budget-reducing modifications in veterans' benefits, which had been requested.

Interest payments on the debt have been reestimated upwards by $200 million on account of rising interest rates.

Combining all of these changes—the $4.1 billion expenditure reduction proposed in title II, the $2 billion currently eseimated increase in Vietnam costs, and the $1.7 billion rise in uncontrollable payments—we arrive at a revised fiscal 1968 expenditure estimate of $136.2 billion.

In his August 3 tax message, the President pointed out that without cooperation between the Executive and the Congress to raise taxes and reduce expenditures, the Nation faced a fiscal 1968 budget deficit which could amount to as mush as $29 billion.

Underlying that deficit estimate of $29 billion was a potential expenditure estimate of $144.2 billion. Let me compare for the committee the difference between that $144.2 billion expenditure figure underlying the $29 billion deficit and the $136.2 billion which we estimate would occur with the passage of title II of the proposed tax bill.

You start with $144.2 billion which underlay that $29 billion deficit. You would subtract from that $1 billion dollars because Congress held the civilian and military pay increase close to the budget request rather than the $2 billion proposal being consideraed in August.

You would further subtract $2 billion because Congress authorized almost the full amount of participation certificates requested by the President, rather than cutting the authorization by $2 billion as appeared likely in August.

You would subtract another $2 billion because our present estimate of increased costs in Vietnam is $2 billion rather than the $4 billion which appeared possible in August.

You would subtract another $4.1 billion to represent the expenditure reductions proposed in title II (including reductions already made in appropriation bills).

You would subtract another $700 million which was the implicit estimate of higher interest costs included in the $29 billion. We now have a lower estimate.

You would add $1.7 billion because of the increase in uncontrollable civilian expenditures we are now estimating.

If you do all of that arithmetically you come out to a current estimate of $136.2 billion for budget expenditures.

These revised expenditure estimates, Mr. Chairman, do assume that we will be able to sell the full $5 billion of participation certificates estimated in the January budget. Continued tightness of credit could require that we revise this estimate downward. To the extent that we were not able to sell the full $5 billion, the estimate of budget expenditures would rise corespondingly.

IMPACT OF TITLE II, BY AGENCY

Table 2 provides a more detailed statement of the effect of title II on the obligations and expenditures of each Federal agency.

In general, the table is self-explanatory. It simply lists the controllable obligations and expenditures, the reductions which would accompany the 2–10 revision, certain other changes I will discuss in a moment, and the final results by agency.

There are several clarifying points I should like to make with respect to reading the table. You will notice that, in addition to the columns showing the impact of title II—that is labeled reduction to the 2 percent to 10 percent provisions—there is another set of columns labeled "Other changes." Under those columns, you will notice that there are a number of reductions in controllable obligations beyond those required by title II. In each of these cases we would plan to reduce obligations and expenditures by more than title II requires, primarily because we have adopted a quite rigorous policy on Federal construction.

In the expenditure column, on the other hand, you will notice an increase of $180 million for the Post Office. This represents the fact that the effective date of the requested postal rate increase will quite obviously be later than the July 1 date which the President requested and the October 1 date which was assumed in my August testimony before this committee.

Please note that just before the first subtotal in table 2 there is a line labeled "Exceptions," which shows an increase instead of a reduction. If you look at the last line before that first subtotal you will find it is labeled "Exceptions." You will find there is an increase provided. You will recall that title II, as I have explained it, would allow the President to make exceptions to the reductions called for in title II if he determined that such exceptions were vital to the national security or well-being.

The total of those exceptions cannot exceed $300 million in obligations. In constructing the table, we assumed—to be conservative—that all of the exception authority would be used. To the extent it is not, the total reductions would be larger than shown in the summary table.

EFFECT ON THE DEFICIT

Finally, what are the effects of this title on the deficit?

The bill before the committee provides for an $11.5 billion reduction in the deficit—fiscal 1968 expenditure cuts of $4.1 billion coupled with tax increases of $4 billion for individuals, $2.3 billion for corporations, $300 million for excises, and $800 million for tax payment acceleration by corportions.

Administrative budget expenditures, as I indicated, are currently estimated at $136.2 billion. This estimate is, of course, still subject to contingencies, particularly with respect to changed requirements in Vietnam and our ability to sell the full $5 billion of participation certificates.

But it is our best present estimate. If the proposed tax increases are enacted, we estimate administrative budget revenue collections in fiscal 1968 of $122.5 billion—unchanged from the estimate presented to the committee last August. This, too, like all revenue estimates, is subject to uncertainty. But it reflects the best judgment we can make at the present time.

With revenues of $122.5 billion and expenditures of $136.2 billion, the budget deficit—given passage of the proposed tax bill—would be less than $14 billion.

While this estimate is subject to the kind of uncertainties I indicated earlier, it represents a real effort to bring the deficit within reasonable bounds. You will recall that last August, the actions we proposed were designed to bring the deficit down within the $14 to $18 billion range. The bill now before the committee, if enacted, will make it possible to fulfill the more ambitious end of that target range.

Mr. Chairman, this committee has expressed interest in a longer run evaluation of Federal programs and expenditures. As the Secretary noted, we believe it would, indeed, be desirable for the President to establish a bipartisan group of impartial experts to make a long-term study and evaluation of Federal programs and activities.

This study and evaluation would be directed at a review of the full range of Federal activities with the objective of revising or eliminating obsolete programs and improving the effectiveness of other programs in the light of national priorities.

I believe it would also be appropriate for that study to encompass the problem of expenditure control in the various formula or open-ended appropriations which cover so many of our "uncontrollable" programs, looking toward various alternative means of providing better fiscal controls in these areas.

CONCLUSION

In conclusion, Mr. Chairman, I believe the choice before the Nation is crystal clear. We have taken on challenging responsibilities at home and abroad. And responsibilities inevitably face a great nation and a great people.

We cannot—indeed, we dare not—turn from these responsibilities toward the illusory security of indifference. We are strong enough; we are intelligent enough, we are productive enough to carry our responsibilities and take advantage of our opportunities. Our capability to

act as a great nation is not at issue. But, quite frankly, our will is being put to the test.

Are we willing to act responsibly? Are we willing to adopt the fiscal measures which will permit responsible government? Are we willing to tax ourselves an additional penny on the dollar? To defer a small percentage of desirable, but postponable, Federal programs?

One way or the other, Mr. Chairman, we will be taxed. If we refuse to accept the responsible approach to fiscal affairs that the bill before you contains, we will be taxed through inflation, and high interest rates, and a deteriorating balance of payments, and ultimately will be threatened by an economic bust at the end of the boom. We have an opportunity, however, to choose the path of responsibility—to adopt a reasoned and moderate approach to the fiscal problems which confront us—to apportion the fiscal burden equitably and rationally.

In all earnestness, I submit that the economic strength of the Nation—here and abroad—hangs in the balance. The means are before you. The choice is yours.

(The tables referred to follow.)

TABLE 1.—SUMMARY, 1968 OBLIGATIONS AND EXPENDITURES

[In billions of dollars]

	January budget as revised in August		Reduction to 2- to 10-percent provisions		Other changes		Revised estimate	
	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures
Controllable civilian programs	38.4	22.2	−3.6	−2.1	−0.3	----	34.5	20.1
Defense, non-Vietnam	54.1	50.4	−5.4	−2.0	----	----	48.7	48.4
Foreign assistance, military	0.6	0.8	−0.1	----	----	----	0.5	0.8
Subtotal	93.1	73.4	−9.1	−4.1	−0.3	----	83.7	69.3
Defense, Vietnam	20.8	21.9	----	----	+3.0	+2.0	23.8	23.9
Uncontrollable civilian programs	30.5	45.5	----	----	+1.7	+1.7	32.2	47.3
Participation sales, public enterprise funds, etc	1.1	−4.3	----	----	----	----	1.1	−4.3
Total	145.5	136.5	−9.1	−4.1	+4.5	+3.7	140.8	136.2

TABLE 2.—REDUCTIONS BY AGENCY

[In millions of dollars]

	January budget as revised in August		Reduction to 2- to 10-percent provisions		Other changes		Revised estimate	
	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures	Obligations	Expenditures
Controllable civilian programs:								
Agriculture	4,322	3,260	−376	−290			3,946	2,970
Commerce	1,070	404	−104	−35			966	369
Corps of Engineers	510	716	−48	−35	−19	−30	443	651
HEW	7,498	3,419	−716	−410			6,782	3,009
HUD	1,351	205	−488	−140	−150		713	65
Interior	1,668	684	−128	−60		−15	1,540	609
Justice	477	387	−20	−10			457	377
Labor	525	189	−47	−15			478	174
Post Office	532	211	−62	−60	−49	−30	421	121
Proposed postal rate increase		−580				+180		−400
State	306	229	−18	−10			288	219
Transportation	1,456	1,055	−93	−85	−5	−65	1,358	905
Treasury	917	790	−33	−30			884	760
AEC	2,646	1,156	−200	−80			2,546	1,076
GSA	699	475	−64	−35	−57	−40	578	400
NASA	5,061	3,665	−511	−475			4,550	3,190
VA	1,754	1,830	−119	−80			1,635	1,750
OEO	2,060	905	−195	−80			1,865	825
Economic assistance	2,450	683	−310	−100			2,140	583
Other civilian programs	1,300	1,177	−334	−210			966	967
Allowances	2,450	2,050					2,450	2,050
Interfund transactions	−682	−682					−682	−682
Exceptions			+300	+150			300	150
Subtotal	38,370	22,228	−3,566	−2,090	−280	0	34,524	20,138
Defense, non-Vietnam	54,100	50,400	−5,400	−2,000			48,700	48,400
Foreign assistance—Military	595	800	−86	−30			509	770
Total	93,065	73,428	−9,052	−4,120	−280	0	83,733	69,308

TABLE 3.—1968 EXPENDITURES FOR UNCONTROLLABLE PROGRAMS

[In millions of dollars]

	January budget as revised in August	Further revisions	Revised estimate
Agriculture: Commodity Credit Corporation price support program	1,910	672	2,582
Health, Education, and Welfare:			
Payments to trust funds for health insurance	1,085	217	1,302
Public assistance grants	4,407	475	4,882
Treasury: Interest	14,152	200	14,352
Veterans' Administration: Compensation, pensions, and insurance	5,006	127	5,133
All other	18,974	49	19,023
Total	45,534	1,740	47,274

Mr. SCHULTZE. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Schultze. Mr. Martin.

STATEMENT OF HON. WILLIAM McCHESNEY MARTIN, JR.

Mr. MARTIN. Mr. Chairman, last September I was privileged to appear before this committee in support of the President's proposals for reducing Federal expenditures and raising Federal income taxes. The need for such fiscal restraint was clearly evident then. It has become compelling now.

Inflation is no longer just a threat—it is a reality. Its pervasive effects are now spreading through many aspects of our economic life. The advance in prices has been rapid and widespread. Wage increases continue to be far in excess of productivity gains.

Financial markets have become heavily congested and long-term interest rates have risen to the highest levels in decades, despite continued generous provision of reserves to the banking system. And our balance of international payments has continued in substantial deficit. Inflation is jeopardizing attainment of both our domestic and our international objectives.

The entire world is looking to the United States to see if it has the capability, the will, and the determination to preserve and maintain this period of prosperity which is now the longest in our history.

In my judgment, the strategic element in demonstrating that determination will be our success in reducing the prospective deficit for fiscal 1968 and thereafter to more manageable levels.

I don't think any one here or abroad questions the ability of our country to pay whatever it costs to fight the war in Vietnam and to provide the essential public services the American public demands. But I think there are a great many persons—probably an increasing number, in fact—who question whether we have the will to pay these costs.

I am not opposed to Government deficits, per se, in any sense, for there are occasions when they may be fully justified. At the same time, I am concerned lest there be acceptance of the idea that deficit financing is a way of life; and I am especially concerned when our Government debt climbs at a faster rate than our economy as a whole—and this is the prospect we face unless our present fiscal course is altered.

The events of the past 2 weeks are sobering. Britain's international

payments problems proved too large and too intractable to be resolved by partial solutions and emergency loans; drastic corrective measures were required. Along with the devaluation of the pound, the British public is bearing the burden of an 8 percent bank rate, severe restrictions on credit availability, an increase in taxes and higher costs of imports.

In our case the need for restraint does not rest primarily on balance-of-payments considerations, important though they are. Our economic discipline has slipped somewhat over the past 2 years, and this has cost us significantly in terms of domestic economic progress. The consequence of allowing inflationary pressures to get ahead of us in the latter half of 1965 and during 1966 was a near cessation of economic growth earlier this year, as the distortions and inventory excesses of last year were unwound. With the resumption of more rapid growth this summer, we have allowed price pressures to get ahead of us again. Nearly half of the increase in our gross national product in the third quarter of the year reflected rising prices, rather than growth in real output.

Increased prices are being reflected and embedded in higher wage contracts of long term duration, and establishing precedents for the many important wage negotiations, scheduled to come up in 1968. These price and wage developments fit closely the classic interaction of cost-push and demand-pull inflation. American businesses have experienced sharp increases in production costs over the past year and a half, increases which they began to pass on in the form of higher prices as soon as overall demands picked up during the summer. With experienced labor still in short supply, reduced rates of utilization of manufacturing capacity did not prove to be much of a deterrent to price advances, which accelerated sharply at both wholesale and retail.

This fall, the underlying strength of expansionary forces has been obscured by the effect of strikes in several major industries. Largely reflecting these strikes, industrial production dipped and business orders for durable goods declined. The unemployment rate also increased. Some of the edge has been taken off the economic exhuberance evident earlier. The reduction in demands resulting from these factors has been confined to a few industries, however, and the pace of expansion in other sectors of the economy has continued rapid and prices have continued to rise.

Moreover, with the termination of some major strikes this month, industrial production is resuming its upward trend. In coming months, further acceleration in activity appears likely, as the automobile industry tries to catch up for output lost during the strikes, and as the steel industry tries to meet orders placed by customers beginning to stockpile in anticipation of wage negotiations next year.

Consumer incomes, augmented by the spurt in auto and steel production, are scheduled to receive additional boosts from proposed increases in social security benefits, higher federal pay, and from the rise in minimum wages. The likely increase in consumer spending resulting from such a surge in income would add an extra fillip to business demands for inventories, and possibly to business spending for new plants and new processes. But even without resumption of an investment boom, the prospective rise in public and private demands for goods and services appears large enough to reinforce and amplify the

upward pressure on prices generated by rising wage and material costs.

The prospect of continuing price pressure, together with heavy credit demands resulting from the large Federal deficit, have been reflected in congested financial markets and rising interest rates. In the spring, long term interest rates began to rise under the impetus of corporate efforts to rebuild liquidity by borrowing in the capital markets. In short term credit markets, however, interest rates continued to decline until about mid-year, as monetary ease permitted the banking system to acquire a large volume of liquid assets and as the Federal Government was able to retire a large volume of short term debt. By mid-year, the cost of short term financing to the Treasury was about two full percentage points below the peak of such costs in 1966.

But after mid-year, the Treasury had to return to financial markets as a large net borrower of funds. The volume of Federal cash borrowing in this half year has been substantially larger than in any comparable period since World War II, and has been reflected in a sharp rebound in short- and intermediate-term interest rates.

Along with the change in the Treasury's financial position, from that of a major supplier of funds in the first half of the year to a major borrower in the second half, came a further increase in business demands for long term credit. With business activity picking up, and with mounting concern for the possibility of even greater stringency in credit markets, corporations have been willing to pay record prices to borrow longer term funds. The volume of new corporate security issues this fall has been about two-thirds larger than last year, and interest rates on new corporate issues have risen substantially above the peaks of 1966.

The pressures that have developed in financial markets threaten to give rise, once again, to distortions in financial flows and in the structure of production such as marred our economic performance last year. For example, local governmental units are finding it harder to compete in credit markets with heavy business and Federal financing demands. In the past 6 months, over 100 scheduled municipal bond issues, representing over three-quarters of a billion dollars, have been postponed or cut back in size.

And, once again, competing financing demands are beginning to curtail the availability of funds for home mortgage financing. Inflows to savings and loan associations and mutual savings banks, which had recovered to peak levels earlier in the year, have moderated in recent months as returns on Treasury securities and other market investments have risen. Upward pressure on home mortgage rates has intensified, with discounts on insured mortgages widening.

In the present situation financial market tensions cannot be tranquilized merely by increasing the supply of money. Indeed, the congestion in financial markets and the rise in interest rates since midyear have occurred even though the reserves available to the banking system have been expanding rapidly. In the absence of fiscal restraint, continued provision of reserves at such a rapid pace would only reinforce market expectations and induce even more urgent demands for credit. Vigorous fiscal action to reduce the prospects of further inflation and of further large Federal demands on financial markets offers the best hope for alleviating the intense upward pressure on interest rates.

Fiscal action to reduce tensions in our financial markets and to cool off demand pressures would also be beneficial for our balance of payments problem. Our basic need, in this respect, is to sustain and improve our favorable trade balance in order to move towards equilibrium in our overall payments position. This entails both the avoidance of excessively rapid growth in our imports and the maintenance of competitive prices for our exports. And this, in turn, depends on our success in keeping the growth of our economy within the limits of our capability to produce at reasonable stable prices.

It is clear, then, that our domestic economic needs and our international financial responsibilities call for the same policy prescriptions. Restraint on spending—both private and public—is essential to relieve financial market pressures, to restore sound economic growth, to pay for the war, to protect the strength of the dollar at home and abroad. This restraint can be achieved most effectively and most equitably by a fiscal program which moderates both the rise in Government spending—through budget cuts—and the rise in private spending—through a tax increase.

Ours is the richest country that the world has ever known, and it is only fitting and right that we devote large sums to public endeavors. But in our governmental activities, as elsewhere, we must recognize—especially at a time when we are engaged in a major war effort—that our resources are not unlimited. And we must recognize also that we cannot keep on calling upon our governments—Federal, State, or local—to do things we are unwilling to pay for. If we are to achieve in fact the public goals we feel most useful and desirable, then we must, as a self-governing people, be willing to accept and adhere to some sensible order of priorities among them in accord with the national preferences.

Now, Mr. Chairman, it is neither my prerogative nor my competence to suggest where and by how much budget expenditures should be cut, nor what types or amounts of tax increase should be enacted. But it is my duty and it is my responsibility to say that some combination of lower spending and higher taxes is urgently needed to maintain the value of the dollar and the social and economic progress that depend on a sound dollar. We simply cannot afford the risks inherent in a failure to bring our fiscal affairs into order.

Thank you.

The CHAIRMAN. Thank you, Mr. Martin. Mr. Schultze, I overlooked obtaining permission for the tables attached to your statement to appear in the record. Without objection they will appear in the record immediately following the statement you made.

Mr. SCHULTZE. Thank you, Mr. Chairman.

The CHAIRMAN. Any questions? Mr. Boggs.

Mr. BOGGS. Mr. Chairman, thank you very much for permitting me to examine the witnesses for a few minutes. Let me say that largely because of the reasons expressed here so ably by these three distinguished fiscal experts I respectfully disagreed with the decision made by the committee on October 3.

As a matter of fact, I might say, Mr. Chairman, by way of review that the President just about a year ago invited the joint leadership of Congress, the Republicans and the Democratic leaders, to Texas the day after Thanksgiving last year 1966, to review the budget estimates and the fiscal requirements for fiscal year 1968.

We sat there and talked about it all day long and it was quite obvious to me then that a tax increase would be required if we were to meet the cost of Vietnam and maintain any type of fiscal stability in this country and I said so immediately upon returning here publicly and I have said so publicly ever since then.

Now, since that time a great many things have happened. As a matter of fact, I am sure that everyone in this room felt indignation a few days ago when General de Gaulle a man who, to say the least, owes a tremendous obligation to the United States of America, spoke to his people publicly and intemperately after dissecting our good neighbor to the north—and I hope that he will lay off Louisiana—after doing that he atacked the stability of the one firm currency left in the world, the dollar. But I knew that the dollar just didn't stay put as it has stayed put after the great gold rush which occurred over the weekend in the money markets of the world—attempting to devalue the dollar and weaken the dollar—and it was obvious to me that these gentlemen, the Chairman of the Federal Reserve System, and the Director of the Budget, and the distinguished Secretary of the Treasury, had undoubtedly had to do a lot of work over the week-end to offset what De Gaulle and others were doing to wreck the economy of the United States.

Now, Mr. Fowler, I will direct my first question to you. That is, what have you been required to do since a week ago last weekend when the British pound was devalued and during the days that followed and over the past weekend when the attack was made on the dollar?

What have you been required to do and how long can you do it if we don't have some response in Congress?

Secretary FOWLER. Congressman Boggs, the first thing I think I should answer is I have had to stay up late at night and get up early in the morning. Our primary effort to deal with the problem which you generally describe takes two forms: the first is to strengthen and sustain the multilateral financial cooperation, as we call it, the cooperation between like-minded countries, and their financial institutions to deal with the problems that you have referred to.

It was very encouraging as a result of this multilateral financial cooperation to find in the first 24 or 48 hours after the British announcement of their devaluation that all of the major financial countries in the world through the chiefs or state or appropriate officials announced their intention of maintaining the parity of their currencies to the dollar and, therefore, contain and isolate the British devaluation to that major financial power.

Smaller countries and other countries closely related in trading relationships with the United Kingdom did change their rates, but the world's international monetary system stood firm through the practice of multilateral cooperation.

The second aspect of that problem, of course, had to do with the outbreak of speculation and fear that characterized the financial markets, the foreign exchange markets, and the gold market in the week following, and it was necessary, as has been reported in the press, for the heads of the central banks of those countries which are actively participating in the so-called London gold pool to meet together in Frankfurt last Sunday and to take counsel with each other, and I shall not reflect on their activities other than to note the communique——

Mr. Boggs. May I interrupt you? Who participated in the meeting?

Secretary Fowler. The governors of the central banks of Belgium, Germany, Italy, the Netherlands, Switzerland, United Kingdom, and the United States convened in Frankfurt on November 26, 1967.

I will read now simply from the communique because it speaks for itself and I should not add to it.

> They noted that the President of the United States had stated: "I reaffirm unequivocally the commitment of the United States to buy and sell gold at the existing price of $35 per ounce." They took decisions on specific measures to insure by coordinated action orderly conditions in the exchange markets and to support the present pattern of exchange rates based on the fixed price of $35 per ounce of gold. They concluded that the volume of gold and foreign exchange reserves at their disposal guarantees the success of these actions. At the same time they indicated they would welcome the participation of other central banks.

Now, this exercise of multilateral financial cooperation through the existing institutions and arrangements which we worked very hard to establish and maintain, which the committee is familiar with, is the first order of business.

Equally important in such a period of time is the need for the United States to act in its own right in such a manner as to maintain confidence in the stability of the American dollar and of the U.S. economy on which the strength of the dollar is based. So the other portion of my time was frankly spent in preparation for this hearing today because these two things are intimately related.

Perhaps I can express it better in this way, by saying to you that in a tone of concern and in a tone of hope and in a tone of advice—not in terms of a tone of demand—the men our representatives met with in Frankfurt last Sunday——

Mr. Boggs. Mr. Secretary, may I interrupt you once more? Were the French invited to this meeting?

Secretary Fowler. No; they were not. They have not been participating, contributing to the gold pool, since last June and therefore they were not invited to meet. But these men there told our representatives, looking to what the United States could do, that the one single thing that would lead to more confidence and more stability in the international financial markets was for the United States to pass the tax bill.

What in essence they were saying is, "Look, nobody will believe the silly stories and the rumors that contributed to the outbreak in the gold market. We wouldn't have had this Sunday meeting here if you would just assure the world that you were running a responsible economic and financial policy."

And, as a matter of fact, a week earlier in Paris other representatives attended a meeting of the Economic Policy Committee of the OECD, the Organization for Economic Cooperation and Development, and the representatives there said in their report:

> There was general agreement that the tax increase sought by the U.S. administration was highly desirable.

Now, this uncertainty under which we are laboring is not without price and cost, many costs, which we are familiar with here at home, in the continued increase of our interest rates, but it is also costly in terms of hard cash. I will just conclude on this note: The gold pool operations are confidential and I won't give the precise figures, but speculative gold buying last week alone was in the quantity of four

times as much as in the entire preceding 4 months, and we will of course show a substantial gold loss when the figures are published in a week or two.

That loss will largely reflect the U.S. share in November gold pool operations. I don't have to say that again they resulted in gold losses and our reserves shrank in defense of the dollar.

So I only say that the world is watching very closely what we do here. They know our basic strength. They know how strong we are. But they also know that strong countries have to act—as Chairman Martin has said—responsibly. If they don't they are not going to be as strong as they thought.

Mr. Boggs. There is no doubt about the fact that this surge to almost panic buying and selling which occurred in these markets indicated that there was a feeling of insecurity and instability about the fiscal position of the United States.

Secretary Fowler. Some people operate, Congressman Boggs, out of fear in situations of this sort, some out of avarice, and some because they don't like the existing system and bet against it.

Mr. Boggs. Now let me follow up with another question, and I preface it by saying that I seldom find myself in disagreement with my chairman and I don't think I am in disagreement with him now, nor with the other members of this distinguished committee, because I think that all of them were quite sincere in wanting to have a look at what Congress has done appropriationwise—we have almost completed that process now—and also to know whether or not you representing the administration would submit a meaningful program, the curtailment of expenses, where they were controllable.

Now, I might direct this question to all three of you. Do you feel that the expenditure reduction program that you have submitted here this morning is the maximum that you can submit to the Congress in light of all the commitments that this Government has, both for war and for peace, at home and abroad?

Secretary Fowler. I would answer that in terms of my statement, that it represents the most specific and in our view the most appropriate combination of measures that we can devise at this time. But in the words of my statement I can say for myself and for the Director and for the President that we will be flexible in our reactions. We think this is the right combination, but if others can persuade the Congress to do something more and different we will give the most sympathetic consideration, provided those changes do not undermine the fundamental purpose of this, which is to achieve a meaningful tax increase and a meaningful expenditure reduction that will bring our deficit back down into, as the chairman has referred to, more manageable proportions.

Mr. Boggs. Would you subscribe to that statement?

Mr. Schultze. Yes, sir.

Mr. Boggs. Would you, Mr. Chairman?

Mr. Martin. I have no question that this is a meaningful reduction. I would hope that the reduction could be larger. As the Secretary has indicated, I don't think you can set an arbitrary figure on what the amount is that brings the budget into manageable proportions.

I would simply say that I think this is a meaningful reduction and I would hope very much that it would be enacted, though I would feel

a little bit happier if it were a little bit larger on the expenditure side.

Mr. Boggs. Reduction. Now, that leads me to the main question I wanted to ask. Mr. Secretary, in light of the meetings that you have participated in, particularly in the past 10 days, and your representatives are probably now participating in, if this Congress or if our committee fails to act on your recommendations or on a set of recommendations of its own, whatever they may be, in both areas—we of course don't have jurisdiction on the expenditures reduction—but assuming that we come up neither with a program of our own, regardless of how drastic it might be, and do nothing on the tax question, what in your judgment would be the impact when you would go back to this meeting that you recently attended?

Secretary Fowler. I have no way of predicting, Congressman Boggs. All I can say is that, as I said in my opening statement, I think that further deferral of prompt action in this area or failure to take action would place an undue and unacceptable risk on the Nation's economic and financial structure and on the international monetary system, and I am sure that judgment would be shared by all the gentlemen at that meeting or any other meeting where knowledgeable men gather on this subject.

Mr. Boggs. I understand your reluctance to make any specific comment on this because any comment you make would have an adverse effect, but am I wrong if I say that our failure to act would have a very adverse effect on the dollar?

Secretary Fowler. I think it would have an adverse effect on confidence in the dollar and therefore on the dollar.

Mr. Boggs. Mr. Martin, what would be your comment?

Mr. Martin. I would like to comment this way. I fully realize that all the members of this committee are just as responsible as I am.

Mr. Boggs. I couldn't agree with you more.

Mr. Martin. I fully appreciate that, but I feel so strongly—I am involved in this—I feel so strongly about this that for the sake of my own conscience I think it is imperative that I place before you the feeling that I have, and which is shared by a good many of the people in the Federal Reserve System, that in the absence of some action the psychological and expectational effect will be deleterious to supporting the dollar.

Now, I talked on Thanksgiving Eve to all of the central bank governors——

Mr. Boggs. Speak up just a little, Mr. Chairman, please.

Mr. Martin. To all of my counterparts in the central banks in Western Europe and to several other responsible individuals and the question that was asked is the one that the Secretary has referred to: "What is the United States going to do about getting its expenditures under control? Is it true, as the President indicated at his press conference, that the budget deficit might be $30 or $35 billion?"

I am not suggesting that is the right figure, but I say the President used that figure and this was reported widely in Europe. I am not trying to shift any responsibility for maintaining the value of the dollar from my shoulders to this committee nor am I suggesting for a moment that I want to threaten this committee with soaring interest rates or with anything of that sort.

The Federal Reserve intends to act responsibly at all times and we are not anxious for soaring interest rates or for a credit crunch. But I do think that I have a duty, not a very pleasant duty under present circumstances, but both a duty and a responsibility to point up the impact that this progressively larger deficit is having around the world at a time when the U.S. dollar is now the bulwark of the entire international monetary mechanism.

I think that I would be derelict in my duty if I didn't point this up.

Mr. BOGGS. Mr. Chairman, is this view shared by all of the members of the Board and by the member banks throughout the country?

Mr. MARTIN. I haven't run into anybody who doesn't share this view in the Federal Reserve System.

Mr. BOGGS. How long have you been Chairman of the Federal Reserve System?

Mr. MARTIN. It will be 17 years in April if I last that long.

Mr. BOGGS. Well, I hope that you do. You have served under Democrats and Republicans, have you not?

Mr. MARTIN. I have. I have been privileged to serve under both.

Mr. BOGGS. And I gather that the opinion that you are expressing here today carries all of the conviction that you are so well known for; it that correct?

Mr. MARTIN. I feel this very strongly and again I don't want to in any way try to shift the responsibility, and this is a judgment, but I think it is my responsibility as the head of the Federal Reserve System to point out what is involved in this in my judgment and to place before you what I see as the stark realities of the current situation.

Mr. BOGGS. There came across my desk this morning a letter signed by some of my very good colleagues, all distinguished Members of the House, and I don't want to use the names because I don't want to make them a matter of public record, but they are calling a meeting which they describe as urgent for 4 p.m. Thursday, tomorrow, to discuss soaring interest rates and what to do about them, and of course reference is made specifically to the increase in the discount rate that you put into effect last week from 4 to 4½ percent.

What can my colleagues do about interest rates if we don't have a tax bill and if we don't follow through on some kind of a program?

Mr. MARTIN. I can't make any predictions about interest rates obviously and I want to emphasize that the Federal Reserve intends to act responsibly in this matter.

Mr. BOGGS. What today are the interest rates in Great Britain, the prime rate?

Mr. MARTIN. I don't know the British prime rate, but I think the general run of interest rates are around 7 percent. The bank rate is 8 percent.

Mr. BOGGS. How does that compare with the rates in Western Europe generally?

Mr. MARTIN. That is 2 to 3 percentage points higher than most of Western Europe. Switzerland of course has very low rates.

Mr. BOGGS. I noticed I think in this morning's paper where I think it was some Fannie Mae certificates sold for what? 6.4?

Mr. SCHULTZE. One at 6.35 and one at 6.4.

Mr. BOGGS. Is that the highest in history?

Mr. SCHULTZE. To the best of my knowledge.

Mr. Boggs. That is the highest?

Mr. Schultze. Of course these particular instruments are relatively new, but compared to other Government paper, yes, sir.

Mr. Boggs. What is the rate on long-term Government bonds today, Mr. Secretary?

Secretary Fowler. I keep a weekly table here. As of the close of business on the 24th—I keep one of these to see how much they go up week by week—the rate on 10-year Government Treasury coupon issues was 5.77. That compares to the peak yields in 1966 in August and September of 5.51. It got down as low as 4.45 this year.

Now they are back up to 5.77. For the 20-year bond the figure is 5.70 as compared to the peak yield last year, 1966, of 5.12. They reached a low this year of 4.44. I also have a tabular comparison of what has happened in the interest field in all of the general categories of securities since August 3, the date of the President's tax message, I would be glad to make it available for the record.

(The table referred to follows:)

MAJOR INTEREST RATE SWINGS SINCE JULY 1965

[In percent]

	Vietnam escalation begins July 28, 1965	Discount rates rise Dec. 3, 1965	Peak yields, August–September 1966	Dec. 30, 1966	1967 through November 22		Tax message, Aug. 3, 1967	Latest, Nov. 24, 1967	Change, Nov. 17, 1967 to Nov. 24, 1967
					Low	High			
Treasury bills:									
3-month	3.81	4.12	5.59	4.81	3.33	4.90	4.15	4.91	+.24
6-month	3.88	4.26	5.98	4.92	3.71	5.46	4.68	5.48	+.35
12-month	3.90	4.30	5.94	4.84	3.80	5.55	4.99	5.56	+.29
Treasury coupons:									
1-year	4.00	4.42	5.99	5.00	4.07	5.73	5.08	5.65	+.09
5-year	4.15	4.52	5.89	4.80	4.38	5.91	5.19	5.78	+.06
10-year	4.20	4.52	5.51	4.64	4.45	5.87	5.20	5.77	+.02
20-year	4.21	4.44	5.12	4.58	4.44	5.81	5.06	4.70	0
Federal agency: 1-year	4.28	4.60	6.36	5.49	4.35	6.05	5.39	5.98	+.13
New Aa-rated corporate bonds (Treasury service)[1]	4.58	4.86	6.35	5.87	5.22	6.91	6.17	[2] 6.99	+.08
New municipal bonds (bond buyer service)	3.25	3.50	4.24	3.77	3.40	4.37	3.91	4.37	+.04
New home conventional mortgages (FHA service)	5.78	5.88	[3] 6.69	6.66	6.40	6.58	[4] 6.51	[5] 6.55	--------

[1] Series based on issues with no call protection, for 5-year call protected issues deduct (at present time) approximately 25 basis points.
[2] Preliminary.
[3] For the month of November.
[4] For the month of July.
[5] For the month of October.

Note: Office of the Secretary of the Treasury, Office of Debt Analysis.

Mr. Boggs. Suppose you just make that a part of the record. I noticed in the Wall Street Journal last week where the Mississippi Power Co. sold some bonds at 7½ percent I think it was. I believe that AAA, State of Mississippi, full faith and credits bonds, sold for almost 5 percent, and of course as all of you know, those are tax exempted, so there is no question about the interest rate going up and it looks to me unless something is done it is going to go higher.

Now, Mr. Martin, you have mentioned, and quite properly so, the homebuilding industry and also the industries associated very intimitely therewith, like the building and loan associations.

Why would an investor keep his money in a building and loan association that can pay 4½ percent or maybe 5 percent when he can buy

a tax-free bond at 5 percent or a AAA corporation bond at 7, 7½ percent?

Mr. MARTIN. You have answered the question yourself? Why would they?

Mr. BOGGS. Right. What I am really trying to point out is that the failure to act doesn't really mean that we are not burdening the American people. I mean the idea that, you know, it is so easy to say, "Well, we won't vote for a tax increase," but by not doing it if this rate goes to 7 percent, what happens to a person who buys a washing machine or buys anything on time, or let us say the average person. What happens to them?

Mr. MARTIN. They pay considerably more.

Mr. BOGGS. So that the bite, if we want to use that expression, can be much greater if we don't act. Is that a correct statement?

Mr. MARTIN. That is correct.

Mr. BOGGS. Now, I don't want to take too much time, Mr. Chairman, but I do think the questions I am asking are significant and I will carry on for just a few more minutes. I think there are several of us on this committee who never voted for a tax increase bill. I think John Byrnes was on the committee at the time of the Korean war, and Cecil King was, and the chairman and myself, and I know it is not easy to vote for a tax increase bill.

We have had the great privilege in the last 20 years to vote for a succession of tax decreases. We voted for one in 1954 when we revised the entire Internal Revenue Code. Then we had a succession of tax decreases of one kind or another.

But in Korea we changed the bill which was designed as a tax decrease bill and cut across the board on excise, on the corporate rate and on the individual rates, and between the time that the House acted on that bill and the time that it got to the other body there was the war in Korea.

It came back and we passed a tax bill that was really a tax bill. It included, among other things, an excess profits tax, which, if you want to talk about a bite, is a real one, and not only did we do that, but the Congress reimposed wage and price controls and credit controls.

If I remember correctly, you had to go in and get a special kind of form from the Federal Reserve System to buy a house or to buy anything that cost in excess of a certain amount of money.

Now, I was looking at some figures the other day to the effect that a comparable tax increase today, the same type of tax increase as we voted in 1950 or thereabouts, would amount to $35 billion in this economy.

Now, the highest figure that I have seen on a full year of operation for the proposal here would be about $12 billion. Is that correct?

Secretary FOWLER. That is correct. That includes the $2.5 billion excise tax, and about $9 billion on the income tax.

Mr. BOGGS. And the gross national product is approaching $800 billion? Is that substantially correct?

Secretary FOWLER. That is right.

Mr. BOGGS. At that time what was the gross national product?

Secretary FOWLER. I don't recall.

(The following information was received by the committee:)

Gross national product

[Billions of dollars]

1950	$284.8
1951	328.4
1952	345.5
1953	364.6

Mr. Boggs. Well, make it a part of the record. Certainly it wasn't more than half of that.

Mr. Schultze. $300 to $350 billion, in that neighborhood.

Mr. Boggs. Just one or two other questions, and this is what prompted me to make the statement I made when I came back from President Johnson's ranch last Thanksgiving time. It was perfectly obvious to me that if we were to maintain our commitment in Vietnam the cost was going to have to go up. The cost of Vietnam today is what? Roughly $30 billion a year?

Mr. Schultze. A little under $25 billion.

Mr. Boggs. Because these items in the Defense Department are difficult to allocate. My next question though is how does that compare with what we were spending on Korea at the height of the Korean war?

Secretary Fowler. Mr. Boggs, we didn't have any allocation as I recall it, during that time in the total defense expenditures as between those expenditures which were directed to Korea and those that were directed abroad, because our defense program during that period involved two different programs, one the conduct of activities in Korea, and the rebuilding in a very massive way of our entire defense structure which had been somewhat depleted since World War II, so there was no breakdown of the figures for Korea and the figures for the rest of the defense buildup during that period.

I think the total overall cost of defense during the peak of that period is roughly comparable to the total overall cost of defense today, somewhat lower actually.

Mr. Boggs. So operating on an economic base about one-half of what we have today.

Mr. Schultze. That is correct.

Mr. Boggs. Put another way, the total take by the National Government as I understand it today is something like 17 percent of the gross national product. In World War II, if my memory is correct, it ran as high as 50 percent, did it not?

Mr. Schultze. Close to that, yes, sir.

Mr. Boggs. Which is a fantastic difference incidentally, and in Korea it ran how much, Mr. Schultze?

Mr. Schultze. I think at the peak it ran about 20 or 21 percent.

Mr. Boggs. This of course spells out the story much more factually than I could hope to do. Just one other thought and I will conclude.

There is no doubt about the fact that already we are penalizing certain segments of the economy. Isn't that so?

Mr. Martin. That is correct.

Mr. Boggs. Mr. Schultze used this statement in his conclusion and it can't be improved upon in my judgment. He first admonished us to choose the path of responsibility and of course that is an individual judgment on the part of each one of us. And then you said:

To adopt a reasoned and moderate approach to the fiscal problems which confront us—to apportion the fiscal burden equitably and rationally.

Now, it seems to me that unless we take action on both of these fronts, reducing expenditures and increasing revenue, that that is the one thing that we are not going to do, that is, pass the burden equitably and rationally. For a whole variety of reasons.

Mr. SCHULTZE. Yes, sir.

Mr. BOGGS. Certainly we are going to give considerable help to those with means who want to make investments and many tax free investments. They got quite a bonanza over here in this kind of interest market. On the other side of the coin though we are going to penalize every building and loan association in America, we are going to penalize every home builder in America, we are going to penalize every lumber supplier, every material supplier, and I think we could go on and categorize them depending upon the degree of inflation and the disproportionate effect of it to see who suffers and who isn't suffering, is that a correct statement?

Mr. SCHULTZE. Yes. Without a tax increase without a tax apportionment it is like a blind man throwing darts. It will be random. It will hit some groups very severely while others will make money out of it. You are quite right that this is a question of equitable and rational apportionment of the burden which will, in any event, have to be borne—tax increase or no.

Secretary FOWLER. Mr. Boggs, I would like to make one comment there, that roughly 75 million people who are members of American families who don't pay any taxes because their incomes are so low that they don't fall within the requirements of the law——

Mr. BOGGS. Speak a little louder please.

Secretary FOWLER. Or those that are exempt from this surcharge under the proposal are roughly 75 million people either who are not taxpayers or not members of taxpaying families. They are the ones who are really going to pay the price because inflation to the extent that it is a result of a failure to pass a tax law will be visited upon them whether they know it or not.

Mr. BOGGS. Just one other subject, and I would address this principally to the Chairman of the Federal Reserve System, is an area which I have been interested in for many years, that is, the business of our foreign trade.

I know we have suffered from a chronic deficit in the balance of payments and the great plus factor has been an excess of exports over imports in our economy. I noted today or yesterday in one of the business journals where we had suffered a rather precipitous decrease in exports in the last 6 weeks.

Now, with the pound devaluation and with the threat of further devaluation elsewhere in the world and with increasing interest rates, increasing costs across the board in our own economy, if we fail to act, what would be the anticipated impact on exports and upon the balance of payments generally?

Mr. MARTIN. It cannot help but be adverse because the devaluation by the United Kingdom was obviously to help their trade position so that there will be some adverse impact on our balance of payments there. They have a bank rate of 8 percent. We went up as a moderate precautionary move in our bank rate from 4 to 4½ percent.

It is vital that we keep inflation under control so that we will have competitive prices.

Now, in the 7-year period from 1960 through 1966 we had an adverse balance of payments deficit on the liquidity basis of about $17 billion, a rate of $2.4 billion roughly per year, and in 1960 it was $3.9 billion and in 1966 it was $1.4 billion.

Now, we are facing this year a balance-of-payments deficit that has not yet been projected out, but is running above $2 billion. It is vital that we keep this balance-of-payments problem under control and certainly this is one of the important aspects of this, both with respect to interest differentials in the world and with respect to competitive pricing.

Mr. BOGGS. One final question. Thank you very much, Mr. Chairman. I presume, Mr. Secretary and Mr. Schultze, that the recommendations that you make on the $4 billion in appropriated items will be spelled out specifically—do you have them spelled out?

Mr. SCHULTZE. I have them spelled out here by agency. Each Federal agency in turn is now preparing what it would do under this reduction and is prepared to go up before the relevant subcommittees of the Appropriations Committees to spell it out.

Mr. BOGGS. And it requires action by the House Appropriations Committee.

Mr. SCHULTZE. That is correct.

Mr. BOGGS. So that what you are proposing is statutory revision of the budget for 1968.

Mr. SCHULTZE. That is correct, in law, statutory language.

Mr. BOGGS. Mr. Chairman, you have been very gracious and very kind. I have imposed upon the committee and I am very grateful to you, and I thank you gentlemen very much.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Thank you, Mr. Chairman. There seems to be no question that the basis of our concern is the deficit. That is what we are concerned about, is it not, Mr. Secretary?

Secretary FOWLER. Mr. Chairman.

Mr. BYRNES. Chairman Martin?

Mr. MARTIN. Right.

Mr. BYRNES. Since that is at the heart of our problem, it would be well to find just what that deficit is now. What are we talking about today. Recently, the White House said that the deficit was going to be between $30 and $35 billion. That had an adverse reaction.

I think, Chairman Martin, you mentioned that in talking to the heads of the central banks they expressed concern; did they not?

Mr. MARTIN. That is correct.

Mr. BYRNES. With that particular announcement.

Mr. MARTIN. Right.

Mr. BYRNES. And didn't it also have an effect on the bond market that day when it was announced?

Mr. MARTIN. It did.

Mr. BYRNES. It had an adverse effect.

Mr. MARTIN. An adverse effect.

Mr. BYRNES. I just seems to me that when we are worried about a basic problem, and the central banks all over the world are worried about it, and our own people in the money markets are worried about it, that we had better be careful about what we are talking about and

not make the situation any worse than it really is, because it is bad enough as it is. There is nothing, Mr. Director, in your testimony that refers to a potential $30 or $35 billion deficit today. Yet that was the word from high authority as to what we were looking at. Where did the $35 billion figure come from?

Mr. SCHULTZE. Mr. Byrnes, you will recall that in fiscal year 1967 when——

Mr. BYRNES. No; I am talking about now. This is 1967.

Mr. SCHULTZE. Correct, sir. I am explaining the genesis of the $30 to $35 billion and I want to——

Mr. BYRNES. Do we have to go back. All right, go ahead.

Mr. SCHULTZE. It will only take me 1 minute.

Mr. BYRNES. All right.

Mr. SCHULTZE. You will recall that when the interest rates rose rapidly and credit markets tightened, in my testimony I noted that this added something like $3 billion to the Federal budget.

In other words, a number of Federal loan programs and interest payments on the public debt both tend to rise if no action is taken and you continue to have a significant rapid rise in interest rates and tightening of credit.

Hence, while nobody can put precise numbers on it this was why the President was using a high range. This is what lay behind it. This is why we have to worry about the contingency of looking forward to the repetition of that same kind of experience.

Mr. BYRNES. And that deficit reflects the increase in the basic interest rates to carry the debt?

Mr. SCHULTZE. It is a combination of higher interest rates to carry the debt and increases in places like the Export-Import area, FHA disposal of defaulted loans, and other areas where tight money tends to raise Federal expenditures, as we found out in 1967.

Mr. BYRNES. Let's get to what our actual projected deficit is as we sit here today, reconstructing it from the projection that was contained in the budget in January. At that time, as I recall, you had a $8 billion deficit with a 6 percent tax increase and a $13 billion deficit without the tax increase for fiscal 1968.

Let's just find out where we are today, taking into consideration what Congress has done to this point; namely, the $6 billion reduction which the chairman of the Appropriations Committee advised us the other day has been the result of congressional action, taking into consideration certain factors where the situation has changed now, but which you were using as contingencies before, as for instance the participation certificates.

Maybe we can get into that a little later as to what it means but let's find out really right now what we are looking at as a potential deficit if we do not have a tax increase, and then if you want to you can reconstruct an additional figure as to what the consequences of that will be as far as increased interest costs or the other factors that you mentioned.

I think maybe we can settle this uncertainty that exists with respect to what we face by reconstructing here just what we do face rather than throwing figures out right and left and nobody knows what it is. You mentioned $29 billion last August, and that has been changed. The President now talks about $35 billion. Let's find out what the deficit really is.

Mr. SCHULTZE. Yes, sir. I think the best way to do that will be to start, if I may, with the projection which I have given the committee on the assumption of passage of the tax bill and the expenditure reductions and build back up from that, if I might. If you don't pass the bill, it will take into account what the Congress has done, et cetera.

Mr. BYRNES. I want you to break this down into expenditures and I want you to break it down into revenue, so tell us what the situation is as far as the expenditure side of the budget is concerned, and how that relates to the expenditure picture you projected in January. Where are we going?

Mr. SCHULTZE. Yes, sir. First, let us do it with expenditures. You will recall in the testimony I just gave that with the actions proposed in title II of the bill——

Mr. BYRNES. No, I don't want that.

Mr. SCHULTZE. I am going to build back up from that.

Mr. BYRNES. We will talk about that later. I want to find out where we are today, just where we are.

Mr. SCHULTZE. That is what I am going to build to.

Mr. BYRNES. Then afterward we can see what effect action by this committee or action by the Congress or other actions by the executive might have. I want to know what the picture is as of right now without speculation on what the committee might or might not do.

Secretary FOWLER. We will do it your way.

Mr. SCHULTZE. It is just a matter of getting the numbers wrapped up.

Mr. BYRNES. That is the easiest way for me, and I think the easiest way for most of the American people, to look at it.

Mr. SCHULTZE. Without the reduction?

Mr. BYRNES. Without anything. Where are we today, in November?

Mr. SCHULTZE. That is what I am doing. We are estimating $140.3 billion on expenditures, minus $1½ billion as the effect of congressional reductions in appropriation action to date, bringing you out right now, at $138.8 billion.

Mr. CURTIS. $1.1?

Mr. SCHULTZE. $1.5 billion. That is on the expenditure side. On the revenue side without any tax increase we are estimating $116.4 billion.

Mr. BYRNES. Give me that again.

Mr. SCHULTZE. Revenues are $116.4 billion, resulting in a deficit of $22.4 billion on the assumption of the sale of the full $5 billion of PC's.

Mr. BYRNES. That is really the figure that we are looking at now. Things have changed. We don't have to talk anymore about a $29 billion deficit, is that correct?

Mr. SCHULTZE. That is correct.

Mr. BYRNES. We certainly don't have to talk about a $35 billion deficit, and jolt the international community or the American money market, do we?

Mr. SCHULTZE. That is correct, Mr. Byrnes, remembering if you will, that it has only been very recently we have been able to nail down the defense side of it. One of the reasons that this is lower is we are now using $2 billion instead of $4 billion for defense, for example.

Mr. BYRNES. Maybe you have had a big change in circumstances since a week ago Friday. I don't know.

Mr. SCHULTZE. It is not a change in circumstances. It is a question of an estimate, sir.

Mr. BYRNES. Now your estimates show a considerable short fall in revenue, is that right?

Mr. SCHULTZE. It is what we told the committee——

Mr. BYRNES. From what you were originally talking about.

Mr. SCHULTZE. It is a shortfall from January. It is the same as what we told the committee in August, barring a tax increase. It is the same as we said then. But it is a shortfall, a significant shortfall, from January.

Mr. BYRNES. Taking the first 4 months of this fiscal year and comparing them with the first 4 months of last year, and in spite of the fact that you had acceleration of certain tax collections last year, you still think that a reasonable estimate is $116.4 billion?

Mr. SCHULTZE. On revenues?

Mr. BYRNES. Yes, I am just talking about revenue.

Secretary FOWLER. Yes, sir.

Mr. BYRNES. I thought that at least on the basis of the first 4 months, by comparison with last year, for instance, that we were running in excess of that figure.

Secretary FOWLER. No. We have recently made a reestimate of our situation and while there have been factors of change plus and minus we still stand by this $116.4 billion figure the Director gave.

Mr. BYRNES. I may want to check that further because it just seems to me from the way the revenues have been running the first 4 months of this year as against last year, unless there is something peculiar in those 4 months, that you are running in excess of what would be an annual level of $116.4 billion.

Secretary FOWLER. We don't feel that way about it. It is my understanding our calculations are not far from those of the staff of the joint committee. There may be some minor differences but I don't think there are any major differences.

The CHAIRMAN. Our staff has estimated the revenues at $116.1 billion.

Secretary FOWLER. It is that margin of difference. We take a little bit better view of corporate income than the staff. That is the only, I think, significant difference.

Mr. BYRNES. Now, I don't want anybody to infer because I have brought us down now to a $22 billion figure that I feel that this deficit isn't significant, because it certainly is in my judgment. It isn't a matter of pleasure, but there is satisfaction of seeing some other people now concerned with deficits. In the past, when some of us talked about the need to be concerned over deficits we were labeled as being "mossbacks" and old fashioned. I don't know who these gentlemen are that Mr. Boggs mentions who are going to have a meeting tomorrow afternoon, but I would imagine they have been wearing the Santa Claus suits around here for the last 2 years creating the deficit and the high interest rates.

Secretary FOWLER. I am another mossback on this subject. I hope you didn't infer that we had not been previously concerned.

Mr. BYRNES. I am just saying I am very glad to see some of the concern that now seems to be developing about what deficits can do,

when certainly there was very little concern expressed in any quarters last year or the year before.

Now let's get down to what we are going to do with expenditures, Mr. Secretary. How much does your program that you present to us as it relates to the expenditure side reduce this $22.4 billion?

Mr. SCHULTZE. The total plan as specified in the bill reduces expenditures by $4.1 billion. Of that $4.1 billion, $1½ billion has already been taken by the Congress, so the difference is $2.6 billion which you can subtract from the $22.4 billion.

Mr. BYRNES. In other words, let's not get into all the fancy arithmetic. The deficit, you say, is $22.4 billion. I want to know, if this plan is enacted, what it will do to the $22.4 billion figure in terms of expenditures?

Mr. SCHULTZE. Mr. Byrnes, it is an additional $2.6 billion reduction.

Mr. BYRNES. $2.6 billion.

Mr. SCHULTZE. On top of the $1.5 billion.

Mr. BYRNES. So that would get us to $19.8 billion.

Mr. SCHULTZE. That is correct.

Mr. BYRNES. Now let me ask you this. What is there today that prevents the executive from going ahead and applying these reductions, for instance, at least as far as it relates to payrolls? I assume fundamentally what that relates to is a reduction of employees, doesn't it?

Mr. SCHULTZE. It would be primarily that, either that or not hiring additional employees; yes, sir.

Mr. BYRNES. To the number of employees.

Mr. SCHULTZE. Primarily.

Mr. BYRNES. And the half a million new employees that have been added in the last 4 years were added by executive determination, weren't they? And then by finally coming around and asking Congress for money to pay for them as part of the overall budget.

Mr. SCHULTZE. With congressional agreement; yes, sir.

Mr. BYRNES. All right. But what is there to prevent the President from cutting back today? Didn't he tell us last year that he was putting on a freeze? It seemed to me it was a year ago in November or October, just before the congressional election, that the country was told that there was a freeze going to be put on Government employees.

Wasn't that part of the President's economy package preelection 1966?

Mr. SCHULTZE. September a year ago; yes, sir.

Mr. BYRNES. Why can't he put in a freeze today which results in the 2-percent reduction that you present here under title II of this bill?

Mr. SCHULTZE. Mr. Byrnes, there is nothing legally which prevents the President from doing that. As a matter of fact, as you know, during this period of uncertainty as to what is going to happen with respect to the whole fiscal situation he has put a freeze across the board wherever it can be done.

Now, you will recall also that this committee——

Mr. BYRNES. Wouldn't that relieve the uncertainty at least to that degree if he said, "I am putting into effect, and it is going to be in effect at least for the remainder of 1968, a reduction of 2 percent in personnel"?

Mr. SCHULTZE. Mr. Byrnes, may I? What the President—what we are proposing now, is a means for the Congress to join with the Executive in reducing expenditures. You recall that the language of the proposal which this committee adopted recessing the earlier tax hearings looked toward the development of a joint congressional-administrative approach to this. This is what we are now doing.

Mr. Byrnes, if I may, may I finish?

Mr. BYRNES. I don't want to interrupt you to the extent that you can't finish your thought, but I do think it is important that we correct at the outset your impression as far as this resolution that the committee adopted.

Did you also look at that resolution as a limitation on what you should be doing as far as cutting back expenditures, so you could save any cuts to put into some kind of a pot?

Mr. SCHULTZE. No, sir.

Mr. BYRNES. For agreement purposes.

Mr. SCHULTZE. As I indicated, we have already in very early October frozen the award of new construction contracts and the making of new commitments in general.

Mr. BYRNES. But didn't you say at that time that this was done only until you found out what Congress was going to do and what would be the outcome of this so-called discussion between the Congress and the Executive?

Mr. SCHULTZE. I am trying to finish precisely on that thought.

Mr. BYRNES. Go ahead. I'm sorry.

Mr. SCHULTZE. We are proposing a means of joint Executive-congressional action in which the Congress could join in giving the President general direction as to where and how much to cut.

If the Congress does not choose to do this, if, for example, the Congress should not choose to increase taxes or to pass this expenditure section of the bill, this does not mean the Executive will not reduce expenditures. We will have to. That is clear.

Should the Congress by a record vote, for example, tell the Executive it does not want expenditures reduced—by a record vote opposing the reductions—then I am not exactly sure what we will do. I will be honest with you there. I haven't tried to cross that bridge.

But, granted, simply with inaction, it is clear that the President is going to have to act. What he is trying to find is a means where we can join with the Congress in doing it. The whole procedure for determining program increases and decreases has always histrically been joint, in which the President proposes and the Congress disposes. We are trying to follow that.

But if you are asking me "Suppose we don't act, will the administration sit on its hands?" We will not sit on our hands. We will make reductions. We are trying to make them in a way, however, which is most consistent with what we think is a responsible joint approach.

Secretary FOWLER. Mr. Byrnes, could I interject there just one observation? I think in view of what has been said here today about confidence and stability in financial circles here and abroad, it would be salutary in dealing with the problem of expenditure reduction and control if the Congress would join in with the President and not leave it entirely up to him on the pattern of just taking, you might say, unilateral action.

Mr. BYRNES. This is all very interesting, particularly in view of the attitude that the administration has had toward any efforts to establish reductions until now. We have had an overwhelming vote in favor of reductions, Mr. Secretary, and I am sure that you are acquainted with it, in the House of Representatives, in spite of conserted effort and pressures by the administration to avoid any congressional position in that area, and that bill is still sitting high and dry, I am convinced, because of executive opposition.

Mr. SCHULTZE. May I respond, Mr. Byrnes?

Mr. BYRNES. Certainly.

Mr. SCHULTZE. The fact that the Secretary, I, and the President agree with what I think is just about the unanimous opinion, for example, of this committee, that there needs to be expenditure reduction and control does not mean that any old expenditure reduction and control is a good one.

I can agree with you fully that this is needed. But this is not to say that anything anybody does with the name "expenditure control" is thereby to be approved. There is a big difference between being for expenditure control and being for whatever anybody brings up and calls expenditure control, with a perfectly consistent attitude toward that resolution and this proposal.

Mr. BYRNES. Well, we will see where the difference lies in the fundamental approach and how big that difference is; but in the meanwhile, I am really surprised that you feel that the only way that you can do this, so that Congress can get on record as also being for economy, is not to take a unilateral action in a reduction of Federal employees. I say that particularly in view of the history of executive action in the area of personnel policies.

As I say, the record shows that last year certainly by a unilateral action the President says, "I am going to freeze Federal employment."

Were you subjected to any criticism from the Congress or any other place that you used the wrong technique in that particular action?

Mr. SCHULTZE. Mr. Byrnes, I am not sure what the difference is between us.

Mr. BYRNES. I wonder why you let pass every day when you could take action. You know that, even if you presented here a situation that convinced a majority of the members of this committee——

Mr. SCHULTZE. It isn't going on.

Mr. BYRNES (continuing). That we should report out and present a tax bill in the next couple of weeks, you have lost 2 weeks.

Mr. SCHULTZE. No, sir; we have not lost 2 weeks.

Mr. BYRNES. Haven't you?

Mr. SCHULTZE. No, sir. I said in effect, we have given these reductions to the agencies. The agencies know what they are. They have to take action to determine where their programs will be affected and they know what the actions are in the sense that they know what totals they have to come to.

Mr. BYRNES. Do they have an Executive order?

Mr. SCHULTZE. No, sir. We don't put an Executive order out for our budget exercises; no, sir.

Mr. BYRNES. Let me find out what you have done then. Have you told them that you expect them to get down and cut at least their personnel by 2 percent over what they had requested in the budget in January?

Mr. SCHULTZE. We have calculated the reductions in personnel compensation and in other controllable expenditures for each agency, given the result to the agency, and said, "You figure out where you are going to cut them." They are in the process of doing so and will submit them to us.

May I go on, Mr. Byrnes? You have to recall that in early October, the President, the Bureau of the Budget, took a number of actions freezing Federal commitments precisely so the situation wouldn't get out of hand until we could get all of this settled.

So it isn't a question that it is all running away from us. It is a question that this is going to determine how we end up the year.

Mr. BYRNES. I know you like to get us talking about both aspects, programs and the individual cutback in personnel, but I would rather take them separately if you don't mind simply because I think they can be dealt with a little better.

Mr. SCHULTZE. We are not proposing in this resolution to tell any agency that "You have to take it by a 2-percent cut in your personnel." We are saying, "You have to take a total reduction in obligations equal to 2 percent in personnel and 10 percent in others."

Now it may be in some agencies the priorities are such that it is better not to take so much in personnel and to take more action in other areas. The total fixed figure they have to meet. That is what we are after.

In reducing the deficit we tried to devise a means of doing this which reflects the wide diversity of priorities and situations in this complex Government. We have done it by assigning to agencies a total composed of 2 percent of personnel and 10 percent of other controllable obligations, but it is up to them to assign priorities as to exactly how they will take the cut.

We will review the agencies' proposals, of course, so it is not a blind attempt to get at this by a freeze on this one item or that one item. It is an attempt to get a total reduction, but to allow administrators to judge the feasibility and priorities of doing it different ways. It is the total that counts, it seems to me, for this committee, Mr. Byrnes, in terms of its impact on the deficit.

Mr. BYRNES. In other words, any department will be at liberty to cut out programs, keep the same number of employees and the same payroll that had been estimated in January, as long as their net reduction, the aggregate reduction, is equivalent to the 10 percent program reduction and 2 percent employee.

Mr. SCHULTZE. Subject to a review, yes, sir. In other words, by that I mean the Bureau and the President would review these results, but barring that, yes, sir, that is right.

Mr. BYRNES. Well, I assume if some Department does something the President doesn't want them to they are going to call them in and say, "What are you doing this for." Isn't that what you mean by review?

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. Are they instructed to put these things into effect as soon as they can, or do they have to wait for a bureaucratic process of coming back and making sure that all of these are reviewed at the same time and all that kind of stuff? Are they under instructions to try to get this into effect as soon as possible?

Mr. SCHULTZE. No; they are under instructions to prepare it and

submit it to us for review. Now, remember always, Mr. Byrnes, I come back to the fact that they are under a freeze, so it isn't that by——

Mr. BYRNES. They are not under a freeze as far as the employees are concerned.

Mr. SCHULTZE. Not as far as employees are concerned. They are in a freeze in terms of their general operations.

Mr. BYRNES. That is as far as certain programs are concerned?

Mr. SCHULTZE. Yes.

Mr. BYRNES. Not as far as employees?

Mr. SCHULTZE. That is correct.

Mr. BYRNES. They can hire all the employees they want if they figure they can get within their budget.

Mr. SCHULTZE. Subject to what the Congress has given them.

Mr. BYRNES. Right.

Mr. SCHULTZE. But they know what they are going to have to do here.

Mr. BYRNES. Have they been told that this action is not contingent and that you are going through this reduction regardless of the expectation that Congress will enact it into law? Are you telling them that "Regardless of what Congress does we are going to expect you to get these reductions in and get them in as fast as you can."

Mr. SCHULTZE. We are going to have to get the reductions in regardless of what Congress does, yes, sir, clearly.

Mr. BYRNES. And they have been so advised.

Mr. SCHULTZE. They have been so advised. They know this.

Mr. BYRNES. So this is a little different, in fact considerably different, than the freeze order that went out in October.

Mr. SCHULTZE. Oh, yes, sir, of course.

Mr. BYRNES. Because that order was——

Mr. SCHULTZE. That was a temporary hold-still while we figure out what to do, yes, sir, that is right.

Mr. BYRNES. You have decided that at least you are going to go ahead and try to get a $2.6 billion reduction?

Mr. SCHULTZE. Yes, sir, that is right.

Mr. BYRNES. Therefore, I come to this question. I assume that this has the wholehearted approval of the administration that——

Mr. SCHULTZE. We wouldn't be here if it didn't.

Mr. BYRNES (continuing). A cut of $2.6 billion——

Mr. SCHULTZE. We wouldn't be here if it didn't, that is right.

Mr. BYRNES (continuing). That this is the way you want it done.

Mr. SCHULTZE. That is right. That is what we propose. Again, Mr. Byrnes, I would like to make two points. If the Congress decides to change this proposal in amount or composition, we are certainly not going to be adamant on this. That is No. 1. We think this is a good way to do it, but we hope to be reasonable men.

No. 2, the one contingency I mentioned earlier: should the Congress by record vote say "don't do it"—I don't know what that would mean to us, quite frankly, but apart from that, yes, sir, we intend to do it.

Mr. BYRNES. You are not going to suggest though that if this committee doesn't act that is going to be interpreted as congressional disapproval of your economy drive?

Mr. SCHULTZE. No. As I indicated earlier, if inaction occurs we will still have to cut expenditures.

The CHAIRMAN. Gentlemen, we should like for you to be back at 2 o'clock if you will, please.

Without objection the committee adjourns until 2 o'clock.

(Whereupon, at 12:37 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

Mr. Ullman.

Mr. ULLMAN. Mr. Secretary, I listened with a great deal of interest to your testimony this morning. By and large, I felt that the testimony was most constructive. I believe that you have made a sincere effort to be responsive to the resolution of the committee. I will not know until I have had a chance to analyze carefully the full significance of the proposal as to whether it would meet all of the requirements but you have indicated you have approached this from a somewhat flexible position and I believe you so stated in your testimony.

Secretary FOWLER. That is correct.

Mr. ULLMAN. So this gives some room for a resolution of some differences that might appear.

I was very interested in the line of testimony being taken by Congressman Byrnes with respect to the deficit situation today. I am wondering, Mr. Secretary, can you look ahead to the next crisis in the debt ceiling to see whether, with the tax proposal and the expenditure cuts that you have indicated, you can weather the year out under the existing ceiling?

Secretary FOWLER. Yes.

Mr. ULLMAN. Do you feel that the existing debt ceiling is adequate then if these proposals are accepted?

Secretary FOWLER. Yes.

Mr. ULLMAN. Without any further action by the Congress?

Secretary FOWLER. That is right.

Mr. ULLMAN. What would the situation be if Congress did not act on your tax and expenditure proposal?

Secretary FOWLER. Right now the debt subject to the limit is about $345 billion. At the end of December, it will be around $346 billion, including the current sale of the $1 billion Fannie May PC's which are subject to the limit.

With no tax action and with what I would call less effective expenditure constraint in the budget deficit—in other words, where we stand today counting in the billion and a half dollars of reduction but not the ones that are under discussion here today, we would be fairly close to the peril point of the debt limit. It might be too much or we might squeeze by. It would be pretty close to the edge.

Mr. ULLMAN. In what month?

Secretary FOWLER. I don't have the exact month, Congressman Ullman. I would suspect that it would be March and April. But I will supply that for the record.

Mr. ULLMAN. I wish you would.

(The following information was received by the committee:)

ESTIMATED PUBLIC DEBT SUBJECT TO LIMITATION, FISCAL YEAR 1968

[In billions]

	Operating cash balance (excluding free gold)	Public debt subject to limitation	Public debt subject to limitation [1] (adjusted to $4,000,000,000 operating balance)
ACTUAL			
1967			
June 30	5.6	326.5	324.9
July 15	5.9	330.8	328.9
July 31	5.9	330.9	329.0
Aug. 15	3.4	331.1	331.7
Aug. 31	5.0	336.1	335.1
Sept. 15	1.9	336.3	338.4
Sept. 30	6.6	336.2	333.6
Oct. 15	6.4	340.3	337.9
Oct. 31	5.9	340.8	338.9
Nov. 15	5.4	343.6	342.2
Nov. 30	6.0	345.4	343.4
ESTIMATED			
Dec. 15	4.0	----------	348.3
Dec. 31	4.0	----------	345.0
1968			
Jan. 15	4.0	----------	348.6
Jan. 31	4.0	----------	346.1
Feb. 15	4.0	----------	348.1
Feb. 28	4.0	----------	349.1
Mar. 15	4.0	----------	353.0
Mar. 31	4.0	----------	351.9
Apr. 15	4.0	----------	355.5
Apr. 30	4.0	----------	348.8
May 15	4.0	----------	351.2
May 31	4.0	----------	354.6
June 15	4.0	----------	359.4
June 30	4.0	----------	350.7

[1] Includes participations assumed to be issued by FNMA during fiscal year 1968. Assumes deficit in administrative budget of $22,400,000,000; also assumes FNMA participation sales of $4,000,000,000.

Mr. ULLMAN. Now, your deficit estimate of 22.4 assumed $5 billion of PC sales. Under the existing situation in the financial market, is it not difficult for you to market PC's and what is your best judgment now as to whether you will be able to market 5 billion PC's or not?

Secretary FOWLER. We have, of course, marketed $1 billion as of yesterday. I don't know what the future will be without further fiscal action, Congressman Ullman. I think the most one can say it would be rather conjectural to assume that they could all be marketed. It depends so much on unpredictable consequences of so many elements that are unpredictable that one has to crank into the equation that I just would not want to venture a judgment.

Mr. ULLMAN. What was the interest rate differential in your sale yesterday between the bond market and your participation certificates?

Secretary FOWLER. In a very rough way, I think the difference between 5.75 percent, which was the price of the issue some several weeks ago, and the figures Mr. Schultze gave of 6.35 and 6.40.

Mr. ULLMAN. In other words, the margin is not narrowing as we would have hoped; is that correct? The differential seems to be widening a bit from the previous offering; is that right?

Secretary FOWLER. That is right; under current conditions.

Mr. ULLMAN. I wish that you had been able to present this alternative proposal to us in executive session before the action of the committee because I think it gives the basis at least for an ultimate solution to the problem.

Is there any reason why you could not have done it in that time, Mr. Secretary?

Secretary FOWLER. No. We didn't have this particular proposal forged out at that particular time. We had done a lot of thinking about it. I would not say it had matured. We had three or four others

that might have approached the same result, I think, in the light of the intervening action of the Appropriations Committee and an intervening study of a much more specific and much more concrete and definitive plan than the ones that were available at that time.

As you know, Mr. Ullman, I expressed the desire and hope in September during the executive session that we could sit down together and work out a plan, but I was not permitted to advance the plans I had at the time of the October 3 meeting.

Mr. ULLMAN. I would rather not reopen this.

Secretary FOWLER. I don't want to reopen it, either.

I would rather go on from where we are and say we have had in the intervening period the benefit of the additional information, additional action of the Congress on many appropriation bills, an examination by the Director of the Budget of the situation and the various departments and agencies and some discussion with other areas of the Congress as to what would be acceptable, and this represents, in our view, the most appropriate and the best plan we have been able to devise up to date. Undoubtedly, it could be improved on.

Mr. ULLMAN. I appreciate that.

In your statement, one portion that I think I could find argument with you on is that portion where you do review that situation. But, rather than to go into that matter, I just will record some disagreement in that area. But I would hope that because of the real critical situation that we find ourselves in that we now can proceed to work together on the matter as closely as possible and avoid recriminations to arrive at a solution that is best for the country. I am satisfied that is the reason you are here today.

Secretary FOWLER. That is my point of view and that is exactly why we are here.

Mr. ULLMAN. In your proposals for expenditures reductions in what way do you differentiate between agencies and between programs? Is there enough flexibility that you do not have to take a 10 percent cut in education, a 10 percent cut in poverty or a 10 percent cut in space on the same level?

That might be one point on which I would be in basic disagreement with you.

Will you respond to that?

Mr. SCHULTZE. Yes, sir.

There are essentially three measures of flexibility provided in this approach.

First, the very concept of making a reduction calculated by taking account of 2 percent of obligations for personnel and 10 percent of the other programs already and automatically takes into account differences between agencies because those agencies which involve very heavily just payroll costs, like the Internal Revenue Service or the Patent Office, in general are agencies with fairly fixed workloads.

So, you cannot take the same percentage from these agencies that you could take from an agency which does not have a fixed workload, but is more heavily involved in grant programs or purchases of equipment, and so on.

Hence, by calculating a reduction which takes into account this payroll difference and other program differences, you build in an automatic recognition of differences among agencies.

Secondly, what the bill would do is require each agency as a whole to reduce its obligations by the amount stipulated. But within that total, questions of feasibility and priority are given free rein.

So that, in an agency like HEW or Interior or Agriculture, your total reduction is stipulated by the bill but there is flexibility within that to adjust this total cut to the situation of the various programs within the agencies.

Thirdly, the bill provides a relatively modest contingency of $300 million for the President to apply against these reductions wherever they would involve real damage to our national interest.

Now, I must admit, Mr. Ullman, that no formula is going to be perfect but we have tried to come up with something which we think is pretty well adjusted and pretty flexible. I think it would take care of not all but almost all of the objections that one could find along these lines.

Mr. ULLMAN. Don't you think, for instance, that in HEW with its great volume of support for the less privileged people, that the cut should be less than in some of the areas of hardware expenditure, for instance?

Mr. SCHULTZE. I guess what I am saying is that the Department of Health, Education, and Welfare in this reduction would have to reduce its obligations by about $700 million—$716 million to be precise—and it will not be easy and it will hit a number of programs, important programs, that will have to be reduced somewhat.

But within the total of over $7 billion in controllable obligations within the Department of Health, Education, and Welfare, there is some flexibilty in adjusting these reductions to have the minimum—still an impact clearly—but the minimum impact, hopefully, on these programs.

I do not want to mislead anybody. There will be significant implications in the programs for education and health, but we think it can be adjusted within that total to minimize the problems.

Mr. ULLMAN. Let us look at the $17 billion of expenditures that in this year's budget we are spending on R. & D., the research and development program. I think you said $15.5 billion of that was in hardware items and $1.5 billion was in health and agriculture, primarily.

Mr. SCHULTZE. What I can do is give you an overall indication of what this will do to research and development, not a precise number, because within each department the reductions can be distributed differently.

Mr. ULLMAN. I think it should be made clear in the record that in the $17 billion is included the total of the space program.

Mr. SCHULTZE. Correct. That amounts to over $5 billion. Then there is $7-odd billion in defense and about $1½ billion in AEC and about $1 billion in NIH, leaving about $1 to $1½ billion for all the rest.

If you take a look at the reductions that will be required in NASA, that has already been done in effect by appropriation action.

Mr. ULLMAN. Now, would the reduction made in the House bill be the total of the reduction you are recommending?

Mr. SCHULTZE. Yes, sir. As a matter of fact, the number that I have entered for NASA is the congressional reduction, which happens to be larger than the amount which you would get by applying this formula. This happens to be a case where the congressional reduction, being the larger, prevails.

Mr. Ullman. Refresh my memory.

Mr. Schultze. The reduction for NASA amounts to $511 million in obligations and $475 million in expenditures.

Remembering that the numbers will not be precise because agencies like HEW do have a choice as to how they spread this and they may not spread it on their research programs proportionately, very roughly, these reductions would cut the obligations for research and development by about a billion dollars and they would cut expenditures for research and development by approximately three-quarters of a million dollars, I think.

Now, it will depend on exactly how HEW and some of the other agencies will handle these reductions but it will be in that order of magnitude.

Mr. Ullman. Are you reducing the expenditures of HEW by the same formula that you are reducing the military research and development?

Mr. Schultze. No, sir. We are reducing HEW as a whole by the same formula, but within HEW the specific distribution of those reductions will be up to the Secretary, subject, obviously, to Presidential review.

In other words, what we are not saying is that every program within a department must be cut by this formula. What we are saying is that the total must be reduced by this amount. Some programs may take larger reductions; others smaller.

Mr. Ullman. Turning to the $7 billion of R. & D. expenditures in the military area, what do you estimate the effect on that would be?

Mr. Schultze. Again, the specific determination of this is not yet finally nailed down.

It is my understanding that there will be, in terms of this reduction, something between $350 million and $500 million; it is in that ball park of reductions. There will be some expenditure increase in other aspects of R. & D., some of them related to Vietnam, of about $100-odd million.

So, you may come out in the $200 million area, although these have not yet been finally nailed down. The total has been; The particulars have not.

Mr. Ullman. In other words, what we are saying is that out of that $17 billion of R. & D. expenditures, the total of expenditure reduction would be $750 million out of the $17 billion?

Mr. Schultze. The obligation reductions are about a billion dollars.

The expenditure reductions are about $700 million, in the neighborhood of three-quarters of a billion dollars, remembering that very precise numbers will depend in part on how the different agencies will spread this. But that will be the total magnitude involved.

Mr. Ullman. I think one of the points of contention that I have with the proposal is that obviously it will fall in a similar manner on poverty, education, hardware, resources—whatever.

The main factor of difference is the number of people involved in the operation, is that right?

Mr. Schultze. That is right, except again remembering that the department head does have the option of spreading the reductions to minimize the impact on the poor, the impact on high-priority programs; within his total he does have room to minimize that impact, to choose priorities.

Mr. Ullman. Where will the $2 billion cut in military expenditures come from?

Mr. Schultze. It will be scattered over a wide host of areas. I can at this stage only give you some examples.

Mr. Ullman. Are there any policy changes involved in these expenditure cuts, particularly with respect to the military?

Mr. Schultze. Mr. Ullman, I don't know how to answer that in terms of policy changes. If you mean policy changes in the Vietnam war, no, sir; none. If you mean policy changes with respect to the rest of the Department, well, in a sense any budgetary change makes a policy change.

Mr. Ullman. No policy change in the scope of withdrawal of troops from Europe or anything of that nature that you know of?

Mr. Schultze. Not that I know of, sir; no, sir.

Mr. Ullman. Now, I want to get this real clear. In the $29 billion figure, we would actually have a $4 billion military reduction.

Mr. Schultze. I am sorry; military increase, you mean, for Vietnam in the $29 billion?

Mr. Ullman. No.

Mr. Schultze. I did not follow you.

Mr. Ullman. If you went back to the $29 billion figure, there would actually be a reduction of $4 billion in military, $2 billion excess estimates; in other words, your estimate of $4 billion of extra expenditures in Vietnam has been reduced to two.

Mr. Schultze. Correct.

Mr. Ullman. So that reduces the 29 by 2.

Mr. Schultze. Yes, sir.

Mr. Ullman. Then actually on top of that you are dipping into the military for an additional $2 billion of hard expenditure cuts this year.

Mr. Schultze. These are $2 billion of hard reductions of items which were in the President's budget; that is correct.

In other words, this is not simply an offset to the estimate. These are reductions of $2 billion in items that were in the President's budget.

Mr. Ullman. Now, to what extent will these reductions carry through into fiscal 1969?

Mr. Schultze. This may be a fairly lengthy answer, but I think you might like to have it spelled out fully.

Mr. Ullman. I think it is a very important element for this committee to consider.

Mr. Schultze. All right. In the first place, these reductions are not merely deferrals of expenditures out of this year into next year. They are not a carryover of additional funds into next year, to be spent then.

Mr. Ullman. The cuts will not carry over in the ensuing year?

Mr. Schultze. In general, they will not. I mean, you will not have additional money available for next year. You won't build up next year.

Mr. Ullman. One question is whether you are deferring expenditures and picking them up as extra expenditures next year. I think the committee wants to know that you are not doing that.

Mr. Schultze. Correct.

Mr. Ullman. But the second thing I would like to know is whether these cuts that you are making, for instance, the 2 percent in personnel, indicate a change in course that will actually reflect savings in next year's budget.

Mr. SCHULTZE. Yes, sir.

Mr. ULLMAN. These are the two things.

Mr. SCHULTZE. You are correct on both.

Now, obviously, since the 1969 budget has not been made up, there is no number you can pick to take a 10 percent cut from. But the stringent policy that this implies will be carried forward.

Let me go at this item by item, if I might.

In the first place, wherever possible we will use the savings which this bill, these actions, would provide to finance the pay raise which the Congress is in the process of passing. To this extent, these funds won't be available for use next year. Don't get me wrong. This should not be taken to mean that the net reduction is $3 billion, $4 billion minus the $1 billion pay raise, because the $1 billion for pay is already figured in our estimate.

The obligational availability which you would now have, once you make these cuts will be absorbed in paying for the pay raise, so you won't have to come back to Congress with a big supplemental for pay.

Secondly, a large part of the remaining savings represent "one year" funds. That is, the funds lapse if they are not used during the year. Therefore, the amounts that we save in those cases will lapse and won't be available simply to add on to next year.

Thirdly, the Defense Department savings will be used primarily to finance the added cost of Vietnam in 1968 so they won't be available as a hangover for next year.

Now, finally, there are some areas in the budget where we reduce obligations in what are "no year" funds. Technically they are called "no year" funds, which means that they do not lapse but would carry over into next year. In this case, in making up the 1969 budget, we plan to use these additional moneys from the savings we make this year to reduce the amount we would have to request of the Congress in the form of appropriations for next year, so they won't simply add on to next year.

Now, some of the 1968 savings—some of them, not a very large part, but some—will come from deferring as opposed to canceling individual projects, say in the construction area, but on the whole this won't increase the 1969 budget, either.

Even though we are going to slip some projects out of 1968 into 1969, we will then in making up the 1969 budget slip projects that would have come along in 1969 out into 1970.

In other words, while individual projects will, under these savings, be deferred to next year, they will push other projects along in the chain so you get a net savings in both years. The second year cost of a new project is usually larger, almost always larger, than the first year's cost. Hence, by deferring the start of the project to next year you save money in both years. This year you don't have it at all and next year you have the low first year cost instead of the larger second year cost.

So, we will be pushing a whole series of projects out into 1969 and from 1969 on out into future years.

In summary, the savings we will make will not be at the expense of piling on expenditures in 1969. The funds will either lapse automatically or we will use them in lieu of having to come up, for example, for a supplemental for pay, although we still may have to in some places, because the pay cost may be more than the saving. Finally, this policy will carry over into our making up of the 1969 budget.

I want to assure the committee we are not saving simply by pushing stuff over in 1969.

Mr. ULLMAN. I am a little concerned about this no new starts problem. Aren't you putting a much heavier burden on resource development than you are, for instance, on the space program?

Mr. SCHULTZE. No, sir.

Mr. ULLMAN. On expenditures in industry?

Mr. SCHULTZE. No, sir.

May I explain two things?

No. 1, it is not necessarily true that there will be literally no new starts. Undoubtedly, you are going to have to cut them way back. We have not yet decided whether there will be literally a no new start policy or not. They will be substantially reduced but there is no decision made on whether there will be literally no new starts.

Secondly, if you look at the size of the total Federal Government's ongoing activities in the natural resource area, even if you had a no new start policy it would, over the next 2 years, have a very limited effect on the amount of investment we are putting into these projects.

In the Corps of Engineers which runs a budget of about $1.3 billion, a no new starts policy this year would save something in the neighborhood of $25 million compared to the total of $1.3 billion.

Therefore, in summary, we may still have some few new starts. We have not finally decided that. This is relatively small in terms of the budgetary implication of what we are putting into natural resources because the largest part of our resources expenditures reflect simply ongoing work on projects started in earlier years.

Mr. ULLMAN. You anticipate no larger percentage cut in resources than in other programs such as research and development?

Mr. SCHULTZE. That is correct, sir, and in the first place no larger percentage cut in terms of controllable expenditures; and, secondly, because of the very nature of the beast, that such a large part of it is already locked in, a relatively smaller percentage in the aggregate than in many other agencies, just given the nature of the beast, it is ongoing, it is there.

Mr. BOGGS. Will the gentleman yield a moment?

Mr. ULLMAN. Yes.

Mr. BOGGS. Unless my memory fails me, we have already cut the space program about a half billion dollars.

Mr. SCHULTZE. That is correct.

Mr. BOGGS. It has been cut a half billion dollars?

Mr. SCHULTZE. That is right. It has taken a larger proportionate cut than most other areas.

Mr. ULLMAN. We have already established the point that that is the total amount of cut in the space program.

Now, turning to another matter that you haven't referred to, you have nothing in your program that would cut back the highway construction program.

Mr. SCHULTZE. Not in here, no, sir; we do not. That question, quite frankly, is still open. You may recall that the Secretary of Transportation told the Governors to be prepared for several alternative levels of cuts. Decisions have not yet been made on that.

Mr. ULLMAN. Tell me what would be the effect of a cutback in highway expenditures on the budget deficit.

Mr. SCHULTZE. You have to go at this in three ways.

First, with respect to the administrative budget deficit, there would be no——

Mr. ULLMAN. That is really what we are talking about; is it not?

Mr. SCHULTZE. Yes. All the numbers we have used——

Mr. ULLMAN. When you are talking about the $22.5 and when the international bankers are talking about it.

Mr. SCHULTZE. That is the way you have to distinguish, if you might, insofar as the numbers we have used, $29 billion, $22.4 billion, et cetera; that does refer to the administrative budget. A change in the highway program would not affect that number; you are quite right.

However, the amount of securities which the Treasury must float in the market, which is also obviously a matter of grave concern, depends not only on the administrative budget deficit but upon the surplus in the trust funds. To the extent that there is a surplus in the trust funds in any given year, those funds pick up some of the Treasury debt and the net amount to be floated in the market is thereby reduced. Hence, a change in the highway program would not affect the administrative budget deficit. It would affect the Treasury's financing requirements because as you would build up a temporary surplus in that fund it would take up some of the Treasury debt.

Mr. ULLMAN. You are telling me that you can automatically use the funds that come in on the highway trust funds?

Mr. SCHULTZE. Not only automatically. You must.

Mr. ULLMAN. To pay other Government bills with?

Mr. SCHULTZE. No; you don't pay other Government bills with it.

You have two choices. You may get the cash in and let it lie fallow in cash. Or, you may get the cash in and invest it in securities.

It has been universally, and quite obviously, and quite reasonably, the policy to invest the surplus of trust funds in securities.

Mr. ULLMAN. In other words, it would not have an impact on the actual deficit.

Mr. SCHULTZE. The administrative budget deficit.

Mr. ULLMAN. But it would have an impact on the amount of money that the Government had to go into the capital market to get.

Mr. SCHULTZE. That is correct.

Mr. ULLMAN. Because they could pick it up there as they do pick it up under the social security system.

Mr. SCHULTZE. That is correct.

Now, the fact that the Treasury would borrow those funds would not change Federal expenditures in other programs by one whit.

Mr. ULLMAN. Personally, I want to say in my judgment the economy has not been running strong enough to justify a cutback in the Federal highway program. I would hope that the administration would take a real careful look at the economy before they moved into that particular area. As of now, you are not in a position to know what the thinking is?

Mr. SCHULTZE. I am not; that is correct. I am not in a position to know at the moment.

Mr. ULLMAN. Have you made any surmises?

Mr. SCHULTZE. I would rather not at the moment, Mr. Ullman. I just honestly don't know.

Mr. ULLMAN. Mr. Martin, I particularly appreciated your remarks. I think they went right to the point of the real problem. I think the

balance-of-payments problem is an important one; it is related to this other one. But the credit crunch is, in my judgment, the most critical problem that we have. It then in turn would relate to the balance-of-payments problem, would it not?

Mr. MARTIN. It would.

Mr. ULLMAN. What do you see in the bond market, with or without tax action? Is there any hope that interest rates will come down if we do move the package that has been presented here?

Mr. MARTIN. Yes; I think there is hope. I can't make a prediction on it but I would point out that just the reconvening of these hearings had an effective impact on the bond market.

Secretary FOWLER. Congressman Ullman, if you would like to have a chart of this, it is available.

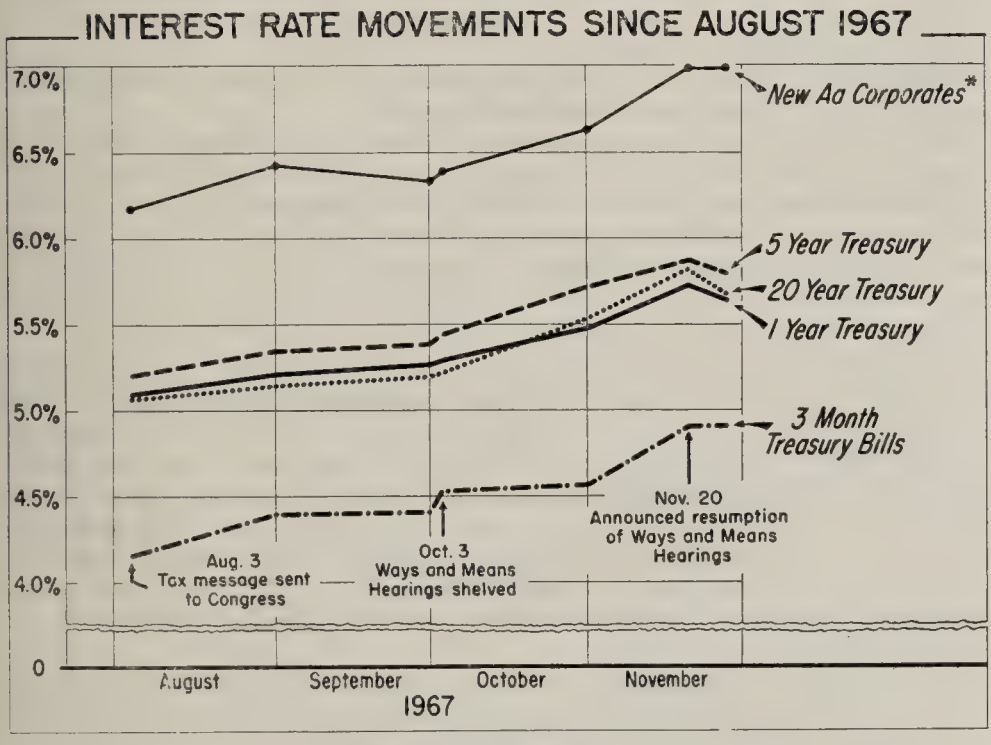
Mr. ULLMAN. Has that been placed in the record?

Secretary FOWLER. No; it has not.

Mr. ULLMAN. I would ask that it be placed in the record at this point.

The CHAIRMAN. Without objection, it may be placed in the record at this point.

(The chart referred to follows:)



Mr. ULLMAN. It shows a decline in the bond market because of the announcement of continued tax hearings.

Well, you pointed out the other day at a meeting that I attended that some of the big companies had withdrawn their financing in the bond market. To what extent is that going on now?

Mr. MARTIN. There are quite a number that have withdrawn. Also, as I point out in this statement, there are quite a number of municipal issues that have been postponed. In this statement, I indicate that there are three-quarters of a billion dollars worth of municipal and local issues that have been withdrawn.

I would hesitate to make an estimate on the corporate issues that have been withdrawn. But one of the most notable is United States Steel which was $225 million alone.

So, I think it is fair to say there is still a pretty substantial amount of corporate issues that have been postponed for the time being.

Mr. ULLMAN. To what extent do you attribute this to high interest rates and to what extent to possible lack of confidence in the economy?

Mr. MARTIN. I attribute it almost entirely to the state of the securities market. I think it is uncertainty and insecurity with respect to what would come out of the securities market that has caused most of these postponements.

Mr. ULLMAN. Isn't it true in the past that industry has been willing to pay almost any interest rate for its capital financing provided that it sees the opportunity for large profit in the years ahead?

Mr. MARTIN. But it begins to think twice as you get up to the 6-percent level. I don't think that is an open end.

Mr. ULLMAN. You do think they take a good look at the interest rate?

Mr. MARTIN. Yes, indeed.

Mr. ULLMAN. You are saying that there is hope, then, that interest rates might come down to a reasonable level?

Mr. MARTIN. Yes; I think there is. I don't want to make a flat prediction on it because there are a great many factors to be considered.

Secretary FOWLER. Mr. Ullman, if I may interject, we have tried to address ourselves in the supplementary statement which I did not read because of the time problem, but on pages 9 to 16 there is an analysis, as precisely as we can today, of the impact on the credit markets of what happens on these particular proposals.

Without reading the material here, I would address your attention to that because it is recognized, I think completely, in the bond market and in the credit markets that the great problem today is the overhang of Federal borrowing. Now, we are not talking today about a very large market in terms of $800 billion. We are taking about a $60 billion to $65 billion market. And when you are putting $11 billion in the first 6 months of this year into that credit market and taking out, according to present projections, in the first 6 months of next year, taking out 5, that is a shift of $16 billion to $17 billion, as a result of one factor in the market.

And if you talk about what are you going to do about private credit controls or something of that sort, it is not the pressure of the increase in consumer credit buying or increase in the pressure of corporate borrowings or increase in the pressure of these other borrowings that is overhauling the market.

If you read any of the market letters, it is this shift that has occurred in the demand factor from the Federal borrowing side. The last fiscal year, the Federal Government was a supplier of credit. In this fiscal year, the Federal Government is going to be a very substantial demander of credit and it will take it; it has to pay its bills

and somebody, as Chairman Martin frequently says, gets shoved off the bench.

Mr. ULLMAN. Governor, has there been any indication of a shift of funds out of the financial institutions that supply mortgage money into the banking institutions?

Mr. MARTIN. I have noted no serious shift yet but I think the rate situation is likely to start it before too long. The inflow in savings and loans is still good, at least up until the last few weeks.

Mr. ULLMAN. Now, there is nothing in the international situation that would warrant the Federal Reserve Board seeking a higher interest rate structure in this country; is that right?

Mr. MARTIN. Well, it is too early to tell that because the devaluation has been in effect only a very short time. The cross currents in the flow of funds are going to develop in the next few weeks. I would say at the moment, no.

Mr. ULLMAN. Has your action in increasing the discount rate had any effect on interest rates in the marketplace?

Mr. MARTIN. Very slight, if any.

Mr. ULLMAN. The reason being that there has already been a wide margin between the marketplace and the discount rate?

Mr. MARTIN. That is right. Our move here was clearly following the market, not leading it.

Mr. ULLMAN. My argument with you in the past has been when you are leading the market, and I have not argued with you too much when you are following the market. This is one set of high interest rates that I don't think we can entirely blame on you—there have been some in the past that I have blamed on you and I think with some justification—but I would hope that you will be able to continue to pursue a policy and possibly a more effective one to help get interest rates down.

I hope we can move here as soon as possible to take fiscal action but I would hope you would not counter the other way if we moved toward more fiscal restraint here.

Secretary FOWLER. Mr. Ullman, lest there be any great passivity about this problem at meetings that Mr. Boggs referred to this morning, I think it is incumbent upon me to say that while in the first 8 months of the year the combined inflow of funds at the savings and loan, mutual savings bank, and commercial banks, set a record. In September and October there have still been inflows but it is no longer a record. In October the inflow is smaller than in the same month in 1963, 1964, or 1965, although it is much better than it was last year, in 1966. The reason that these savings flows to the institutions have continued is the fact that the short-term rates, which have been steadily rising, just have not reached the high levels of a year ago. But you will find if you read market letters and talked to people about it, you will get mixed opinions, Some will say that disintermediation is already here; it is beginning. Others will say, well, we don't really see very hard evidence of it yet.

But I would say that we are probably somewhat on the brink of a substantial slowdown in savings flows to the thrift institutions unless there is action to relieve this situation or hope of action.

Mr. ULLMAN. I am not going to take any more time.

I thank you for your response.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Byrnes had not concluded his interrogation when we adjourned at lunch time.

Mr. BYRNES. Mr. Schultze, in your estimate of a $138.8 billion of expenditures, there is taken into account a congressional reduction of $1.5 billion; is that correct?

Mr. SCHULTZE. Correct

Mr. BYRNES. How much of the obligational authority cut did you use in arriving at that?

Mr. SCHULTZE. $4.5 billion.

Mr. BYRNES. The reason I ask that is because recently I received a letter from the chairman of the Appropriations Committee dated November 7, where he says it now seems quite likely that Congress will cut the fiscal 1968 budget request for appropriations by the sum of approximately $6 billion. This would be a saving of $6 billion, some of which would be saved in the current year. The remainder would be saved in subsequent years.

Mr. SCHULTZE. Those numbers can be reconciled.

Mr. BYRNES. You know where he gets his $6 billion, I assume.

Mr. SCHULTZE. That is right.

Mr. BYRNES. That is what you mean by reconciliation?

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. If that comes to pass, what would that effect be on the spending picture?

Mr. SCHULTZE. Our figures reflect $4½ billion appropriation cuts resulting in $1.5 billion expenditure cuts.

The difference, as I understand it, relates to the chairman's prediction of what will happen on the appropriations, primarily for AID and OEO. I have not in the $4½ billion figure taken into account the AID appropriation which the House has cut about a billion dollars from the budget. That would bring the total cut up to $5½ billion.

So, I would presume, in other words, that we are using the $4½ billion cut already done, while I presume the chairman is talking about the House cut in AID which brings you to $5½ billion, and I presume the cuts in the supplemental, primarily OEO, he is talking about which would bring it up near the $6 billion level.

Now, of that additional $1½ billion of appropriation cuts to get to his number, what would that do to expenditures?

Mr. BYRNES. That is my question.

Mr. SCHULTZE. It would involve reductions of approximately $300 million in expenditures, $300 to $400 million, I can't be precise. The reason is that reductions of larger amounts, primarily in AID, will affect expenditures significantly in future years but not much this year.

Now, if that should happen, the reduction of $4.1 billion that I have here would be increased, because you will recall that the title in the bill, affecting expenditures, says either the 2-to-10 formula or the congressional cut, whichever is larger; cuts of this magnitude would be larger and therefore would add modestly, not a lot, but modestly, to the expenditure cut of $4.1 billion that is in my table.

Mr. BYRNES. Are you saying that the cut in title II would amount to $2.6 billion?

Mr. SCHULTZE. That is right. On top of the one and a half billion dollars congressional cut; that is right.

Mr. BYRNES. This gets me frankly confused when we get back into all the additions and subtractions. We got down to the point of 2.6 that is involved in title II.

Mr. SCHULTZE. No, sir. There are $2.6 billion additional cuts involved over and above the congressional cuts.

Mr. BYRNES. Now, if there is an additional $400 million, or to be conservative take the $300 million, expenditure reductions resulting from the appropriations that are currently in the mill, that would mean that title II would really produce then 2.3?

Mr. SCHULTZE. No, sir.

Mr. BYRNES. Why?

Mr. SCHULTZE. Those would be additional to whatever is in title——

Mr. BYRNES. I thought you used the better of the two figures. That if Congress had already cut more for a given agency, that then the 2 percent in personnel cut combined with the 10-percent program cut would not take effect in that agency.

Mr. SCHULTZE. The larger cut would take effect, so the $2.6 billion is unchanged. But you would have in the congressional cut, $1.8 billion instead of $1½ billion.

Mr. BYRNES. My point is that you don't have to rely on title II to produce that amount of expenditure reduction.

Mr. SCHULTZE. Excuse me.

Mr. BYRNES. To the same degree that you don't have to rely on that now for the $1.5 billion that expenditures have been cut by reason of an appropriation cut.

Mr. SCHULTZE. What I am saying, Mr. Byrnes, is that the $2.6 billion includes the application of the 2-percent–10-percent formula to AID and OEO. If the Congress cuts no more than that, the $2.6 billion stays unchanged. If the Congress cuts more than that, the $2.6 billion is added to.

Mr. BYRNES. I can understand that, but what I am trying to get to is what will title II produce if Congress does reduce its appropriations——

Mr. SCHULTZE. It is $180 million——

Mr. BYRNES (continuing). By $300 million, then that is $300 million that title II will not necessarily produce because it is already taken care of.

Mr. SCHULTZE (continuing). $180 million is the expenditure figure that is included in the $2.6 billion for OEO and AID.

Mr. BYRNES. What is the $300 million?

Mr. SCHULTZE. What would happen if the Congress cut more than that?

I said Chairman Mahon, as far as I am aware, was talking about a $1 billion cut in appropriations for AID and probably a $400 to $500 million cut in OEO appropriations. I say that would produce a $300 million reduction in expenditures. For those two agencies, that cut is larger than what the 2 to 10 formula gives you. The 2 to 10 formula gives you a $180 million expenditure reduction for those two agencies. Therefore, in terms of what title II, itself, does, the $2.6 billion becomes $2.42.

Mr. BYRNES. What is your attitude toward the situation as it exists now apparently in conference I believe on both the OEO and AID bill?

Mr. Secretary, you suggested and I think, Mr. Director, you suggested that if Congress wanted to move further in any of the areas of reductions that they had full and complete administrative sympathy. The House did go considerably below the administration's request in OEO.

Mr. SCHULTZE. The Senate cut the authorization. There has been no appropriation. It has not gone through an appropriation action in the Senate. You are talking about the authorization bill?

Mr. BYRNES. What is your attitude towards who should be sustained in the conference? Those figures that produce the greatest amount of saving here or those that spend the most money?

Secretary FOWLER. Whichever one you want.

Mr. BYRNES. We can tell the House conferees and the word can go over to the Senate that as far as the administration is concerned you will not object to using the House figures.

Secretary FOWLER. My comment had to do with the 2 to 10 formula. Not entering into any debate between the Senate and the House on the conference.

Mr. BYRNES. Now, Mr. Secretary, I thought we were really moving——

Secretary FOWLER. I am not knowledgeable on that subject.

Mr. BYRNES (continuing). I thought we were moving in the direction of the administration coming around to the realization that we have to do some belt-tightening. You present this program, Mr. Secretary, and you wound up with encouragement for the Congress if it could do better——

Secretary FOWLER. In changing the bill.

Mr. BYRNES. Oh, I see; in changing the percentage formula.

Secretary FOWLER. This is precisely it.

Mr. BYRNES. You don't want us to get down into the details?

Secretary FOWLER. I think the most significant statement which has been made here today is one which Mr. Schultze read, and I quote:

> Yet there appears to be wide agreement that further cuts are necessary. In short, we face the traditional conflict between the desire for overall economies on the one hand and the difficulty of selecting specific items to be cut on the other.

It is that Gordian knot we are trying to cut here with this bill.

Mr. BYRNES. If the Congress should decide that there are some places that can be cut, would the administration——

Secretary FOWLER. The House and the Senate are in a division.

Mr. BYRNES. That is not exactly what they tell me is the problem in these conferences. The members that attend tell me that the administration is warning them of the serious consequences if they go along with the House cuts and therefore arguing that there should be restoration of the cuts.

I understand that the administration has not been staying neutral. They did not stay neutral, I know that, when the matter was up before the House on a legislative basis. I understand they are not neutral in the conferences, either.

Mr. SCHULTZE. Mr. Byrnes——

Mr. BYRNES. Do you have any different information?

Mr. SCHULTZE. No, sir. I would like to clarify what our position precisely is.

Mr. BYRNES. That would be very helpful.

Mr. SCHULTZE. We have come forward with a plan which, taken together with what the Congress has already done, will reduce expenditures by $4.1 billion. We agree with the committee. We agree with the large segments in the Congress that expenditures reductions are necessary. That does not mean, as I said this morning, that any old expenditure reduction in any old place is necessarily good. It does not mean that the administration necessarily forfeits its position in speaking to any particular bill.

It does mean that we have a method here, we believe, for making reductions which are reasonably and equitably apportioned. In addition, as the Secretary pointed out, should the Congress—we believe this is a reasonable package—but should the Congress decide that on an equitable apportionment basis the 2–10 formula should be higher—and this does equitably apportion it very roughly—we would give it most sympathetic consideration. But I want to make it quite clear that while we do agree with the committee and with large segments of the Congress on the need for expenditure reduction, this is not the same position, and we should not be put in the same position, as saying automatically that no matter what is done on any bill so long as it is lower it is necessarily good.

There is a difference between making expenditure cuts reasonably, with some intelligence and reason, and necessarily agreeing to anything that anybody does on expenditures in a conference.

Mr. BYRNES. I the past we were trying to give you great leeway. If you recall, we proposed both in the Bow amendments, the various individual bills, simply a cutback with complete leeway for the departments. The administration rejected that.

Mr. SCHULTZE. That would have added $5 billion to these cuts.

Mr. BYRNES. My point is that you have argued in the past that these were bad because we weren't selective enough. You argued against the ceiling that was put in the continuing appropriation bill, that that gave too much authority to the President.

Now you are saying you don't want to get specific. You only want authority to be flexible.

Mr. SCHULTZE. I did not say that at all.

Mr. BYRNES. You didn't?

Mr. SCHULTZE. No, sir. I simply said that the fact that we are after expenditure reduction does not necessarily mean that we are automatically going to say a $1 billion reduction in the AID program is great. That is what I said. That is a far different kettle of fish.

Mr. BYRNES. Yes; I agree.

Mr. SCHULTZE. That is what was at issue.

Mr. BYRNES. Also at issue is attitude in terms of reductions. I haven't seen, frankly, any change in attitude as related to what Congress will do on various appropriation bills. I was hoping that there might be a change.

Now, there is an area that this committee is going to be involved in very soon. I suppose, Mr. Chairman, we will be appointing conferees and going to conference with the Senate on the social security bill. This seems to me to have some overall impact on the fiscal picture and inflation and other things.

Mr. Martin, I would think that some of these central bankers would be concerned in the fact that in our present circumstances we are talking about a bill increasing benefits under social security by some $7

billion a year and, of course, eventually there will have to be the taxes that automatically have to be raised to finance it.

Would you think that they would be somewhat concerned with that even though it is not in the administrative budget?

Mr. MARTIN. I pointed out in my statement that increases in social security benefits and the minimum wages were factors that were adding to what would have to be contended with next year.

Mr. BYRNES. There is quite a difference between the bill as passed by the House in this instance and the bill that finally passed the Senate?

Secretary FOWLER. On the extra outgo?

Mr. BYRNES. Yes.

Secretary FOWLER. After you take into account the taxes for this year?

Mr. BYRNES. I will talk about it on any terms you want, Mr. Secretary. If you want to look at the cash position, in other words, the excess of contributions over benefits as a result of the Senate bill as against the House bill, we will talk about that.

Let us talk about the first because that is sort of comparable to the matter that Mr. Ullman was talking about, and the effect that the trust fund may have in turn, on your need to go to the money market, and its influence on financing and interest and so forth.

According to the figures and information I have from the actuary of the Social Security agency, in the House the excess of contributions over OASDI benefits in calendar year 1968—this is a "plus" in the cash budget—is $2.8 billion. But the Senate bill, the excess is $600 million.

So, there is a difference of $2.1 billion in the cash budget as to whether you take the House bill or the Senate bill.

Secretary FOWLER. Your figures may be right; ours may be wrong.

Mr. BYRNES. Well, I will put these figures in the record.

(The information referred to follows:)

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE,
SOCIAL SECURITY ADMINISTRATION,
Washington, D.C., November 27, 1967.

Hon. JOHN W. BYRNES,
Minority Counsel, Committee on Ways and Means, House of Representatives, Washington, D.C.

CONGRESSMAN BYRNES: This is in response to your telephone request of today to supply information comparing contribution income and benefit outgo under the Social Security program for present law, for H.R. 5710, and for the House and Senate versions of H.R. 12080, for calendar years 1968 and 1969. For purposes of comparability, I have assumed that under both bills the effective date for the benefit increase would be for March 1968 (payable beginning in April).

Table 1 gives the pertinent data for the OASDI portion of the program (i.e., omitting the Hospital Insurance program—and, of course, the Supplementary Medical Insurance program, since it is not financed from payroll contributions). These data are not completely meaningful as between the House and Senate versions of H.R. 12080 because of the increased HI contribution rate for 1968 under the Senate version, whereas there was no such change in the House version; this accounts for the contribution income in 1968 being lower for the Senate version than for the House version, despite the higher earnings base under the former. Accordingly, I have prepared Table 2, which also includes the HI contribution income, but I have not been able to present figures on a comparable basis for H.R. because of the inclusion therein of HI benefits for disabled beneficiaries (cost estimates for which were considerably revised during the course of the legislative consideration by the Committee on Ways and Means).

Sincerely yours,

ROBERT J. MYERS, F.S.A.,
Chief Actuary.

TABLE 1.—COMPARISON OF OASDI CONTRIBUTION INCOME AND BENEFIT OUTGO UNDER PRESENT LAW AND UNDER VARIOUS PROPOSALS, 1968 AND 1969

[In billions of dollars]

Item	Contribution income	Benefit outgo	Excess of contributions over benefits
Calendar year 1968:			
Present Law	26.4	22.3	4.1
H.R. 5710	27.7	25.7	2.0
H.R. 12080 as passed House	27.5	24.7	2.8
H.R. 12080 as passed Senate	27.2	26.6	.6
Calendar year 1969:			
Present Law	30.4	23.2	7.2
H.R. 5710	33.2	27.7	5.5
H.R. 1280 as passed House	30.8	26.6	4.2
H.R. 12080 as passed Senate	31.9	29.7	1.8

Note: For purposes of comparability, it is assumed that for H.R. 5710 and H.R. 12080 as passed by the House the general benefit increase (and certain other parallel benefit changes) would be effective for March 1968 (as is the case under H.R. 12080 as passed by the Senate).

TABLE 2.—COMPARISON OF OASDHI CONTRIBUTION INCOME AND BENEFIT OUTGO UNDER PRESENT LAW AND UNDER H.R. 12080, 1968 AND 1969

[In billions of dollars]

Item	Contribution Income	Benefit outgo	Excess of contributions over benefits
Calendar year 1968:			
Present law	29.6	25.5	4.1
H.R. 12080 as passed House	30.8	27.9	2.9
H.R. 12080 as passed Senate	31.2	29.9	1.3
Calendar year 1969:			
Present law	33.7	26.9	6.8
H.R. 12080 as passed House	34.9	30.3	4.6
H.R. 12080 as passed Senate	36.3	34.0	2.3

Note: For purposes of comparability, it is assumed that for H.R. 12080 as passed by the House, the general benefit increase (and certain other parallel benefit changes) would be effective for March 1968 (as is the case under H.R. 12080 as passed by the Senate).

Mr. SCHULTZE. I presume we do need to do some work to reconcile this but there is a difference, Mr. Byrnes. The difference I have in calendar year 1968 between the House version and the Senate bill is $600 million; not your number.

I am not prepared at the moment to argue because I have not seen your figures, but those are the numbers I have. There is a difference.

Mr. BYRNES. Let me also point out that as far as benefiits are concerned, the Senate bill provides $7 billion. I am advised that your figures seem to be the figures that were used by the Senate Finance Committee when the bill was reported, but do not refer to the bill as finally enacted by the Senate.

Mr. SCHULTZE. No. I have the Senate-passed version. I don't want to press the point because these figures were gotten up fairly quickly.

Secretary FOWLER. I am back to the Senate Finance Committee. That is my latest information. The figures I had from the same source were that in the House bill, the excess of contributions over benefits was $2.1 billion and in the Finance Committee bill it was $2.2 billion, or a difference of $100 million. That was as of November 9. I couldn't see much difference.

The CHAIRMAN. That is the Finance Committee version, Mr. Secretary?

Secretary FOWLER. That is correct.

Mr. BYRNES. Have you not been concerned? Seven billion dollars is a pretty big chunk of money. To what degree have the Treasury and Bureau of the Budget focused in and taken a look at this program and proposals which loom certainly large in terms of figures?

It seems to me that it must have some impact on the general economic situation, and we are concerned about the general economic situation here today.

To what degree have you made an analysis of the impact the Senate bill would have, as against the House bill in its outgo and intake?

Secretary FOWLER. I have not made any analysis of the Senate bill. I fell off the train when the Finance Committee completed its operations.

We have had this go-around in preparing for this hearing and several other matters to attend to. As I say, I am up to date only through the action of the Finance Committee.

Mr. BYRNES. It seems to me that we should try to get some consistency in terms of what are the important things today, and focus attention on it. Your concentration or attention has been on this fiscal problem of the deficit. Here along comes something that has a big impact on it.

Secretary FOWLER. When I last saw it, it was a hundred million dollars for the year I was particularly concerned about.

It seems to me spending my time on something that concerned $11.5 billion is more important than spending my time on something that is $100 million.

That is my apology for not acting on it.

Mr. BYRNES. Where do you figure it has only a $100 million impact?

Secretary FOWLER. I say those were the figures that I had as of November 8.

Mr. BYRNES. If my figures are accurate, that it has a $2 billion influence on the cash budget picture. If so, it looms considerably larger, I would assume, in your judgment of its importance as it relates to the problem before us, or do you figure that it has any relationship to the problem before us?

Mr. SCHULTZE. Let me make one point on this, Mr. Byrnes, if I might.

The Senate did on the floor add a number of relatively expensive provisions to the bill. It is my understanding, although our numbers apparently are not all together, that the Senate-passed bill does have an actuarial deficiency of 0.29 percent, compared to the 0.10 percent which is generally considered to be within the bounds of reason.

Certainly I would agree some changes would have to be made in conference.

As I say, our numbers are somewhat different. At the time it came out of the Senate Finance Committee, the difference in terms of the impact this year were quite small, but there were some additions on the Senate floor that did make a difference.

Secretary FOWLER. I understand there would be an effect on the general fund. We are probing into that, and hope you will consult us about it.

The CHAIRMAN. Will you yield to me?

Mr. BYRNES. I yield.

The CHAIRMAN. I understand when H.R. 12080 passed the House we had an excess of contributions over benefits—taking into account both the OASDI and HI programs—in the calendar year 1968 of $2.9 billion.

The bill as it passed the Senate provided for $1.4 billion of excess of contributions over benefits.

Then, in calendar year 1969, as it passed the House, it provided an excess over benefits of $4.6 billion, compared to the bill as it passed the Senate of $2.5 billion.

Mr. SCHULTZE. I think the difference is that you adjusted the numbers for the same effective date.

The CHAIRMAN. For purposes of comparability, these figures, I understand, assume the same effective date for the general benefit increase. In other words, both House and Senate versions are assumed to have the effective date provided by the Senate version of the bill, for purposes of comparison.

Secretary FOWLER. That makes quite a difference.

Mr. SCHULTZE. That is where the difference is. I think that is probably the difference between our numbers. We simply took the bills as reported.

There were some provisions added on the Senate floor which do push that actuarial deficit up to 0.29 percent.

Mr. BYRNES. I am prompted to focus on this because of the magnitude of the figures we are talking about. It has to have some impact. Just the tax on employers in terms of being a new cost item that will add to the cost pressures.

Mr. SCHULTZE. As I understand, the House and Senate are not at issue on that.

Mr. BYRNES. There is in 1969.

Mr. SCHULTZE. It was on the wage base, I thought.

Mr. BYRNES. If you think that is not a tax, I don't know, we lose ourselves pretty fast. The base is equally important.

I might suggest to you that the figures I have, and using what has been developed here, is that a person with $8,000 of income is going to have an additional tax increase of $61.60 as a result of the Senate bill. That is in 1968. In 1969, it is going to go up to $99.

It also seems to me this has some relationship to how much additional income taxes we can add on, because that is what you are asking us to do.

So there is tax increase here, and there is dollar cost, and this relates to the whole range of problems we are talking about. Yet here is what the President said on November 22, when the bill passed the Senate:

> I am proud that the Senate today passed the social security measure which so fully embraces the recommendations I made last January. Today's bill marks the greatest salary increase, one of the most sweeping improvements in the program since President Roosevelt launched the social security 32 years ago.

In the President's complete statement, I find no suggestion that the Senate was a little overenthusiastic; that perhaps there was an excessive tax burden on the wage earner; that perhaps in view of our fiscal problem that he cites as reason for tax increases on these people also, maybe there should be more restraint than was shown in the bill that passed the Senate.

But no, we find no word of caution.

Mr. SCHULTZE. Mr. Byrnes, there are two basic items in the Senate bill, the 15 percent across-the-board benefit increases and the $70 minimum, which represent what the President did request of the Congress.

As far as I know, he has not changed his mind on those provisions.

As I pointed out, however, and you are quite right, the Senate did add on the floor some relatively expensive provisions, and I would presume that in conference it would be appropriately desirable from a fiscal standpoint, and everything else, to pull some of that back down.

The CHAIRMAN. I hope you will suggest to the people who represent HEW that is the issue, because they will be there.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. I think we could use your help when we do get to conference, if your help is in the direction of maintaining some restraint in this area.

Mr. SCHULTZE. I would like to make a reciprocal agreement on us helping each other.

Mr. BYRNES. That is why I say I was hopeful that the Secretary's statement and your whole presentation here was that we were moving along the same line now, and for the same restraint, expenditure controls, cutbacks, and the like.

Secertary FOWLER. And tax increase.

Mr. BYRNES. You know what the No. 1 problem has been all the time, Mr. Secretary. Now you are finding, I think—or aren't you?—You shake your head no. You have not really changed your position. Is that your attitude?

Secretary FOWLER. What?

Mr. BYRNES. As to the expenditure requirements to accommodate a tax increase, what is your attitude as far as some of the things that the members of this committee have insisted on since the beginning as a condition precedent to a tax increase?

Secretary FOWLER. Fundamentally the same position, same attitude we have had all along.

Mr. BYRNES. That is what I worried about when I heard the announcement you were coming up. I wondered whether it was going to be a rerun.

Secretary FOWLER. No, no, no. We have given you a specific, concrete vehicle, plan, program, to accomplish the program in the general order of magnitude that has been in discussion for quite some time.

Mr. BYRNES. You are not helping me by these last few comments, Mr. Secretary.

Secretary FOWLER. I am sorry. I am calling it as I see it.

Mr. BYRNES. That is what we will have to do, too.

Now, there was a great deal of talk when this new plan was announced, that there was going to be a plan, and the President was going to have an expenditure control program to present to the Ways and Means Committee, that there was going to be a dollar-for-dollar proposition; we would have a dollar of tax increases, and we would have a dollar reduction of expenditures.

Now I find that without getting into this fancy arithmetic you would provide a $2.6 billion reduction in expenditures.

As I understand it, your tax bill is calculated in terms of some $7.4 billion this year.

Can you tell me the arithmetic by which you arrived at a situation where a $7 billion tax increase is matched dollar for dollar by an expenditure reduction of $2.6 billion?

Mr. SCHULTZE. In the first place, the $2.6 billion is your number. The President at all stages and at all times has talked——

Mr. BYRNES. You gave it.

Mr. SCHULTZE. No, sir. The President at all times and at all stages has talked about cooperating with the Congress to reach his expenditure reduction—at all places and at all times.

It has not been the case that he was going to cut dollar for dollar on top of what the Congress did. At no time has he ever said that, or have I ever said it, or has anybody ever said it.

I made it quite clear with a number of members of this committee when we last had hearings that we were taking into account what the Congress did, both the Congress and the administration, in terms of direct obligations. We are talking about obligation reductions sufficient to bring us a $4 billion expenditure cut.

Second, as we have again gone over a number of times with the committee, at the time the President put his August 3 message forward, we were dealing with the possibility of an additional $1 billion in pay and $2 billion in PC's, because we would not get the authority, and I made it clear, and the President made it clear, that this was included in reducing that $29 billion deficit.

I think in answer, if I may answer a point you were talking with the Secretary about a moment ago, that what we are saying to the committee is that we have come forward with a very explicit plan for making the expenditure reductions which the President and the Secretary and I have talked about and promised the committee and pledged the committee since last August.

What we have come forward with, in response in part to the committee's own resolution, is what we believe is, as best we can desire, an effective means of a joint congressional-Executive mechanism to get this underway.

Now, this is where we are, and this is where we stand.

Mr. BYRNES. In other words, what you are saying, really, is that there is not any difference in what you are telling us today than what you told us at numerous times, or during the process of the August and early September considerations of this matter by the committee, except that you have come in with some degree of detail as to how the cuts are going to be made.

Mr. SCHULTZE. No, sir.

Mr. BYRNES. You just said that is what you have been talking about all the time.

Mr. SCHULTZE. A provision in law is more than just providing some minor specificity. This is a provision in law which we are proposing.

Mr. BYRNES. It is just the same in terms of the end result, is it not?

Secretary FOWLER. The end result is the same, Mr. Byrnes, but you wanted the assurance. You said in your resolution you wanted an effective expenditure reduction. You wanted to be sure you got it.

This provision of law will make it sure that you get it in the same dimensions, in the same arithmetic that it has been discussed from the day the President sent his message, and he briefed the press.

And I direct your attention to his commentary to the press, which is contained and set forth in full in my statement.

Mr. BYRNES. Well, your impression of what we were talking about, I think, and what was implied in our resolution is a little different. Certainly what I had in mind was contemplated by that resolution.

I think we also had in mind that the reductions would be of some meaningful consequence, not just the assurance of them.

I don't know that we end up with anything different as far as the amount of reductions that are going to be involved at all. Apparently we don't. We certainly get farther and farther away, Mr. Director, from what certainly must be in the minds of most people, and the public, that there is going to be a $7 billion—that the unfurling of this new plan was going to show some $7 billion of reductions in expenditures, because that is what was talked about as far as the increase in taxes.

Mr. SCHULTZE. Two points, Mr. Byrnes.

In the first place, in terms of the magnitude, I will call to your attention the fact that we are proposing a specific mechanism to double what the Congress has been able to do in the way of cuts.

That is No. 1, to more than double the cut on the expenditure side. I do not call that insignificant.

Second——

Mr. BYRNES. You don't give us credit at all, then, for the billion dollars you were cranking in the deficit as a result of the civilian pay increase, but now that we have not passed it, it is a cut in expenditures.

Mr. SCHULTZE. Mr. Byrnes, on those grounds, I would be glad to buy that approach.

Mr. BYRNES. I am trying to see where your arithmetic brings us out; what the President wants us to take credit for, and what the President wants to give the credit for. I don't think it is so important, myself, who gets credit.

Secretary FOWLER. There are pictures, and you remember the pictures of that, because knocking off that billion dollars was discussed with most of the Members of Congress in one or another of those blackboard sessions. This has been in this picture all along.

We give you full credit. We want a share in the credit. We think we both saved a billion dollars in this fiscal year that otherwise the Congress might have voted.

Mr. BYRNES. Let me suggest that if we had had the same cooperation in trying to get reductions made in authorizations and appropriations in the Congress, the record would have been a lot better, rather than coming in on occasion after occasion, using the full pressure and power of the executive branch to put back, to restore, or to thwart any efforts to cut from the appropriations requested by the President.

I would like to ask, really, has there been any occasion where you have actually come into an Appropriations Committee and said, "we want less than we asked for in January?"

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. Can you give us a list of those?

Mr. SCHULTZE. Yes, sir. There was $500 million in the Space Agency alone.

Mr. BYRNES. You told us that you would be willing to go along with what Congress had done. That was after Congress did it.

Mr. SCHULTZE. No, sir. That is not quite correct. It was immediately after the House committee reported the bill out. It still had to go through the House floor, the Senate committee, and the Senate.

Mr. BYRNES. Is there any other?

Mr. SCHULTZE. That is the only one I can think of at the moment. If you want to get on the pay boost, we did spend quite a bit of time on that.

Mr. BYRNES. I am just saying I wish you had done more of that kind of thing in some other areas, instead of resisting even the cuts that the House made.

Mr. SCHULTZE. Mr. Byrnes, perhaps my answer to one of your questions left unfortunate impressions.

I am not really here to try to say who takes the credit or not. My only point is to indicate the magnitude of what we are doing.

I am not here to say we are doubling or not doubling, except in terms of magnitude.

I don't care who gets the credit. That is not important. I think we are facing a major fiscal problem for the United States, and we are trying to find effective means, given a lot of interested parties, with many objectives, to get a way out.

If Congress wants to take a hundred percent of the credit, that is wonderful, if we can get some kind of fiscal package through which will help get the kind of economy we need. You can take all the credit, or none of the credit, whichever way you want to do it.

Secretary FOWLER. Mr. Byrnes, I also want to add to that that at least my conception of this problem has been that what was reflected in the executive session of the committee on September 21, the last session we had in that series, when I had to leave the city for a week. I said then that I hoped we could find some procedure, because I did not think the differences between us were differences of substance, and that the task confronting us was how in terms of specific commitments, pledges, provisions of law, statements, or procedures, we could achieve the common result most of us wished, of combining a sure, definite, specific expenditure reduction with the tax increase.

That I thought has been the major problem.

Mr. BYRNES. We got off the track a little bit, at least the area that I particularly want to get into, this dollar per dollar figure that has been bandied about.

It just seems to me we had better get it clear to the American people that when the President talked about it last week, and when others talk about it, and put great emphasis on it, that they are not really talking about $7 billion reductions in expenditures, and there is not a dollar-for-dollar ratio, but what they are talking about are the figures we are now getting today.

That is really what is involved; namely an additional $2.6 billion reduction in expenditures, from where we are at this point, and an increase of revenue of some $7 billion.

Secretary FOWLER. Mr. Byrnes, from the very beginning, from the press briefing, the full text of which is available, of which I have quoted the pertinent portions here, from all of the briefings that were given at the time, from the appearances before the committee, it has been very clear that as regards this matching formula, which has been discussed, that in the $7 billion, the President said:

Let us get a cut tax and borrow formula, let us cut 25 percent as we look at it today, let us tax 25 percent of it, and let us borrow 50 percent of it.

That 25 percent, $7 billion of cuts, has always in the presentations included, as the quote in my statement indicates, saving the billion dollars that we saw ahead of us in the $144.2 figure, getting the additional authority on the $2 billion P.C.'s, and reducing expenditures in the neighborhood of $4 billion, as the President said, as much as $4 billion, in his statement.

Now let us look at the other side of the picture on this matching basis.

We are here trying to get a bill that will save $7.4 billion, if it is enacted, and is effective on July 1, for corporations, and October 1 for individuals.

Mr. BYRNES. You would not save any money. The bill will increase revenues.

Secretary FOWLER. It will increase revenues that much.

Whereas, if it is put over, and the effective date is January 1, which there has been some considerable suggestion that we do, then the net increase in taxes, in revenues, as a result is going to be around $4 billion.

Now, also, take into account the fact that the $300 million of excise taxes is simply an extension of existing tax, it is not an increase in an existing tax, that the automatic $800 million that would be collected in that $7.4 from speedup of corporate collections is not an increase in liabilities, but in collecting the taxes that are already due under the laws, and there are all kinds of ways in which this matching formula can be satisfied and realized, if we proceed with this combination proposal here.

Mr. BYRNES. What you say with respect to the reduction in expenditures, Mr. Secretary, points out why some of us have always been somewhat concerned about what we were cutting from.

I suppose we could say that today we made a great cut. We moved from a $35 billion deficit that the President talked about a week ago Friday down to a $22 billion deficit, so that maybe we have made some substantial savings.

But it all depends on where you start, that can change the circumstances quite a bit.

Now let me ask—because I want to get it sooner or later—who in the executive branch sort of focuses on the practicality of recommendations, so that they have a ring of real potential?

Is there anybody who does that as far as this particular bill is concerned, Mr. Secretary?

Secretary FOWLER. Well, I think we all try to do that, Mr. Brynes, in our own way.

Mr. BYRNES. The reason I am prompted to ask it is particulary because of two things. As important as any is this retroactivity provision, the suggestion that we would go retroactive by almost 6 months to impose taxes on income.

To me it is almost an arrogant disregard of any effort to be reasonable with the American taxpayers to go back that far on a retroactive basis.

Secretary FOWLER. This proposal of an increase in taxes first came in the President's January message, and looked forward to an effective date of July 1.

As I have indicated in the statement, after another very careful look, we modified the proposal, came in with it on August 1, to be effective for individuals on October 1, to be effective on corporations July 1.

You will recall in 1951 there was a 7-months' lag in the imposition of the corporate tax, and that this is not, therefore, without precedent, and without standing in the annals of tax administration.

Mr. BYRNES. If you want history, the President announced he was going to ask for a 6-percent increase in taxes in January, but it was not until August that we finally got a specific proposal.

You were asked in June when we were going to have a recommendation. Is that not right?

Secretary FOWLER. That is right.

Mr. BYRNES. I am right on the history?

Secretary FOWLER. You are right.

Mr. BYRNES. I should add that I always have wondered why the American public should have to accept the proposition that if the President announces that this is what he wants, you had better make up your mind that that is just the way it is going to be, and because the President announces in August that he wants a retroactive tax increase to July, that they had just better make up their minds that it is going to pass, and if the Congress passes it a year later, it still will go back to July 1, because that is when they had the notice. I don't believe in legislation by Executive order. I think the Congress still has a role.

The attitude of the Congress has never been sympathetic, Mr. Secretary, to imposing taxes retroactively, to say nothing of enacting increased taxes.

Secretary FOWLER. I can only say to that that the Congress, in 1951, when there were good men and true here, they did just that, on a 7 months' retroactive basis, according to my information.

Mr. BYRNES. I will certainly want to check that.

Have we ever done it on individuals, Mr. Secretary?

Secretary FOWLER. I don't know.

When you were asked to do it in August, there was time to get it down effective October 1.

Mr. BYRNES. I cannot follow the idea of legislation by fiat, which I think is what it frankly amounts to.

It seems impractical to me, Mr. Secretary, to suggest that in December the Congress will be able or willing to enact a tax increase before the yearend. Even with the best situation, how long would you estimate that we would take to get a tax bill through the House, and through the Senate, through the normal procedure, even if you had some fairly substantial support for it?

Secretary FOWLER. Mr. Byrnes, I have no way of estimating the time. I only know that it is urgent that this be done, and that decisive action be taken.

I have been in tax bills before this committee when it took varying amounts of time—I think the Revenue Act of 1962 you started in, maybe, April or May of 1961, and it became law in the fall of 1962.

The Revenue Act of 1964, which you started in February of 1963, and it became law in February of 1964.

I have also been here on proposals to reduce taxes on excises. I think you accomplished that in about a month and a half.

I think we had another experience in which the Congress moved quickly, about a month and a half.

What Congress can do, if it feels the same sense of urgency about this problem that I feel, that Chairman Martin feels, is provide assurance to the outside world that we are acting responsibly here, I don't know what the timetable is to be set, that is not my prerogative.

I stand on the statement I made here, that it is unthinkable to allow this session of Congress to conclude without an all-out effort of all responsible forces to move this proposal along, and get underway.

Mr. BYRNES. There are some factors involved that don't square with the feeling of urgency that you urge.

I felt quite frustrated today, and I think you know of my frustration during the period in August and early September, when we were discussing how we could get at the expenditure side of the budget. We were told that it was premature, and that it was difficult, if not impossible to make expenditure reductions. Mr. Director, you are telling us today, and we all realize, that it is difficult to make reductions. But, you have had since October, when the word went out by the action of this committee: "Get together and come back on something that will assure some reduction of expenditures." It was only a week ago last Saturday that apparently word went out that there was something now in the wind. That was a month and a half, almost.

I did not know the details of the plan until I read about it in the New York Times this morning. That was the first knowledge I had.

I suppose maybe that is where one should find out the details of these proposals, but that does not really square with this claim of emergency. You waited too long.

Secretary FOWLER. Mr. Byrnes, I think you can undertsand there have been a lot of conversations and efforts and attempts to find out what would be, in the words of your committee resolution, what would be considered an area of understanding between the President and the Congress on a means of implementing more effective expenditure reductions.

I think you must know when I came back after the Rio meeting here on October 3 that I said immediately—as I said in my statement—I had prepared some proposals to present to the committee, which were approved by the President, but it was not the wish of the committee to hear me at that time.

Now, we have not been idle since that time. I don't think it is necessary for me to go into all the details of how many discussions have been held, and who they have been held with, but we have been trying to work zealously.

Now, make no mistake about it, that the events that have happened in the last 10 days do add the dimension of urgency to this problem, which I specifically referred to in my statement as a new factor which should cause us all, it seems to me, to accelerate our efforts here to arrive at some conclusion, some satisfactory conclusion of this situation, which would result in a meaningful reduction in the deficit, whatever it is today.

Mr. BYRNES. I do have some more questions, but I yield at this time.

The CHAIRMAN. Mr. Burke?

Mr. BURKE. Mr. Schultze, there is a great deal of talk here about matching dollar for dollar on cutting expenditures for every dollar of tax.

As I understand, the cuts that are being made here will total about $4 billion. Is that correct?

Mr. SCHULTZE. Proposed in the bill; yes, sir.

Mr. BURKE. Don't you think it would be more realistic for us to look at the original proposal by the President, as of the first of the year, recommending a 6-percent increase, rather than 10 percent?

Mr. SCHULTZE. No, sir. On every ground that we can look at, both the financial markets and the state of the economy with respect to inflation and balance of payments, it still seems to us that 10 percent is the needed increase.

Secretary FOWLER. Mr. Burke, if I could give you a figure on that, if you take Mr. Byrnes premise that there is something sinful about a retroactive tax, and therefore that January 1, even if you acted now, January 1 would be the first realistic date, and you applied a 6-percent formula to that, we would raise in this fiscal year about $2 billion.

Now, if you don't follow this principle of retroactivity, and you come back in February and act on a tax bill, and it becomes effective March 1, or some such, April 1, perhaps we are taking about, even under the 10-percent surcharge we are talking about a billion and a half dollars from individuals, something of that sort.

I don't have the exact figures, so this problem of matching is not a very difficult hurdle to get over.

Mr. BURKE. Mr. Martin, I would like to ask you: Is there assurance if this bill is passed in the higher package form that they will be able to hold the line on interest rates?

Mr. MARTIN. There is the assurance that the situation will be much better than currently, when this pressure of demand is pressing on the market.

The Secretary has rightly indicated that the swing of $11 billion plus $5 billion, a net $16 billion increase in Federal credit demand, that is pressing on the Government securities market, would be minimized substantially by the passage of this bill.

Mr. BURKE. But you cannot give us any specific assurance that the line will be held?

Mr. MARTIN. No.

Mr. BURKE. You just say it will be better. In other words, it could be worse, it could be "snowing"?

Mr. MARTIN. That is right. I cannot give you assurance.

Mr. BURKE. I was wondering what the effect would be if there was more consideration given to the people with incomes of $7,500 and under, with dependents, lowering the amount of taxes you are going to impose on them, and also on small corporations.

The problem of small business in this country is fairly tremendous, and I cannot see how many of them will be able to stand up with the pressures that they now have due to the competitive market they find themselves in.

I was wondering if it would not be better to recommend a lower tax for small corporations.

Secretary FOWLER. We have, of course, included in the proposal for the surcharge that taxpayers, individual taxpayers, personal taxpayers, have an exemption which for a married couple is up to $5,000.

The revenue consequence when you get beyond that figure, up into, say, a $7,500 class exemption, would be quite substantial.

Congressman Burke, if you will examine the pattern of tax policy, as far as small business is concerned, which is expressed in several acts of the Congress in the 1950's and also in the Revenue Act of 1964, you will find that the tax burdens under existing law on the smaller companies have been quite substantially taken into account, and the fact that you are applying a surcharge, which is a tax on a tax, means that you are reflecting in this surcharge the tax benefits to the smaller corporations which have been already a part of the structure of our tax system and steadily improved on in recent years.

Mr. BURKE. Even though the Congress has been generous to them, the facts seem to substantiate that we have 14,000 or 15,000 small corporations going out of business every year.

Secretary FOWLER. I don't think that is because of taxes.

Mr. BURKE. More than likely it is a contributing factor.

What I am trying to get at here is that you seem to be presenting a package deal, and you seem to be holding a hard line toward the 10-percent surtax. There does not seem to be too much flexibility on your side, here, and possibly with a little lesser burden on some of the lower income people and small business, it might be a little more palatable to some of our more cautious members.

Secretary FOWLER. We have certainly taken that into account in the provision that I mentioned, which exempts rougly 16 million of the individual taxpayers from any impact of this surcharge.

We have gone, I think, quite a good ways in that direction. But as indicated in the figures I have given to you in terms of fiscal year 1968, we are facing a real problem right now with the credit markets; the question is whether you are going to borrow, or whether you are going to tax.

It is this tremendous amount of borrowing which is a consequence of the deficit that is hanging over the credit markets and causing the interest rate rises which just in the period this bill has been pending have been quite substantial.

They bottomed out and began to come back in the shortterm area in June, and in the long-term area in April. From the standpoint of small business, the best single thing that one could do, if one is concerned about the problems of small business, is to relieve the pressure of Federal borrowing on the credit market, because, as I indicated in the figures earlier, if you get this shift that we are talking about here so that the Federal Government is borrowing in the first 6 months of next year at the rate of $5 billion, instead of, as it was the first 6 months of this year, putting $11 billion in the market, somebody is going to be pushed off the bench.

Now, it is not likely to be the big company, and it is not likely to be the Federal Government, because we will have to borrow and pay our bills. It will be the housing and the small business, and perhaps the States and locatities, who will not be able to meet the price in the market.

So from the standpoint of small business, Congressman Burke, I can say to you with the most complete frankness that I think the single most important thing you could do to relieve small business, as far as the future is concerned, would be to remove this overhang of Federal borrowing from the credit structure.

Mr. BURKE. I believe the statement was made—I think by Mr. Martin—about the psychological effect of passing this bill. I would

like to know what the psychological effect will be if we pass a bill that does not contain all of the recommendations, say a 6-percent surcharge, or 8 percent, just what the psychological effect will be.

Will it be the same? Or will it have a dire effect on the psychological picture that you spoke about?

Mr. MARTIN. It is a matter of degree, Congressman Burke. It is pretty hard to evaluate that sort of thing.

Mr. BURKE. I did not get your answer.

Mr. MARTIN. I said it is a matter of degree, the psychological impact.

Mr. BURKE. How much of a degree?

Mr. MARTIN. I think it is very difficult to evaluate that sort of thing.

Mr. BURKE. I think we were faced here with a $29 billion deficit, and that concerned all of us. Now today we find out we are faced with a $22 billion deficit.

Now, the question is: Do we need the tax that we needed when we were facing a $29 billion deficit?

Here is an adjustment of a figure from $29 to $22 billion, and it would seem to me that it would follow that we cound adjust the tax possibly the same amount, percentagewise.

Mr. MARTIN. Psychologically, I think the important thing is to do something, and do it fast.

Mr. BURKE. I more likely agree with that.

Thank you very much.

The CHAIRMAN. Mr. Betts?

Mr. BETTS. Mr. Secretary, I have a couple of questions to clear up things in my mind.

Title I of the bill imposes a surtax for a temporary period. Is that temporary period to be determined by the length of the war in Vietnam, or as long as we have inflation. When we have inflation under control, does that automatically terminate it?

In other words, is this a Vietnam war tax, or anti-inflation tax?

Secretary FOWLER. It is both, but the effective date, the expiration date of the tax, is June 30, 1969, so Congress would have to take another look at the situation, presumably, prior to that date to determine under conditions existing at that time whether or not the situation called for a continuance of the tax.

In other words, it would have to be an affirmative act by the Congress to continue it.

The reference to the Vietnam situation looked both to the future, beyond June 30, 1969, and before June 30, 1969. If there should be a sharp deescalation of hostilities in Vietnam, and sharp reductions in expenditures in that area, it might very well be that the President and the Congress would want to take immediate action to remove the surcharge under those circumstances.

That is a general answer, I think, to your question.

Mr. BETTS. Now, title II is directed to a reduction in spending. Would the bill, in effect, reduce the level of spending for the duration of the bill?

Secretary FOWLER. No.

Mr. BETTS. So that we would have no assurance that the expenditures would not increase. Is that right?

Secretary FOWLER. That is right.

Mr. SCHULTZE. Except, Mr. Betts, that, of course, the President will be coming to the Congress with his budget requests, and the Congress will have a full track at the 1969 budget.

Mr. BETTS. But there is nothing in the law?

Mr. SCHULTZE. There is nothing in the law. The reason, of course, is that the law provides a reduction, a specified reduction, from the 1968 budget. There is no 1969 budget in existence to provide a reduction from at this time.

Mr. BETTS. So that the decrease in expenditures will last only until the end of the fiscal year. Is that correct?

Mr. SCHULTZE. No, sir. That is not the way to look at it. The point is that we are in the midst of making up the 1969 budget, and we are applying as stringent a policy as we know how to that budget.

Mr. BETTS. One other question I would like to ask, which should be directed to Mr. Martin.

A Senator has suggested we may be wrong about the dangers of inflation. I think he argued that the interest-rate increase after the Federal Reserve raised it last week made more certain the argument against the tax increase.

Mr. MARTIN. I see what you mean. It is far too early to see any effect, but this is a very modest increase, indeed, against the British bank rate of 8 percent.

As to the differential between flows to London and flows to New York, certainly 4½ percent compared to 8 percent gives a 3½ percent advantage to the United Kingdom.

Mr. BETTS. His argument was that the interest-rate increase would stem the inflationary trend.

Mr. MARTIN. I would not agree with him on that. I would disagree on that.

As I pointed out to Mr. Ullman, our increase in the discount rate followed the market. Actually, the bill rate was above 4½ percent for a number of weeks before we adjusted upward to 4½ percent recently, so we did not lead the market at all. We followed the market.

Mr. BETTS. You disagree with him that the combination of the high rate increase, a tax increase, and reduction in spending will not cause a reverse situation. Is that correct?

Mr. MARTIN. That is correct.

Mr. BETTS. He was indicating it might lead to a recession.

Mr. MARTIN. I personally see no signs of recessionary influences. There are dips, and I pointed them out. There are dips partly caused by the strikes we have been having, and partly by a slowing up in confidence that has occurred as a result of the devaluation of the pound here recently; but I look on these as temporary dips in an upward trend.

I merely point out what we indicated earlier, that if you go to the first part of next year, you are going to have a minimum wage increase, you are going to have this social security increase, you are going to have higher Federal pay than you presently have, and I believe that the automobile companies, once they settle their differences, are going to begin to produce automobiles as rapidly as they have ever produced them in the past, perhaps more rapidly, in order to catch up with the market.

Mr. BETTS. I am glad to have your reaction to the statement.

Mr. Schultze, has any consideration ever been given to directing attention to the increase in spending that comes from lack of bookkeeping standards and mismanagement by various bureaus, and agencies?

I understand that if all the agencies and bureaus followed the bookkeeping standards and the management standards laid down by the GAO, there would be a saving of from $300 to $500 million.

Mr. SCHULTZE. I have never heard that number, Mr. Betts. I think you are probably referring to the shift from cash to accrual accounting, which the Government over the last 10 years has been trying to accomplish agency by agency.

Mr. BETTS. No; not necessarily. I have in mind an editorial which was in the Wall Street Journal of October 10. One of the paragraphs referred to some bills requiring more rigid accounting by the Departments.

The editorial says there are many other changes that are long overdue. Accounting practices of several agencies are deficient, even by Federal standards. Indeed, the General Accounting Office should run regular audits of all regular agencies.

I understand the Bureau of the Budget has not taken action toward that.

Mr. SCHULTZE. I did not mean that. I simply said I had never heard of this $300- to $500-million figure.

We do have between the Treasury, Bureau of the Budget, and General Accounting Office a joint financial management improvement program aimed very explicitly—and GAO participates in this—at improving the accounting systems of the Federal Government, making them more accurate.

One of the major aspects of this is moving to an accrued-cost basis, which enables you to calculate your costs much better. We have been doing this over a number of years. It is admittedly a most difficult task to move the whole Government toward it. But agencies have gradually been shifting their accounts to this accrued-cost basis, which enables you in turn to get unit cost figures.

I am not sure that is what you are referring to. If it is, we are heavily involved in that process, Treasury, the Budget Bureau, and the General Accounting Office.

As a matter of fact, the Defense Department has been heavily engaged in trying to install a new accounting system for current expenses, based on modern accrual accounting methods, and related directly to program format as opposed to the way it is now set up. There has been some resistance to this in the Congress for all sorts of different reasons, but the Defense Department has been trying to push toward this, and it would make a major difference which we think would substantially help management if the Defense Department could move to this system.

Mr. BETTS. You would be in favor of this practice?

Mr. SCHULTZE. Yes, sir. We are trying to move on it, and install it. There is a long history of trying to do this.

The Defense Department has for years been trying to get around to it. It is now in a position to do it, but there has been a good bit of opposition, for various reasons.

I do agree with you, it can save money. It is an important management tool. It is not something that saves you a big amount of money

overnight, but gradually over time it enables you to get your costs under control.

Secretary FOWLER. Mr. Betts, I would like to provide you not for the record, but in view of your interest in this problem, a report of the Treasury Department efforts to effect savings through changes in management practices. We use the techniques that are used in private industry—employee suggestions, incentive awards, and so forth.

We have been engaged in this for about 20 years, now. There are considerable accomplishments that can and have been achieved in savings.

I don't think it is in the area of your particular comment, but if you are interested in what is being done in one of the departments, I can at least provide you what our own experience shows.

Mr. BETTS. Could this editorial appear as part of the record?

The CHAIRMAN. Without objection, it will be included in the record.

(The editorial referred to follows:)

[From the Wall Street Journal, Oct. 10, 1967]

REVIEW AND OUTLOOK

MR. MILLS MAKES A POINT

The House Ways and Means Committee certainly startled the Administration last week when it voted to pigeonhole the proposed tax increase. Chairman Wilbur Mills, however, is fearful that the committee's message was not fully understood.

Obviously enough, the Ways and Means group does want the Administration to outline immediate cuts in spending. Yet, as Mr. Mills stressed, that objective is less important than progress toward keeping outlays under reasonable control in the future.

The Arkansas Democrat's concern may have been increased by the fact that the Administration's only important move toward lower spending recently has been a temporary freeze on several projects considered nonessential. Desirable as delays may be in these and other cases, they do nothing to limit the long-run outlay figures.

If Rep. Mills and other economy-minded Congressmen accept a few temporary spending cuts as evidence of Administration good faith, and then approve a tax boost, the very real danger is that outlays would grow enough to eat up any added revenue. The budget thus would be as badly out of kilter as ever and inflation would be very much with us; sooner or later, demands would be heard for still another tax increase.

To avert such a development, says Mr. Mills, Congress and the Administration must do some determined weeding among Federal programs.

"All of us know only too well," he declared, "that the present budget contains programs that may have lost their justification, and that we are called upon to approve others and vote vast sums for their operation without having any information about what their current objectives are and how well they are performing them or are likely to in the future."

One of the more discouraging aspects of the current situation, in fact, is that almost everyone in Government, from the President on down, has frequently spelled out the need for better budgetary control. Up to now, though, no one has done much toward that aim.

The basic changes needed are simple and sensible: Once the Government decides what it would like to do it should take a realistic look at available resources and then set hard priorities. Moreover, the Government should consider a number of approaches to any spending project, selecting the one that promises to deliver the most, for the least cost. Finally, both the Administration and Congress must constantly check on existing programs, scrapping or revamping those that aren't doing the job.

As the Committee for Economic Development suggested some time ago, better fiscal control probably would call for beefed-up and better-coordinated budget staffs in the departments and agencies. The Budget Bureau quite possibly should

also have greater power to ride herd on the agencies' requests and to review accomplishments or lack of same.

Then, too, Congress should have a chance to consider the budget in its entirety instead of piecemeal as the appropriations requests trickle in. The budget should also be broken down by programs so that it would be easier to spot the oft-occurring duplication of efforts among the multitude of agencies.

There are many other changes that are long overdue. As noted in these columns recently, the accounting practices of several agencies are sadly deficient, even by Federal standards. Perhaps, as the CED has proposed, the General Accounting Office should run regular audits of all the agencies.

Neither Mr. Mills nor anyone else is under any illusion that the Federal budget can be brought firmly under control overnight; there are, for one thing, too many political pressures for retaining the status quo. But he clearly sees that temporary spending cuts offer the economy no better sanctuary than a spot in the eye of a hurricane.

If the Administration doesn't get that idea, too, it will have missed the whole point of Mr. Mills' protest and set the stage for further financial deterioration.

The CHAIRMAN. Mr. Vanik?

Mr. VANIK. As I understand, a good part of the bond sales have been picked up by the trust fund. What is the dollar amount of the trust fund acquisition this year?

Secretary FOWLER. I will provide the exact figures for the record, but let me say that there is always a total amount of Treasury borrowings plus agency borrowings.

The amount of that does not all hit private markets, because some portion of it is absorbed by the trust funds and some portion of it is absorbed by the Federal Reserve System.

The figures I have given you about the tremendous shift have taken all this into account. It takes into account fully the amount that we can lay off on the trust funds and the amount that presumably the Fed would be able to absorb.

Mr. VANIK. I saw some figures which indicated that $75 billion had been purchased by the trust fund, that as a result of this—I don't mean this year, in the aggregate—and as a result of it, the sales this year, or the borrowings this year have had considerably lesser effect on the money market than would be expected.

Is that a correct statement?

Secretary FOWLER. I would want to answer that with complete accuracy, if you would permit me to supply an answer for the record.

(The following information was received by the committee:)

During the fiscal year that ended June 30, 1967, Government investment accounts increased their holdings of U.S. Treasury securities, agency securities, and participation issues by $10.85 billion to a level of $77.5 billion. This was an extraordinarily large increase. In the several preceding fiscal years the increases ranged between $2 billion and $3.6 billion.

It is estimated that in the current fiscal year, ending June 30, 1968, these accounts may increase their holdings by roughly $5 billion, thus providing substantially less support for Federal financing than was true last year.

Mr. VANIK. My next question deals with the problem that always reaches us in the course of the fiscal year, and that is, will there be—I am sure there will be, but what will be the amount of the military deficiency appropriation request? Are we going to be hit in the head with a request that we don't anticipate in another few months?

Mr. SCHULTZE. Mr. Vanik, aside from handling the military pay increase, and the Department of Defense's share of the civilian pay increase, it is our present belief that the savings which can be made from the program I have talked about today in the military will bal-

ance the increase needed for Vietnam, so it is our present belief there need be no supplemental which adds additional appropriations.

Mr. VANIK. No supplemental?

Mr. SCHULTZE. No supplemental with any net amount of money increase in it. There may need to be a submission to the Congress, getting permission to shift funds from one account to the other within the Defense Department, but in terms of a net increase in funds, it is our present belief that this will not be necessary.

Now, I cannot guarantee it 100 percent, but it is our present belief it will not be necessary.

Mr. VANIK. There have been statements in the press that the 1969 budgetary request would be a little late coming this year. Is there any estimate in time, calendarwise, as to when that might be submitted?

Mr. SCHULTZE. I think I can tell you that the budget submission will have to be late, but precisely how much, I cannot yet tell.

Mr. VANIK. Does this mean some time in January, or does it mean early February, or by late, do you mean April?

Mr. SCHULTZE. I don't mean March, April, or May.

Mr. VANIK. Some time during February?

Mr. SCHULTZE. Late January or February.

I hate to pin it down, but because of the date at which we got appropriations, because of a number of uncertainties, we are behind.

Mr. VANIK. The point I make is that if we are within 60 days of having this projection, does it not behoove us to wait for it, so that we can find out what the pattern of income and spending is going to be for a longer period of time, rather than responding to this momentary crisis that we are in?

I think most people resent having our domestic tax policy dictated by foreign events. I think they would much prefer that we do whatever we decide to do based on the long-term trend of our financial problem, rather than the temporary emergency situation that we find ourselves in.

Secretary FOWLER. This has been before us for some months, Mr. Vanik. This is certainly not something that was sprung.

Mr. VANIK. Yes; but the reasons begin to change as you get closer to this 1969 budget.

Secretary FOWLER. No, sir. You have a rope here, and it is frayed at a given point, and when something happens, the pressure begins to apply.

That is the only significance of the new elements that you characterize as an emergency proposition. This need has been here all along to take action. The problem is that as people in this country, and in the markets, and in the economic world, and as people abroad look at it, there seems to be an unwillingness to bite the bullet.

Mr. VANIK. Well, the reports that I get from my constituents indicate that there is a slowing down. We are not running at capacity. We are starting to get more people looking for jobs. We don't have the great buoyancy. Maybe this is a local problem.

Secretary FOWLER. Mr. Vanik, in the supplementary statement which I did not read in order to save time, we addressed ourselves specifically to expressions of that sort of concern.

I will not be responsive in detail, but I certainly share Mr. Martin's view, that whatever lags we have in some of these indicators, they are

due to temporary, passing situations such as strikes. There have been several serious strikes that have affected this picture. As we see the outlook, as it is reflected in this analysis here, and in the analysis of most of the private parties and organizations that do this for business, the outlook for next year is that of a very, very substantial upsweep in economic activity.

Mr. VANIK. Do you believe that we can disregard whatever temporary indications there are, whatever unemployment may be growing, or whatever lag in consumer spending?

We will not have a true picture on consumer spending until we get through this holiday period.

Secretary FOWLER. I would say that, looking at it from where I sit, the fact that the consumer is not spending at a very high rate is not an undesirable thing. I think it is a fairly desirable thing, the savings rate being high.

Mr. VANIK. But it is below the projection.

Secretary FOWLER. No. I think if you will read the information in this——

Mr. VANIK. Did not the report just come out on consumer spending today? I thought it said they were considerably below the projections of the economic advisers.

Secretary FOWLER. I don't think that is the case.

Mr. SCHULTZE. The latest aggregate summary we have of the economy was the third quarter 1967 gross national product, which, after rising $4 billion in the first quarter and $8 billion in the second quarter, jumped $16 billion in the third quarter.

Now, in that jump, consumption played a smaller role than we thought, and inventory accumulation a little more, because consumers are saving a little more than normal.

If you look ahead to the future, however, what that really means is more the likelihood of increased consumer purchasing than the opposite.

By that I mean when you have consumers saving more than normal, the chance is even less likely that they will still further increase their saving.

You are starting from a situation in which there is a flexibility for the consumers to move upward, and we have $16 billion added gross product for the third quarter. That means $64 billion a year.

Second, if you talk about employment figures in the 4 months from July to October, there was a larger increase in employment, on a seasonally adjusted basis, than there was in the first 6 months of the year.

What happened to the unemployment rate is that there was a larger influx of workers into the labor force to get jobs, very heavily consisting of women, so if you just look at the employment figures as to what has happened to the economy, employment increased at a faster rate in recent months than in the first half of the year.

It is true the unemployment rate went up, but that was not because employment slackened off, but because more and more people came into the job market looking for available jobs.

Mr. VANIK. I can give you some report about what I learned in my community.

Last year they were out recruiting people to do extra work for the post office. This year they say they are not even taking any applica-

tions, or giving any examinations. They have a dearth of people who are reporting in who previously had some work experience.

This is just one thing. It reflects an interest of probably 4,000 or 5,000 people to get some work, who were not present last year.

This is just one little indication of the pressures that are growing. Now, if we are only this short distance away fom having a long-term, or at least a report which would extend us into the next fiscal year, it seems to me that we are at great hazard legislating on short-term information, when we might very soon have long-term information which may give us a more stable course.

Now, I am not saying that you should not have the increase, but what it ought to be, and the basis for it I think would be much easier to determine by a pattern that it would be by the experience of fiscal 1968.

Secretary FOWLER. Mr. Vanik, I think if we were only presenting this in terms of the fiscal 1968 pattern, your point would be a good one, but one of the primary factors we are presenting here is the question of the credit markets, and what is happening, not what is going to happen, but what has already happened in the credit markets, while this bill has been pending here before this committee.

I would like to submit for the record what has happened on all the major interest rates that you and others will be concerned about here since July 1967.

Markets don't wait. Markets don't wait for Mr. Schultze to bring in a January budget in February, and then take another look and see what we decide.

Things are happening all the time. The pattern of those things that are happening, which are developed in this supplementary statement, is not at all an encouraging one for the stability, the future stability of the economy.

Mr. VANIK. A good part of this money is running to England, now, is it not, and other places where it gets even higher rates? Are we going to be able to stop that drift of money?

I saw something in Barron's the other day that indicated that the American people can deal in foreign money, and avoid the interest equalization tax. I thought we had taken care of loopholes of that type. I was shocked we had no means of keeping the money invested in this country.

It seems as though we certainly left a big, gaping area where a good deal of our capital can run overseas to even more attractive interest rates.

Now, unless the rates abroad come down, we cannot force interest rates here down, here alone, as a solitary effort.

Secretary FOWLER. Interest rates, Mr. Vanik, in Western Europe, have trended down. There have been countless reductions in the discount rate in Germany, in Belgium, in the Netherlands, in Austria, in Sweden, and three in the United Kingdom.

As a matter of fact, two interest rate increases in the United Kingdom before devaluation, before they went up to the 8-percent rate, were defensive, because our interest rates were moving up.

So, as far as the interest rates picture is concerned, I can assure you that my colleagues in Western Europe, who occupy similar roles, are very, very anxious that we take the fiscal action here that will retard the movement upward of our interest rates, so that their policies

of moving their interest rates down in order to bring their economies back into full flow will not be disrupted.

Mr. VANIK. Is not the British devaluation, the United Kingdom devaluation designed to bring in capital?

Secretary FOWLER. I think it is primarily to increase their trade, the competitive position of their trade.

Mr. VANIK. Does it not offer a more attractive investment area than it did before, as far as American investment is concerned? And what are we going to do to prevent the drift of resources leaving this country and going abroad for even better rates?

Secretary FOWLER. We have the voluntary program of the Department of Commerce on direct investment. We have the voluntary program administered by the Federal Reserve System on bank lending and nonfinancial institution lending. We have the interest equalization tax.

I think the primary purpose of the devaluation is to in effect lower the price of British goods sold abroad, and increase the price of imported goods into the United Kingdom.

There will be some effect on capital flows. There is no question about that.

I think that the major consideration here is a trading one, a trade surplus.

Mr. VANIK. Would you say that information we could get by waiting another 60 days for the economic report and budget request for 1969 would not affect our judgment today, or should not?

Secretary FOWLER. Well, you will find good reasons in the month of February for waiting again.

One can always find additional information, but the facts that are presently existing today, not guesses, not forecasts, but the actual facts about what is happening, and what has happened in the credit markets, are alone enough, it seems to me, to say that we should act, and we should act promptly, wholly apart from the psychological factors that Chairman Martin and I have been referring to here today.

What has happened in terms of the forecast, that was the purpose of this supplementary statement, to give you an exact, current, up-to-date look at the forecast that Chairman Ackley made here before this committee in August, and where it stands today.

It holds up remarkably well. There have been shifts in indicators, but where there has been less consumer spending than he forecast, there has been a much more substantial increase in inventory accumulation.

So that the total of a $16 billion third quarter, with the Ford strike having its impact, seems to us to be evidence of the strength of the push that was suggested here was ahead, and the available evidence we have on the performance of the economy, as far as the fourth quarter is concerned, is that the pattern as well as the total magnitude of the gain is going to be well within Chairman Ackley's earlier assessment here in August.

Now, the details of that are set forth here in the supplementary statement.

We see nothing in the picture today that would justify a change in the analysis that was made at that time.

Mr. MARTIN. Could I interject here, Mr. Vanik, that our production index, after having gone down modestly, has now started up again.

Unemployment claims are going down, and sales are very good in November, so far.

So that if this forecast is reasonable, there is evidence that it is beginning to take hold at the present time.

There has been this dip that you are talking about. I think it is coming to an end in a relatively short time, as judged by our figures.

Mr. VANIK. I thank the chairman.

Mr. Chairman, I will yield, now. I have further questions but there are other colleagues that have questions.

The CHAIRMAN. Mr. Schneebeli?

Mr. SCHNEEBELI. Chairman Martin, on the subject of discount rates, the three-and-a-half-point differential between New York and London, I judge, is quite abnormal.

Mr. MARTIN. Yes; and I would hope that the United Kingdom would not continue at an 8-percent rate too long.

Mr. SCHNEEBELI. In order to try to narrow this differential, who is apt to move first?

Mr. MARTIN. I would hope that the United Kingdom would, but I cannot guarantee it.

Mr. SCHNEEBELI. In the event it is not done, I presume it would be——

Mr. MARTIN. We are going to have to watch the capital markets very closely.

Mr. SCHNEEBELI. What is your normal differential?

Mr. MARTIN. Over the last decade, the Bank of England's discount rate has generally been higher than ours, but the differential has varied a great deal, ranging between 0 and 4 percentage points.

Mr. SCHNEEBELI. Now we are three and a half points. Is there any likelihood that both of us might move?

Mr. MARTIN. It is possible; yes, sir. This will be subject to capital flows.

Mr. SCHNEEBELI. It is rather unprecedented; is it not?

Mr. MARTIN. This is an unprecedented situation.

Mr. SCHNEEBELI. Thank you.

Mr. Schultze, on page 15 I note what the administration proposes to bring in as additional income. Being realistic, how much income will be brought in? Were both corporation and individual increases made effective January 1, 1968? Do you have the figures on that?

Rather than take the effective date of July 1 and October 1, what will be your income if they are both January 1?

Secretary FOWLER. January 1 for both corporations and individuals——

Mr. SCHNEEBELI. Could I have them separately?

Secretary FOWLER. Yes.

The individual income tax, $2.430 billion. Corporate income tax, $960 million, for a total of $3.390 or $3.4 billion.

That is against a $6.3 billion if it were at the effective dates originally proposed.

We are just dealing now with the surcharge. I am not taking into account the excise and the accelerated collections.

Mr. SCHNEEBELI. That is right.

The $2.4 billion for individuals at 10 percent for the half year would be how much at 6-percent surtax.

Secretary FOWLER. $1.4 billion.

Mr. SCHNEEBELI. Also, Mr. Schultze, page 11, the farm price support will create an additional $672 million expenditure increase. How much for the entire fiscal year 1968 are we going to pay for farm price supports, and why is there such a large increase?

Mr. SCHULTZE. The biggest single reason for the increase is the feed grains program.

Mr. SCHNEEBELI. That was not anticipated?

Mr. SCHULTZE. It was not anticipated. The volume of bushels put under loan has jumped on the one hand, and exports, on the other, have fallen. The total for the year for the farm price-support program will be $2.6 billion.

Mr. SCHNEEBELI. To what degree is this subject to control?

Mr. SCHULTZE. It is not subject to control——

Mr. SCHNEEBELI. Is it subject to the 10 percent?

Mr. SCHULTZE. No, sir; it is not.

Mr. SCHNEEBELI. Then that is out?

Mr. SCHULTZE. That is not counted in the basis from which we subtract 10 percent.

Mr. SCHNEEBELI. Then the Department of Agriculture is going to have a tough time decreasing their total budget by 10 percent, are they not? This is a very large item.

Mr. SCHULTZE. No, sir. What we did was apply our 10 percent to the controllable programs of the Department. This is not included in the controllable programs.

Mr. SCHNEEBELI. Then $2.6 billion is not subject to too much control?

Mr. SCHULTZE. Not immediately. Clearly, over a longer period——

Mr. SCHNEEBELI. For fiscal 1968?

Mr. SCHULTZE. For fiscal 1968 it is not. In other words, the crops have been planted, and so on.

Mr. SCHNEEBELI. The support program is subject to what control for the next crop?

Mr. SCHULTZE. For the next crop, the basic law is subject to the variation of the level of price supports and the level of diversion, depending on the crop.

As you know, the feed grain program works in terms of acreage diversion. Now, that is subject to arrangement; it is not completely open. There is no way I can at the moment, give any specific number as to how much is subject to arrangement. It is open, to some degree of flexibility, but it is a restrictive degree of flexibility.

Mr. SCHNEEBELI. When we are talking about expenditure control or reduction for fiscal 1968, we have no control at the present time over farm subsidy prices?

Mr. SCHULTZE. That is correct.

Mr. SCHNEEBELI. So when we discuss this, it is just demagoguery?

Mr. SCHULTZE. I don't know how you mean that.

Mr. SCHNEEBELI. For fiscal 1968 it has no meaning. We cannot reduce it.

Mr. SCHULTZE. In that sense, yes.

Mr. SCHNEEBELI. We have a lot of recommendations, however to cut farm price supports, but they are subject to cuts. Is that correct?

Mr. SCHULTZE. There are really three kinds of time periods involved. In the long run, we can change price supports substantially by changing the law.

Mr. SCHNEEBELI. And in fiscal 1968 farm supports are not subject to this change.

Mr. SCHULTZE. That is correct, we cannot in fiscal 1968.

Mr. SCHNEEBELI. Chairman Martin, on page 1 of you statement you make a statement that I agree with very much, "Wage increases continue to be far in excess of productivity gains."

I would ask the administration witnesses what has happened to the guidelines that were established some time ago. I have not seen much evidence of any implementation of these guidelines.

Mr. SCHULTZE. Mr. Schneebeli——

Mr. SCHNEEBELI. Or are there any guidelines left?

Mr. SCHULTZE. There are guidelines left. I think the big difference, Mr. Schneebeli, and really it ought to be Chairman Ackley speaking explicitly about this, but I will try to speak very generally about it, the big difference is that up until recently, the guidelines did include an aggregate target for wage increases of 3.2 percent.

Given the increases in consumer prices, it turned out that the maintenance of that specific percentage target was in feasible. All you had to do was look at the settlements.

This does not mean that the administration has abandoned its policy of urging restraint. We don't patrol the unions or business, but we are urging restraint on both business and labor in terms of these settlements.

Mr. SCHNEEBELI. I have not heard much of the restraints in the last 3 or 4 months, and particularly at a time when the Federal pay increase was being considered, when we have an 11-percent increase within 1 year's time, and the Democratic leadership in the House would not support us when we tried to cut it back.

I see no evidence from the White House that they are interested in any wage restraints.

Mr. SCHULTZE. If I may, on the Federal pay increase——

Mr. SCHNEEBELI. Is there a 6.5-percent increase?

Mr. SCHULTZE. There is a 4½- percent increase for all except postal workers, and 6 percent for postal.

We opposed the 6-percent proposal.

Mr. SCHNEEBELI. Does this mean you are going to recommend a veto for the bill?

Mr. SCHULTZE. It does not mean that we support the 6 percent.

Mr. SCHNEEBELI. Why did your Democratic leadership in the House vote against us on the recommital motion?

Mr. SCHULTZE. Because there is a second part to the bill. As I understand, the recommittal motion did not involve the 4½ and 6 percent this year. It dealt with the increase provided for next year.

The bill provides automatically for an increase next year. In the House bill there are two automatic increases in 1 year. In the Senate they stretched it out some, not quite as far as we had recommended.

This is a matter of judgment, Mr. Schneebeli. If you are looking at what the Federal pay raise will actually be next year, one has to make a very difficult judgment as to whether or not to put in an automatic increase this year—which is costly, I realize that—or take your

chances with what is going to happen, in a year divisible by two, with Federal pay. We made the judgment that we would.

I am not at the moment trying to defend it, except it was a reasoned judgment that we would end up with lesser bugetary expenditures, a lesser increase, if in an off year we provided automatically for the increase next year, rather than taking our chances with what would happen in next year.

Mr. SCHNEEBELI. Beginning October 1, this year, through next July 1st, there will be a 6- and a 5-percent increase. Is that right?

Mr. SCHULTZE. Six- and four-and-a-half-percent increase.

Mr. SCHNEEBELI. Six and four and a half?

Mr. SCHULTZE. That is correct.

Mr. SCHNEEBELI. Is this within the guidelines that the White House established?

Mr. SCHULTZE. The four and a half, yes, we felt was. The 6 gets borderline. It is equal to some of the settlements lately; it is above others.

Mr. SCHNEEBELI. Then it has changed from 3.2?

Mr. SCHULTZE. I am not trying to give a fixed number for the guideposts, which I indicated we do not have.

Mr. SCHNEEBELI. The administration says that it is trying to save money, but then they condone and encourage a wage increase such as this type?

Mr. SCHULTZE. All I am saying is that we judged that the four and a half percent would be roughly in line with a reasonable settlement, given what was happening elsewhere.

We did not propose the six. We did not support it. We did oppose it.

Mr. SCHNEEBELI. This 2-percent cut in personnel costs, I judge, is entirely attrition.

Mr. SCHULTZE. It will vary from agency to agency. In most agencies it will be attrition. There may be a few where there will have to be a reduction in force.

There may have to be. Again, I cannot be so explicit as to say in X, Y, and Z places there will be. It depends on how the agencies work it out. It will be mainly attrition, but there may be a few reductions in force.

The CHAIRMAN. Mr. Gilbert?

Mr. GILBERT. Thank you, Mr. Chairman.

As I understand, gentlemen, part of our problem is due to the overheated economy, and the inflationary spiral that we find ourselves in at the present time, and part of the reason that you gentlemen are here is to take some of this heat out of the economy by virtue of this surtax.

Now, assuming that you are granted a 10-percent surtax, so that you take some of the money out of the economy, will this not have the effect, then, on a man who is working and taking home less pay, of forcing him to come back in and say, "I want a raise in salary." In addition, will not the businessman who finds that his profits are less ask for an increase in his price?

So the net effect, as I see it, would be zero with this surtax, unless you take into consideration perhaps price controls and wage controls.

I have not heard any comment from anybody on this subject, and I would like to hear from you gentlemen on this.

Secretary FOWLER. On the matter of the increase in price, whether

the corporation or the business can pass on the tax increase in prices depends upon a number of things.

It depends on the competitive situation at the time. It depends on a lot of economic decisions.

Now, undoubtedly, left completely independent of the forces and effects of competition, and what would happen to that product in the market, they would undoubtedly like to reflect and pass the cost on.

Whether or not that is feasible in an economy is always an open question, depending upon the atmosphere at the time if the economy is overheated, and there is excess of demand, or the likelihood of an excess of demand, that is the time, of course, you would expect these prices to be increased, not only to pass on this cost insofar as the corporate tax is concerned, but a lot of other increases of cost that may have accumulated coincidentally or in previous periods.

Now, as to the question of the worker and his bargaining position, again I would think that human nature being what it is, the worker would like to have an increase that would take into account what happened on this tax bill, but again that is a very complicated problem.

A lot of things are happening to affect his cost of living of which taxes are only one.

Here the element of collective bargaining enters in. Here the element of whether or not he can in the competition of the labor market effect a larger price for his labor is not just a simple matter of passing through an individual tax increase.

What happens, and what we are trying to avoid, Congressman Gilbert, is the spiral, the one thing feeding on the other, and for a period of time, from about 1958 to 1964 and early 1965, we had a very stable wholesale price index. Actually, it trended down slightly during some of that period.

The Consumer Price Index has moved up because of changes in the cost of services and transportation and what are really quality improvements in a lot of products.

But it is the action of that wholesale price index giving rise to a spiraling effect that we want to get out of. We want to get out of the spiral and move back toward a pattern of price stability.

You cannot do that in the context of an overheated economy, or one that threatens to do so.

Mr. GILBERT. I appreciate your answer, but I think it is vague.

I fear that, in all probability, if this surtax is going to be placed on the taxpayers, there is going to be demand for increase in wages, and there is going to be demand for increase in prices, and we are going to be right back where we started from.

This is the position that I find myself in right now.

Mr. SCHULTZE. Mr. Gilbert, it seems to me, if you follow that thesis, that all anybody has to do, regardless of the state of the economy, is ask for higher wages, and thereby get them; and ask for higher prices, and thereby increase their profits. There would be at no time anything to limit prices and wages, and we would always have spiraling inflation.

Mr. GILBERT. You ran another factor in that what you are doing is reducing the take-home pay.

Mr. SCHULTZE. Exactly. What that does for corporations and individuals is reduce the demand for goods and services below an inflation-

ary level, and thereby make it impossible, or less likely, for people to be able automatically to pass on big wage increases and big price increases.

This is the whole point of it. You cannot automatically pass these things on, if the income and demand is not there.

The whole point of getting the deficit down is to stop this inflationary demand on the economy, so that people cannot keep the spiral going.

Secretary FOWLER. Mr. Gilbert, the experience from 1958 through 1965 indicates that the best chance you have to maintain a situation in which prices and costs don't get into this inflationary spiral is in the context of a sustained stable rate of growth which is not excessive.

Where we got into trouble was because of the impact of the Vietnamese hostilities, causing us to have an excess of demand. It was in that particular atmosphere that by and large we got into what one could term "a creeping inflation."

We want to reverse that trend, and instead of having it accelerate, to have it move down.

Mr. GILBERT. Very frankly, I just cannot understand how this is going to work.

With an increase in wage costs, the manufacturer is going to ask for an increase in prices, and if we are merrily going to come in and ask for a surtax to be placed on our taxpayers, without any other controls, I think we are accomplishing a big, fat zero.

Secretary FOWLER. Congressman Gilbert, may I say quite respectfully, sir, that your position on this is quite contrary to the conventional wisdom, for whatever it may be worth, among economic authorities, not only in this country, but most countries which operate under similar conditions.

They have found in Western Europe in country after country that the inflationary spiral was a consequence of an excess of demand, and although they have tried through an incomes policy of the sort that Mr. Schneebeli referred to to deal with it, they have not been able to deal with it effectively.

Mr. GILBERT. Mr. Secretary, I would agree with you, but I sat through these hearings when you were present, and we came to the conclusion that this was not a demand-pull inflation, but rather a cost-push inflation.

Mr. SCHULTZE. What we are precisely trying to do is to prevent the cost-push inflation the Secretary is talking about from turning into a demand-pull inflation. That is precisely the whole point at issue.

Mr. GILBERT. It is just a vicious cycle.

The bells have rung on the House floor.

I don't want to belabor this.

Mr. Chairman, I wonder if I may continue in the morning.

The CHAIRMAN. Oh, yes, we will have them back in the morning.

If agreeable, will all of you be back here at 10 o'clock in the morning.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. I have some questions I want to ask you.

Without objection, then, the committee adjourns until 10 o'clock in the morning.

(Whereupon, at 5 p.m., the committee adjourned, to reconvene at 10 a.m., Thursday, November 30, 1967.)

PRESIDENT'S 1967 SURTAX PROPOSAL: CONTINUATION OF HEARING TO RECEIVE FURTHER ADMINISTRATION PROPOSAL CONCERNING EXPENDITURE CUTS—NOVEMBER 1967

THURSDAY, NOVEMBER 30, 1967

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Let me, if I may, open the questioning this morning. I want to talk to you first a little bit about the economic situation as compared to what it was when you were with us in August and also in executive session later on.

Am I right that the gross national product for the third quarter of this year is now about $791 billion on an annual basis?

STATEMENTS OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; AND HON. WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Secretary FOWLER. That is correct, sir.

The CHAIRMAN. This is about $16 billion more than—$775 billion as I remember was the figure—for the second quarter?

Secretary FOWLER. That is correct.

The CHAIRMAN. Is this a reason that is being used also for favoring a tax increase now?

Secretary FOWLER. Yes. I think this bears out the forecast that was presented to the committee in considerable detail by Chairman Ackley on August 14, and a comparison of the forecast there with the gross national product expansion in the third quarter that we now have positive proof on is covered on page 3 and subsequent pages of the supplementary statement I submitted yesterday.

The CHAIRMAN. I have read that overnight, Mr. Secretary. That is the reason I wanted you to comment on it. Now, in constant dollars what does this amount to with the increase, about $8 billion?

Mr. SCHULTZE. A little less—about $7.3 billion.

The CHAIRMAN. Is this indicative of more than an ordinary or modest increase in gross national product?

Mr. SCHULTZE. Yes, sir. The increase of $16.2 billion——

The CHAIRMAN. I know, but when we look at it in terms of constant dollars.

Mr. SCHULTZE (continuing). The increase in constant dollars is at an annual rate of about 4½ percent a year——

The CHAIRMAN. That is normal growth, isn't it?

Mr. SCHULTZE (continuing). Or perhaps a little more, but I think the key point is that the growth was such that half of the increase was prices.

The CHAIRMAN. I had understood, Mr. Schultze, that it would be necessary for us to have a growth of about 4½ percent in order to maintain the present percentage of unemployed at 4 to 4.3 percent.

Mr. SCHULTZE. Four to four and one-half percent, that is correct.

The CHAIRMAN. You couldn't do it on a 3-percent growth. You would have more unemployment.

Mr. SCHULTZE. As a steady diet that is correct, sir.

The CHAIRMAN. I view this then as nothing more than a normal growth in the economy rather than any excessive growth, this growth in the third quarter. Do you think it is an excessive growth?

Mr. SCHULTZE. Yes, sir, because as your economy gets up steam, more and more of the additional growth takes its form not in real growth, but in prices, so that, for example, you might find yourself in a substantial inflation with not much more than the 4 to 4½ percent real growth. So the problem, in other words, is not that an overheated economy is going to grow too rapidly in the real sense, but that the growth will take its form in prices.

I think this is the point.

The CHAIRMAN. I want to talk to you about that also a little later. We have had as I understand it about 2.4 percent points increase in the consumer price index through September of this year.

Secretary FOWLER. That is right and with the figures announced yesterday for October, on a year-to-year basis for the 12 preceding months, it is about 2.6 percent for the year, October back to the preceding November.

The CHAIRMAN. Last year ye had 3.1 percent for the year, did we not, and in 1965 about 1.8 percent?

Mr. SCHULTZE. That is about right; yes, sir.

The CHAIRMAN. What do you now estimate for the remainder of the year the price index increase to be in percentage points, November, December, all that is left?

Mr. SCHULTZE. I would hesitate to give——

The CHAIRMAN. Will it be as much as 3.1 in your opinion?

Mr. SCHULTZE. Will we end up the year, December, with 3.1?

The CHAIRMAN. You think we may?

Mr. SCHULTZE. Mr. Chairman, can I answer that another way?

The CHAIRMAN. Any way you want to.

Mr. SCHULTZE. I see no basic reason why the rate of price increase in the last 3 to 4 months should slacken. Should that continue, you would end up in the neighborhood of the 3 percent, or a little over 3 percent, that you are talking about.

The CHAIRMAN. Let me ask you do you view this as a cost-push type of price increase, or do you view it as a demand-pull up to now?

Mr. SCHULTZE. Mr. Chairman, I am not trying to fuzz up the answer, but you can never pull these things apart that neatly. What we have

been getting in part is a reflection in costs of a very rapidrun up in demand last year.

The CHAIRMAN. In the past.

Mr. SCHULTZE. In the past. So that what happens here is you have a mixture of the demand and the cost with last year's heavy demand adding to cost this year although up until very recently you could not have called it excess demand.

The CHAIRMAN. We did have capacity utilization of almost 90 percent during the year 1966?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. What is the last figure for October on plant capacity utilization?

Mr. SCHULTZE. My recollection is it was in the low 80's.

The CHAIRMAN. In the third quarter it is my recollection it was 83.8; is that right?

Secretary FOWLER. The revised figures show 84.1 for the third quarter.

The CHAIRMAN. The revised figures show what now?

Secretary FOWLER. 84.1 percent utilization in the third quarter compared with 84.9 percent in the second and 87.1 percent in the first, but the numerator of the operating rate is the strike-affected manufacturing production index which has also gone down and therefore the third quarter utilization factor would appear to be temporarily depressed by reason of the strikes and the interruptions in production and adjustment for the strikes would raise this operating rate considerably.

With no strikes in the fourth quarter the rate will almost certainly increase.

The CHAIRMAN. We have the benefit of some figures for October, do we not, Mr. Secretary?

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Is the production index for October 156.2?

Secretary FOWLER. That is correct.

The CHAIRMAN. Does that show the beginning of this upswing that you mentioned?

Secretary FOWLER. No; it shows I think the following: We have had a slowup in October and in September of the industrial production index, but a special calculation of this index which eliminates the strike-affected industries shows a climb since last May.

If the additional special effect of the stepped up oil production resulting from the mid-East crisis is also eliminated the October index would have topped the August peak.

Now, if the production of automobiles recovers to second quarter 1967 rates I think it is fair to forecast that the official index will almost certainly register a rise in November. I think Chairman Martin may be closer to this since the industrial production index is a particular area for the Federal Reserve Board.

The CHAIRMAN. Do you have some comment, Mr. Martin?

Mr. MARTIN. The production index will probably be up a point and it is rising at the present time. After having had a dip of about two points our production index is definitely on the uptrend now.

The CHAIRMAN. Do we have any advance information as to what the production index in November may be finally?

Mr. MARTIN. I think it is 157. It looks like 157.

The CHAIRMAN. Mr. Secretary, why do we eliminate strikes in our consideration of production utilization?

Secretary FOWLER. I don't eliminate them. I am just pointing out that that was a factor.

The CHAIRMAN. I know, but do we have assurances that they are over now?

Secretary FOWLER. No, I don't think we do. The assurance we have is that to whatever extent automobile production is cut by reason of strikes in this quarter they will make up for it in the first quarter of next year because the controlling factor is the demand for automobile sales.

The CHAIRMAN. Is that demand greater than it was last year?

Secretary FOWLER. It is running about the same, except for Ford Co. dealers.

The CHAIRMAN. I understood it was running a little behind last year.

Secretary FOWLER. I would want to check my information because my memory doesn't serve me right on that score, but my impression was that the outlook for the year ahead is comparable to and, if anything, a little bit in excess of the year 1967.

The CHAIRMAN. The predictions are always that way, I know. It is sort of like a budget predicting a decline in corporate profits. You just can't do that.

Let me ask you about what information you have now with respect to plans for 1968 spending in plant and equipment?

Secretary FOWLER. Well, I think the spending in this area is, as we all know, difficult to forecast, but there is little question in the minds of most observers now that the upturn that is developing in he second half of this calendar year 1967 is likely to accelerate in 1968.

The CHAIRMAN. Is it likely to be greater than the McGraw-Hill survey indicated of 5 percent in dollars?

Secretary FOWLER. The range of predictions now includes some as moderate as 4 percent and some as high as 8 percent.

The CHAIRMAN. If you take into consideration price increases, 5 percent is really no increase, is it?

Mr. SCHULTZE. No, sir, except the prices of machinery and equipment have not been rising at 5 percent. In other words, the manufacturers in considering their expectations are taking into account what has been happening to machinery prices.

Secretary FOWLER. In some of the studies on this point the evidence indicates that some firms in some years do make such allowances for price increases. Others do not.

The CHAIRMAN. It was about 5 percent in dollars as I remember in 1966. Do we have any firm estimate of what it will be in 1967?

Secretary FOWLER. Of the rate of increase in 1967?

The CHAIRMAN. Yes, sir, in dollars?

Secretary FOWLER. No, sir.

The CHAIRMAN. We don't have that yet?

Secretary FOWLER. No, sir. We have of course for the first three quarters.

The CHAIRMAN. You have for the first three quarters?

Secretary FOWLER. Right.

The CHAIRMAN. I thought you might have estimates with respect to the last quarter.

Secretary FOWLER. There is an estimated total for 1967 of $62.03 billion and the footnote provides that estimates based on anticipated capital expenditures as reported by business in late July and August 1967 includes adjustments when necessary for systematic tendencies in anticipatory data. So the current outlook is for $62.03 billion.

The CHAIRMAN. Is that about 5 percent?

Mr. SCHULTZE. It is $1.4 billion above the prior year, which would be about 2¼-percent increase, 1966 to 1967.

The CHAIRMAN. Two-and-a-quarter-percent increase?

Mr. SCHULTZE. Yes.

The CHAIRMAN. For 1967.

Mr. SCHULTZE. That is about right.

The CHAIRMAN. What was the January wholesale price index? Do you have that figure?

Mr. SCHULTZE. Yes, sir; the wholesale price index for January was 106.2.

The CHAIRMAN. Do you have it for October?

Mr. SCHULTZE. Yes, sir; 106.1.

The CHAIRMAN. 106.1.

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. Does that indicate demand-pull inflation?

Mr. SCHULTZE. No, sir; but if you break that out between industrial commodities and farm products what you find is that farm products went down by about 5 percent and industrials went up by about a percent, not quite a percent.

The CHAIRMAN. How do you explain the wholesale price index then remaining rather constant and the consumer price index rising through September by 2$\frac{4}{10}$ percent?

Mr. SCHULTZE. Primarily because the Consumer Price Index has in it, as you know, a heavy portion of services, which have been rising quite steadily in price.

The CHAIRMAN. Which would indicate a cost-push type of inflation.

Mr. SCHULTZE. Not necessarily. Don't get me wrong, Mr. Chairman. Obviously there are cost-push elements involved here, clearly and heavily, but services do respond to demand.

The CHAIRMAN. I understand, but where is the demand. I am trying to find out where it is. It is my understanding, if I may go on and ask you this, that retail sales in October were at a seasonally high adjusted rate of $26.2 billion. Is that about right?

Secretary FOWLER. That is about right.

The CHAIRMAN. That is the lowest level since May of this year, is it not?

Secretary FOWLER. I think, Mr. Chairman, that most commentators would say that the sluggish retail sale figures in October reflect the dealer shortage of automobiles——

The CHAIRMAN. I understand.

Secretary FOWLER (continuing). Due to the strike. Retail sales other than automobiles advanced in August and September and were practically flat in October.

The CHAIRMAN. The point is if you break it down and look to the nondurable goods you don't find any increase there.

Secretary FOWLER. In October.

The CHAIRMAN. That is right.

Secretary FOWLER. There has been a generally rising trend all through this period.

The CHAIRMAN. No, it doesn't show that increase and it is still below May, as I remember the figures, in nondurables. Even though we know a strike in the automobile industry has some effect on total sales, we know that when you look at the nondurables you are not looking at automobiles.

I am trying to find all of that exuberance that I thought we were told was going to take place in the economy back in August.

Secretary FOWLER. You find it basically, and you don't have to look further for it, in the $16 billion gross national product figure for the third quarter, which is twice as much as the gross national product increase for the second quarter.

The CHAIRMAN. Mr. Secretary, you know I don't look at total figures. I look at what constitutes the figures, and I have tried to break them down. I am trying to find the individual components that make up the gross national product and where the demand is.

Mr. SCHULTZE. Mr. Chairman, what happened in the third quarter is you had large increases in construction. The reduction in inventory investment turned around and inventories went up significantly.

The CHAIRMAN. How much?

Mr. SCHULTZE. I better look the numbers up.

The CHAIRMAN. Went up from zero in the second quarter? Wasn't it about zero?

Mr. SCHULTZE. Half a billion dollars I think. I will have it in just a second. It went up from half a billion dollars to $3.8 billion.

The CHAIRMAN. $3.8 billion on an annual basis.

Mr. SCHULTZE. That is correct.

The CHAIRMAN. That is quite a shift; isn't it?

Mr. SCHULTZE. A turn around. As a matter of fact, in the third quarter consumer spending rose somewhat less rapidly than we were earlier anticipating, inventory rose more.

Secretary FOWLER. There was a very gratifying rebound in homebuilding which exceeded expectations and now seems headed toward a rise of about $4½ billion over the two quarters rather than the 3½ that we projected in August.

The CHAIRMAN. On a monthly basis since August there have been some slight increases in inventory?

Secretary FOWLER. On a monthly basis. I think in 1 month actually there was as much as $800 million, book value.

The CHAIRMAN. Was that for October?

Secretary FOWLER. No; I think this was an earlier month.

The CHAIRMAN. September?

Secretary FOWLER. Yes, I think so, or August.

The CHAIRMAN. That is still substantially below the level of last March; is it not?

Mr. SCHULTZE. Oh, yes, sir, of last year. The rate of increase is below last year's.

The CHAIRMAN. No; March of 1967.

Secretary FOWLER. We were sweating coming down from an inventory peak of an annual rate of about $18 billion in late 1966. Now,

a normal rate would be looked at as being around $7 to $7½ billion, in GNP terms. We are not quite back up to that yet.

The CHAIRMAN. I am trying to find out where this excessive demand is going to be. We have looked at the investment dollars in plant and equipment. We have looked at inventory turnaround and shifts. We have looked at the retail sales in October. We don't like to take any one month as a final determinant, but some of you mentioned construction and a few other things.

Mr. SCHULTZE. State and local expenditures have been running up about a $7, $8 billion increase a year.

The CHAIRMAN. I know it, but we understood from Mr. Martin yesterday that many of these municipal bonds that had been voted or intended to be placed on the market had been withdrawn.

Mr. MARTIN. That is correct, Mr. Chairman. Let me just make the point here that the line of questioning you are pursuing clearly indicates that there is nothing too boomy at the moment in the economy and I think you are justified in that line, but I also want to emphasize here that the inflation doesn't move in this way.

You go from cost-push inflation to demand-pull.

The CHAIRMAN. I understand, but when are we going to get the demand-pull, Mr. Martin?

Mr. MARTIN. In February when I was up, as some of you may remember, before the Joint Economic Committee I was told that everything was falling apart. Nothing in the subsequent events has in any way dimmed in my judgment the perspective that we took at the Board at that time, which is confirmed by the Council of Economic Advisers projections that we were on the way up.

Now, yesterday we indicated that we have minimum wage increases in the early part of next year that may go as high as 2-billion-plus. We have social security that you had up yesterday of $4 billion—$3½ billion in one bill, $4.7 billion in another.

Those are additions to demand. I say that you should not wait until inflation is out of control. We have already lost $8 billion through higher prices, out of the $16 billion increase in GNP, as you have rightly pointed out, in the third quarter. I don't like to make these projections and I am not much of an econometrician; I am not a statistical analyst in that sense, but I think you can really see that you have an inflationary psychology now. With respect to your comment on plant and equipment, I am not going to make a forecast, but I know that plant and equipment people are looking at this thing today in terms of if we don't put the plant in now it is going to cost us 10 percent more later.

Therefore, from that psychology you have increasing demand in the economy.

The CHAIRMAN. I have been a little bit surprised, very frankly, and I don't know what the answer is. I agree with what you are pointing out. I had thought that there would be more plans for plant and equipment expenditures in 1968 if for no other reason than anticipated rises in wages and salaries because that is one of the answers of course to increased costs, increased expenditures per unit of production.

Mr. MARTIN. You have the uncertainty, however, that has come with the failure of the guidelines to be held. You now have a gap on the

wage-price-cost front that we know is between, let's say, average productivity increases of about 3 percent—this is just arbitrary now—and unit labor costs rising over 5 percent. That is a big gap.

That has to be passed on in some way to the consumer by the suppliers, and these wage settlements are going to continue. What you have here is uncertainty in the picture that is compounded by what is to me the really critical point today, the size of the budget deficit that the United States is running, and this is I think a very serious problem.

This is the one that I have been trying to point out to the best of by ability.

Mr. SCHULTZE. Mr. Chairman, may I add a little bit of history on this. As you are aware, in the early part of this year we did, we in the administration, and most business forecasters, did forecast a sluggish economy. We then indicated our belief that the economy in the second half of the year would turn around and move up much more rapidly.

It has done that. There are bound to be some remaining soft spots as you come from a period of sluggishness and start to pick up again.

With respect to business plant and equipment you will recall that in the early part of the year there were a number of forecasts that plant and equipment expenditures would actually fall off, and for two quarters they did. And then each time surveys of intentions were made they tended to creep up a little more. They turned around. The whole psychology has changed since the spring of the year.

As the economy has turned around finally, even though it is very difficult to pin down the precise effects of a $22 billion deficit on the economy, laying that kind of a deficit on an economy which is picking up steam, which is at relatively full employment, is bound to grind some form of excessive demand into the economy, even though you don't see much of it now.

I fully agree.

The CHAIRMAN. It is logical that it would increase some additional demands. I am just trying to find out where the excessive demand is. We have looked to some of the ingredients that make up the gross national product and we find that there is some degree of increase in inventory accumulation.

We find that there is some degree of increased activity in construction.

Now, where else?

Mr. SCHULTZE. State and local spending.

The CHAIRMAN. Well, I know they may be planning to spend, but if they have to do it through the issuance of bonds they may be deferred accordiing to the Chairman of the Federal Reserve Board.

Mr. SCHULTZE. Mr. Chairman, I can't give you an exact breakdown of the numbers of this large increase in State and local spending each year. Only a modest fraction lies in the area financed by bond issues. So even though there is some tapering off here you still have an underlying swell, a substantial increase of schoolteachers and others, services of all kinds in State and local governments, which far outweigh the bonds.

Secretary FOWLER. The expenditures by State and local governments, Mr. Chairman, have risen much more rapidly than GNP for at least a decade. This has been almost a standard pattern. Unless

there is some very, very sharp change in the situation there is an expectation that that is going to continue.

The CHAIRMAN. I remember some few years ago, Mr. Secretary, I checked into it and for a certain given period of time while the Federal debt had risen by about 15 percent, I think it was, the State and locals together in the country had risen by 336 percent.

Secretary FOWLER. And also I think, to put Chairman Martin's comment yesterday in perspective, even though some of the issues have been canceled or deferred, the total volume of issues by State and local governments in this year has been very, very high.

The CHAIRMAN. Let's look at the savings ratio. What are the most recent figures on the percentage? Do we have October?

Mr. SCHULTZE. We have it by quarters, Mr. Chairman.

The CHAIRMAN. The first quarter, as I remember, was 7.3, was it not?

Mr. SCHULTZE. Correct.

The CHAIRMAN. The second quarter it dropped to about 6.7 and then rose to 7.3?

Mr. SCHULTZE. Seven.

The CHAIRMAN. Seven.

Mr. SCHULTZE. Yes.

The CHAIRMAN. Do we have anything on October?

Mr. SCHULTZE. No, sir. Those numbers are not available by months but only by quarters.

The CHAIRMAN. Let me ask, isn't this a rather high savings ratio compared to the normal situation?

Mr. MARTIN. It is a high savings ratio and that is another thing. When the savings get back to more normal levels you can expect a pickup in the demand.

The CHAIRMAN. When will they?

Mr. MARTIN. Nobody can be precise, but when people have money in their pocket they are at some point likely to spend it.

The CHAIRMAN. Doesn't it indicate really that the inflationary pressure to date are not very strong?

Mr. MARTIN. No; I don't think so, Mr. Chairman. I think that your line of questioning, as I said before, indicates clearly that it is not too boomy at the moment.

The CHAIRMAN. Not too booming. It is just not booming.

Mr. MARTIN. All right, it is not booming. But the point I want to make is—and this is indicated in the deferment of these municipal issues that you are referring to—that demand pressures are too much for the general economy.

We are trying to do too much too fast in too many areas.

The CHAIRMAN. I think I have said that too, haven't I?

Mr. MARTIN. You have, indeed, and I am merely confirming it.

The CHAIRMAN. I appreciate that.

Mr. SCHULTZE. Mr. Mills, may I add one other point to that? A $16 billion rise in our economy in any one quarter, particularly a quarter following a period of sluggishness, in and of itself will not give you, to use Mr. Martin's term, booming conditions; but a continuation of that kind of increase for two, three, four, five quarters, will surely do it. So you can look at the one quarter with its $16 billion, which is a large increase, and still not find that it itself leads to those conditions,

but there is no reason to believe that that $16 billion trend will not continue and, as a matter of fact, accelerate somewhat without fiscal action. So that you are quite correct that right now you can't look at this economy and find a lot of places where that kind of a move is giving you the boomy conditions, but sure as I am sitting here as you go quarter after quarter with that $65 billion a year in the growth of demand in this economy you are going to get those conditions.

The CHAIRMAN. What I am trying to get to is an understanding of whether or not what we are talking about here in this hearing is enough and is it the proper medicine to take care of the type of price increases that we are this year experiencing.

Secretary FOWLER. Enough to take care.

The CHAIRMAN. And as we look into next year, is it the proper medicine to take care of what may be further price increases next year, or is some other type of medicine required, or some other combination of medicine required?

Secretary FOWLER. My position would be that without this tax increase, without the adoption of the proposals that are before you in some substantial form, the price increase pattern we are now experiencing will accelerate and that our objective and the objective of policy should be to take those actions which will encourage a deceleration of price increases to get back to stability.

The CHAIRMAN. I understand your point.

Secretary FOWLER. And you are not going to get it with the kind of economy that certainly the general run of forecasters see shaping up.

The CHAIRMAN. I understand your point of view, Mr. Secretary, but what I am wanting to know is this. If we do what you are recommending, can we do it with any degree of assurance that prices will not increase?

Secretary FOWLER. No, I don't think——

The CHAIRMAN. If we do this, if we should enact it, pass it, and present it to the American people as a Christmas present by having the President sign the bill into effect the day before Christmas what would happen to prices next year, in your opinion?

Secretary FOWLER. I wouldn't hazard a guess. I can feel fairly certain what will happen to prices next year if you don't take this action and I will give you a positive judgment on that.

The CHAIRMAN. Would you argue with me if I said that after we did that prices might rise next year by as may percentage points as they have risen this year because of costs that have been added this year?

Secretary FOWLER. Might well be.

The CHAIRMAN. And also be added next year.

Secretary FOWLER. Might will be.

The CHAIRMAN. That is what I am asking you. Is the medicine that you are suggesting that we use here on the patient the proper medicine?

Secretary FOWLER. I would say, Mr. Chairman, that sometimes it takes a period of time for medicine to be effective and that the way to deal with the cost-push inflation which we are experiencing is to create the kind of a steady, stable economy in which the further cost-push inflation becomes difficult—it may be 6 months, it may be a year from now.

The CHAIRMAN. But remember now, Mr. Secretary, under the suggestion that you are laying before us we would still be spending in this

fiscal year $136.2 billion after utilizing $5 billion of PC's, as I understand it, or actually spending at the rate of $141.2 billion.

We would still be doing that.

Secretary FOWLER. That is right.

The CHAIRMAN. And on the basis of your projections of revenue we would be taking in $122½ billion. Is that the figure?

Secretary FOWLER. That is right.

The CHAIRMAN. That rate of spending then would be around $11 billion more after we enact the package of cuts that you suggested than we spent in fiscal year 1967, would it not?

Secretary FOWLER. Adjusted for PC's, I think that is about right.

The CHAIRMAN. I had expressed the wish from time to time, realizing as I do the bind that you are in, realizing as I do the predicament that we are all in, that it might be possible in such an emergency as that which we are passing through to do more than this that is being suggested. I had hoped that we could go back and use as a benchmark for our spending in as many departments as possible the figure that was actually spent in fiscal year 1967.

I had intended to get into that. It would seem to me that if we did that it might be possible for us to actually reduce this $136.2 billion figure by another $2 or $3 billion, which wouldn't be asking very much.

Secretary FOWLER. Mr. Chairman, my only comment on that will be to recall to you the point made yesterday in my statement that we will be very flexible in our reactions.

The CHAIRMAN. In place of what you are suggesting in title II, what if we should write into this that this tax would not become effective until the departments of government have been adjusted downward to the rate of spending that they had in the fiscal year 1967?

Secretary FOWLER. I think you would in effect be voting down any effort to deal with this deficit.

The CHAIRMAN. The tax bill wouldn't go into effect?

Secretary FOWLER. I think that would be a fair statement.

The CHAIRMAN. That might be a good way to pass it. Everybody would be satisfied.

Secretary FOWLER. If you want to be negative about it I think that is an approach.

The CHAIRMAN. I don't think I am trying to be negative. I am just trying to find out some way on my own basis to justify a tax increase if I can.

Mr. MARTIN. May I just interject a comment on the Christmas present?

The CHAIRMAN. Yes, sir. I think I would withdraw that. I doubt that they would like that Christmas present.

Mr. MARTIN. I just wanted to emphasize—I am not a doctor here—that I am not sure that this dose of medicine will cure the patient, but in terms of the problem of stabilization as I see it the size of this deficit is a very serious problem to deal with and if the American people at Christmas time could have a reduced deficit they might be back on the road to recovery so far as this stabilization is concerned.

The CHAIRMAN. I am not arguing with you one iota about the size of it. All I am suggesting is that a deficit can be reduced by expenditure reduction as well as by raising additional revenue.

Mr. MARTIN. I don't quarrel with that.

The CHAIRMAN. I am just as anxious as you are to get this deficit down. The fact is I believe the American people, if we would cut back enough, would support a tax increase that would balance the budget. I think they might if we did show that willingness to cooperate. But now let me go to this business of unemployment.

I don't know if these statistics that are out always are a meaningful reflection of the numbers of people who are unemployed.

I have often wondered if that is the case when I have looked at these unemployment statistics, but it is my understanding, Mr. Schultze, that we have now about 4.1 percent of our experienced wage and salary workers unemployed. Is that right?

Mr. SCHULTZE. That is the current rate for the experienced.

The CHAIRMAN. That is higher than it has been in any month of this year if my figures are right.

Secretary FOWLER. I think the unemployment rate for persons covered by State unemployment insurance programs, which is the real body of it——

The CHAIRMAN. That is right.

Secretary FOWLER (continuing). In October was 2.4 percent, unchanged from September and lower than in any month since last February.

The CHAIRMAN. 2.7.

Secretary FOWLER. 2.4 percent.

The CHAIRMAN. 2.4 percent of those who are drawing unemployment compensation.

Secretary FOWLER. Who are covered by the State unemployment compensation program.

The CHAIRMAN. What was it in January on that basis, or February? I think that is probably better than to look at the total 4.1 percent.

Secretary FOWLER. Well, it is lower than any month since last February. I don't know offhand what it was in January. It looks from the table in the Economic Indicators on page 12 that it was 2.4 percent in January.

The CHAIRMAN. I got this 4.1-percent figure out of the Economic Indicators of November 1967 and on page 11 the seasonally adjusted percent is 4.1 for October of experienced wage and salary workers.

Secretary FOWLER. That is right. I think it depends on which category one views as being the steadiest body of our——

The CHAIRMAN. I frankly don't know the people that would be included in that definition even, but I would agree with you that probably the better figure to look at is the percent of those who are on, or eligible to draw, unemployment compensation because I guess most, other than farmworkers, are under that, aren't they, in most States?

Mr. SCHULTZE. A large proportion.

The CHAIRMAN. I would think so.

Mr. SCHULTZE. Mr. Mills, I might point out that in the last 4 months, July to October, the rate of increase in employment, the total increase in employment in the last 4 months, has been almost double that of the first 6 months, so employment has increased at a faster rate in the last 4 months.

What has happened is the entrants into the labor force have also increased even more rapidly, but actual employment has accelerated

rather than retarded. The unemployment figure which has risen does not reflect a decline in job opportunities.

The CHAIRMAN. I understand that and I think it would be well at this point if you have those figures to put in here the number of people who are presently employed. Do you have that for October?

Secretary FOWLER. I think the most significant figure to me is that employment in October was 1.4 million above a year earlier. In other words, the economy has created that many additional jobs.

The CHAIRMAN. Well, actually I think, perhaps, Mr. Secretary, that has been the case even when we have had as much as 6 percent unemployment, hasn't it? There has been a trend upward in jobs?

Secretary FOWLER. Oh, it depends on the conditions.

The CHAIRMAN. It has to go up.

Secretary FOWLER. It certainly is not characteristic, however, of a recession period. In the various recession periods we had, the rate of new jobs being created did not approach this level.

The CHAIRMAN. Well, this line of questioning was for one purpose, to find out the extent of the boom that we are passing through and whether or not there are developments that we can point to that indicate any immediate demand-pull type of inflation.

I never heard of the cost-push type until a few years ago. When I studied economics a little bit in college the only kind of inflation we ever heard about was the kind created by excessive demand compared to supply, but I have been unable all year to satisfy myself that we are having that type of inflation.

Since you are talking to us about tax policy, let me talk to you, Mr. Martin, just a little bit about monetary policy, if I may. I may be repeating a little bit what I asked you in August. In 1966, as I have looked over the figures, there was virtually no increase in what we refer to as the money supply. That is currency outside banks and demand deposits. Is that about right?

Mr. MARTIN. That is about right.

The CHAIRMAN. In April of 1966 the money supply defined on that basis was about $170.5 billion.

Mr. MARTIN. That is right.

The CHAIRMAN. And in December of that year it was $170.4 billion.

Mr. MARTIN. That is right.

The CHAIRMAN. If you take into consideration deposits in the banks and savings and loans there was a slight increase in the money supply in 1966?

Mr. MARTIN. The money supply in 1966 for the year on an annual rate went up 2.2. In 1965 it was 4.7.

The CHAIRMAN. In 1967 currency outside of banks and demand deposits increased by about $10 billion from January through October; did it not?

Mr. MARTIN. Right.

The CHAIRMAN. That was from about $170 billion to about $180 billion.

Mr. MARTIN. That is right.

The CHAIRMAN. This is an increase of about 6 percent?

Mr. MARTIN. Yes.

The CHAIRMAN. Time deposits also grew during that same period as I understand by about $20 billion.

Mr. MARTIN. Right.

The CHAIRMAN. From about $160 to $180 billion.

Mr. MARTIN. That is right.

The CHAIRMAN. Is this increase likely to continue into 1968?

Mr. MARTIN. I would hope not. This increase that you are pointing out here was directed toward trying to help stabilize the overhang of inventories that developed at the end of 1966 and caused the sluggishness in the early part of 1967.

The CHAIRMAN. Was that not inflationary itself?

Mr. MARTIN. The money supply?

The CHAIRMAN. Yes; this year.

Mr. MARTIN. I think it is a matter of judgment and I am not one of these people who believe in the statistics of money supply as the sole measure of the impact of monetary policy.

The CHAIRMAN. At least it was supplied in greater amount during that period of time.

Mr. MARTIN. It was supplied in greater amount and I have stated publicly that I thing that we may have slightly overdone it.

The CHAIRMAN. It was greater than our growth, in other words.

Mr. MARTIN. Yes; that is correct, but we had hoped that we would get some fiscal action that would help and we have been unfortunate in having taken that into our considerations and we haven't received it.

The CHAIRMAN. I want to help me understand this situation. Why do interest rates go up at a time when we are following a very easy money policy?

Mr. MARTIN. Because the demand is too great and this demonstrates again that this country is now experiencing what other countries have found out, that if you let inflation get ahead of you interest rates always rise.

One way to be sure of having moderate- and low-interest rates is to have sound fiscal and monetary policy.

The CHAIRMAN. If you would have sound fiscal policy and an easy monetary policy do you have any assurance really that interest rates won't still go up as a result of excessive demand?

Mr. MARTIN. I think you would have a balanced demand under those circumstances.

The CHAIRMAN. I don't understand what you mean by balanced demand. If you say that now interest rates are going up because of excessive demand for credit and that excessive demand for credit continues and you adjust your monetary policy from one, say, of a 6-percent increase to 4½-percent, if that is what the economy itself is increasing, and even if we add a balanced budget would we have any assurance that interest rates wouldn't go higher?

Mr. MARTIN. Not at a particular time.

The CHAIRMAN. That is right. How long do you think we are going to continue to feel the effects of the past policies with respect to interest rates regardless of what we do?

Mr. MARTIN. Well, I think that this is a continuous stream. I have always talked about the money stream, and you can't cut it off at any particular point, but the main elements in it are the supply and demand factors and these have to be related to the other ingredients in the economy, which are budgetary policy and wage-cost price policy.

The CHAIRMAN. But I thought, Mr. Martin, that the whole purport of this was to get a better mix between fiscal policy and monetary

policy. In other words, if we don't establish a better fiscal policy in your opinion then the entire burden would fall upon monetary policy and I would take that to mean that the monetary policy would have to be restrictive if we do nothing.

In other words, I thought the whole of this was calculated upon fiscal policy being so adjusted as to permit you and your colleagues to maintain a more money policy.

Mr. MARTIN. I think that is correct. I think that 1966 demonstrated very clearly, and it is still true, that if you want to use only monetary policy you can bring the economy to a grinding halt. That I don't believe to be a very desirable way of using monetary policy.

The CHAIRMAN. I told you I didn't think so when you were here last August.

Mr. MARTIN. That is right.

The CHAIRMAN. Do interest rates here have to go up as long as interest rates abroad are rising in view of our balance-of-payments problem?

Mr. MARTIN. It is going to put pressures on them because the world has become one large pool of capital today and when we are running a balance-of-payments deficit of our current magnitude there is bound to be an inability to equalize these flows against this sort of interest rate differential.

The CHAIRMAN. Was that the reason for raising the rediscount rate?

Mr. MARTIN. It was, as I stated it yesterday, a moderate precautionary move not to lead the market, but to bring the discount rate into line and to put us in a position where we can offset these flows if they become serious.

They have not become serious.

The CHAIRMAN. This supposes that U.S. deposits may be invested in Europe. That was the reason?

Mr. MARTIN. That is right.

The CHAIRMAN. And it would have to do more, would it not, if it became necessary to further insure against those flows?

Mr. MARTIN. It could. It could.

The CHAIRMAN. Whether we have a balanced budget or not?

Mr. MARTIN. This is the dilemma that monetary policy is facing today.

The CHAIRMAN. I understand. I am not criticizing.

Mr. MARTIN. No, no, I know.

The CHAIRMAN. I am just trying to go into it to find out what might take place. Now tell me if you will—I have had some difficulty in understanding—why a tax bill is now necessary to strengthen the dollar in the international market?

Mr. MARTIN. Because the entire community is looking to see whether we are going to be able to keep these expenditures, that you are rightly pointing out are difficult to control, under control.

The CHAIRMAN. Is it the absence of a tax increase or the fact that they have been told that we have a $35 or $30 billion deficit that concerns them?

Mr. MARTIN. It is indeed a concern.

The CHAIRMAN. I say it is the deficit, isn't it?

Mr. MARTIN. Yes, it is the deficit.

The CHAIRMAN. They are not saying to us that we have to pass a tax bill in order for them to have confidence in the dollar in the international markets. What they are saying is that we should get our deficit down to more manageable proportions. Is that what they are saying?

Mr. MARTIN. No question about that, but this is one element.

The CHAIRMAN. How much lack of confidence is there abroad in the dollar?

Mr. MARTIN. There is no way of measuring that, Mr. Chairman, but it has been growing. I think the devaluation of the pound in itself has not weakened the American dollar.

The CHAIRMAN. I am glad to hear you say that. I didn't think it would.

Mr. MARTIN. Not in itself, but the record of the last few years of Britain's struggle to preserve the pound is leaving an impression on the world with respect to what happens to a country that is unable to bring its deficits into more manageable proportions, and therefore since we are the only reserve currency left—the dollar is the vehicle currency of the world—the entire world is directing its attention now to whether they are going to have confidence in this dollar based on our capacity, and will, and determination to deal with our problems.

Now, you can rightly say that they say it makes no difference whether it is a reduction in expenditures or an increase in taxes, but the main point that they are looking at here is whether we are not trying to do too much too fast and whether we are going to put our programs and our policies into a relationship that they will have confidence in with respect to holding this vehicle currency.

The CHAIRMAN. Is the lack of confidence that you found in the dollar abroad not also somewhat related to the adverse balance of payments that we have now and have had for some time?

Mr. MARTIN. There is no question of it. We have the dual problem of a large domestic deficit and a balance-of-payments deficit.

The CHAIRMAN. Tell me how a tax bill will help us with respect to our balance of payments?

Mr. MARTIN. It will definitely help in terms of our competitive position.

The CHAIRMAN. In the near future?

Mr. MARTIN. Well, it is a little bit like this medicine that you were talking about earlier. If the patient has fever you give him a dose to break the fever. That doesn't eliminate the fever right away. You may have to give him several doses.

The CHAIRMAN. How long do you think it would be before this medicine would take effect on our adverse balance of payments?

Mr. MARTIN. In terms of psychology and confidence, I think the passage of the tax bill and the President's program would have immediate effect.

The CHAIRMAN. Wouldn't also the amount of money that the House passed for the foreign aid program compared to what the Senate passed have an effect? You are aware that the Senate has upped the figure by better than $500 million.

Mr. MARTIN. That would in my judgment have a much more limited effect. This would have a dramatic effect. That is a matter of judgment, nothing that you can prove.

The CHAIRMAN. You couldn't prove it?

Mr. MARTIN. No; I couldn't prove it, but my judgment is that if you are talking about confidence in the dollar, the passage of this program would have an immediate and dramatic effect on improving confidence.

Now, it would not solve the problem because it is only one step in bringing our affairs into order, but with a deficit of, let's say, $22 billion as we developed yesterday, if you would reduce that substantially you are certainly going to have a dramatic impact on breaking the immediate fever that we are dealing with.

The CHAIRMAN. You think in the long run it would have some effect?

Mr. MARTIN. I do indeed.

Mr. BOGGS. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. BOGGS. I didn't understand him to answer in the long run. My understanding of his answer was that it would have an immediate effect.

Mr. MARTIN. Oh, I did say that. I certainly meant to say it would have an immediate effect.

The CHAIRMAN. I thought you said it wouldn't have an immediate effect. It is sort of like feeding medicine sometimes to break a fever.

Mr. BOGGS. I thought you said the opposite, that it would have an immediate psychological effect.

The CHAIRMAN. What did you say?

Mr. MARTIN. I said it would have an immediate effect but this would not cure the patient. You might have to have another dose later.

The CHAIRMAN. In other words, we would have to have another tax bill a little later.

Mr. MARTIN. You may have to have another tax bill. You may have to do more, I agree.

The CHAIRMAN. If we had enacted the tax bill in September, say, of this year all our problems would be behind us?

Mr. MARTIN. No; but I think your problems would be less.

The CHAIRMAN. Would be less. Which problems?

Mr. MARTIN. The overall problem that I am concentrating on, which is the size of the deficit and confidence in the dollar.

The CHAIRMAN. It would have restored confidence in the dollar to a greater extent in the international market you feel.

Mr. MARTIN. I do indeed.

The CHAIRMAN. Had it been unaccompanied by any reduction in expenditures?

Mr. MARTIN. No; if it had been unaccompanied by any reduction in expenditures I don't think it would.

The CHAIRMAN. You say the difference between $29 and $30 billion of deficit and $22 and $23 billion would have made all that difference?

Mr. MARTIN. I think it would have made some difference. I don't think you can measure the amount of difference, Mr. Chairman, but I think it would have made some difference.

However, the point I want to emphasize over and over again here is that this confidence factor has been weakening with a progressive increase in our budgetary deficit.

The CHAIRMAN. I can remember back in 1962, Mr. Martin, when the economists that I talked to were insisting that President Kennedy should submit a program to Congress immediately for a quickie tax cut that would go into effect and last for about 12 months and then go back up.

I remember what we found was the reaction in the money markets in Europe to any such proposal as that and you are aware of that.

Mr. MARTIN. I am.

The CHAIRMAN. So I guess there has been some degree of concern about the dollar ever since they have had investments in dollars; hasn't there been?

Mr. MARTIN. There has been some concern, but there has been no concern like the concern at the present when we are the last vehicle currency in the market, and I think this is of major importance to our political standing as well as our economic standing in the world.

I think this is a very critical period. I don't want to exaggerate it and I may be too close to it at times, but I sincerely believe—and that is why I am up here participating as actively as I can in this hearing—I sincerely believe that it is important, very important, for us in the next few months to establish confidence that we are going to have the capacity and the will to pay for our programs, and paying for the war is one of the elements involved in this.

The CHAIRMAN. Certainly I wanted you here. That is why I asked you to be here, because I have a great deal of confidence in you, and I do in the other two gentlemen at the table. I wanted your viewpoints.

All in the world we are trying to do is to find the proper medicine for this situation. That is all I have ever tried to do, get it concocted just right to take care of the patient.

Mr. MARTIN. That is my purpose, also.

The CHAIRMAN. Let me ask you does this action on the part of the Federal Reserve raising the rediscount rate mean higher interest rates generally here in the United States?

Mr. MARTIN. That is a forecast that I would not care to make.

The CHAIRMAN. I think it does. In the past that has been the result, hasn't it?

Mr. MARTIN. It has tended in that direction; yes.

Mr. BOGGS. On that subject may I ask one question?

The CHAIRMAN. Yes.

Mr. BOGGS. I notice in this morning's Wall Street Journal where Kansas City, Mo., has a bond issue of 5.7, a little better than that, and Jersey City has one at 5½ percent. I don't recall tax-free municipals being that high even at the height of the interest rate.

Mr. MARTIN. I think you are right, Mr. Boggs. I think that is the highest they have been. I am not sure that they are the highest, but it is pretty close.

Mr. BOGGS. At any rate, in terms of income, take the man in, let us say, that $25,000 bracket. What would that translate to, percentage-wise, 5½ percent?

Mr. MARTIN. Well, he is probably netting in the neighborhood of 9 percent.

Mr. BOGGS. Thank you, Mr. Chairman. That is all.

The CHAIRMAN. Will this action of increasing the rediscount rate continue the dampening effect which has appeared to exist in recent months in consumer expenditures?

Mr. MARTIN. No, I don't think so, Mr. Chairman.

The CHAIRMAN. Will it lessen the likelihood of increased investment on the part of business?

Mr. MARTIN. No, I don't think so.

The CHAIRMAN. All right. What will its impact on financing of the budget deficit be?

Mr. MARTIN. It is only bringing the discount rate into line with what the bill rate and the Federal funds rate are, and I don't at the moment foresee its having any great impact on Federal financing.

The CHAIRMAN. You do not?

Mr. MARTIN. I do not at the moment, but I am not going to forecast policy.

The CHAIRMAN. It won't result in the Government having to pay any more interest, then.

Mr. MARTIN. It is not directed——

The CHAIRMAN. I understand it is not directed. I am looking at the indirect effects now.

Mr. MARTIN. It may have an indirect effect. You must remember the point that the Secretary has made so effectively yesterday; the size of this deficit draws on the savings supply, which is important in relationship to the high levels of employment and the high plant and capacity utilization, and let me just make one comment on that because that came up in your previous questioning.

I am one who questions this plant utilization figure because I think you have to put the words "efficient plant utilization" in, and the technological advances, the modernization that is going on, requires a certain period when there is going to be less utilization of plant than would be normal if there were no improvement in technology occurring.

I think 90 percent is probably a maximum ideal plant utilization. This is a debatable point, but I just want to emphasize this again as one of those statistical problems that I am sure has many aspects to it that are not fully recognized.

The CHAIRMAN. Mr. Martin, to what extent do you think a tax increase transfers the necessary borrowing from the Government to businesses and consumers?

Mr. MARTIN. It reduces the impact on the money market because the Government doesn't have to go and borrow that amount of money. It makes more money available to the private sector.

The CHAIRMAN. Does it merely transfer though that borrowing from Government to businesses and consumers?

Mr. MARTIN. I don't believe you can say it transfers it. I think it makes the flow of funds easier. That is the best word that I can use to describe it. It makes for a better balance in the flow of funds. You reduce the pressure that the Federal Government is putting on this limited supply of savings.

The CHAIRMAN. As I understand from what you have told me this morning it is this tremendous demand for credit that has been supplied at a rather easy rate by the Federal Reserve this year that has caused interest rates to go up.

Mr. MARTIN. Yes; it is the demand for credit, plus the added factor of the obvious growth of the need of the Treasury to draw on the money market. Anybody looking at that, and, of course, expectations have a

part to play always in things, anybody looking at this Treasury situation feels that he had better get his money quickly.

The CHAIRMAN. The Secretary has to roll over what? About $175 or $180 billion of securities a year? Is that about right, Mr. Secretary?

Secretary FOWLER. I think that is a fair estimate.

The CHAIRMAN. That has an effect, too, doesn't it?

Secretary FOWLER. That has an effect, too.

The CHAIRMAN. As well as new borrowings?

Secretary FOWLER. Well, not to the same extent as new borrowing.

The CHAIRMAN. Not to the same extent, but it has an effect.

Secretary FOWLER. It has an effect; right.

The CHAIRMAN. Mr. Secretary, the year is about gone. Do you have any idea about how much new money you would have to borrow for this year?

Secretary FOWLER. I think the best way of characterizing the difference is to say that in terms of fiscal year 1967 the Federal Government was putting back into the economy about $5 billion and in the fiscal year 1968, in which we are involved, the Federal Government will be taking out of the economy, not putting in $5 billion, but taking out of the economy something around $20 billion, so in terms of the fiscal year there is a switch——

The CHAIRMAN. Of $25 billion?

Secretary FOWLER (continuing). From being a supplying factor to a $60 to $70 billion credit market, a supplying factor of $5 billion, to being a demand factor of around $20 billion.

The CHAIRMAN. So that actually the total effect is about $25 billion then on the money markets.

Secretary FOWLER. That is right and that is not a large market. Actually the way we figure it there was $65 billion of private demand in the money market in that fiscal year 1967 of which the Federal Government supplied about $5 billion. We were a supplying factor.

The CHAIRMAN. You talked about going to the market for the cash budget situation. Do you have to go to the market for any other funds?

Secretary FOWLER. The figures I have given you, Mr. Chairman, include not only what the Treasury goes to the market for, but the various agencies.

The CHAIRMAN. It includes all of them.

Secretary FOWLER. Includes all of that. I am giving you the total draw of the Federal Government and the various agencies on the money market.

The CHAIRMAN. That is what I wanted to find out. Mr. Martin, I think I just want to ask one more question.

Back to the other question, the last one I asked you, will the tax increase make businesses and consumers borrow more or save less in your opinion?

Mr. MARTIN. I think it depends entirely on their cash position and on their attitude toward their liquidity.

The CHAIRMAN. That determines then whether or not it is a mere transfer of borrowing from Government to businesses and consumers, does it not?

Mr. MARTIN. Well, that is an individual judgment that they have to make.

The CHAIRMAN. I am not going to talk to you about your plan this morning. I will talk to you a little later about that.

Secretary FOWLER. Mr. Chairman, may I add one thing growing out of your colloquy with the chairman about the attitudes that we find in our conversations with others in equivalent positions abroad in financial matters, ministers of finance, central bankers, and whatnot. I don't think they are trying to tell us exactly what to do with our expenditures. They know we are in a war. They may have different views about the war. They know we have domestic problems at home. They are realistic gentlemen, however, and they know from their own experiences in their own countries in dealing with their own Governments that you can't cut expenditures in this situation by as much as is needed to bring the deficit they see into manageable proportions and therefore the tax increase is essential in their view to this objective, and from the conversations that I have had and from the reports I have gotten from our representatives abroad that it would be the greatest single thing because it is the thing they know about most.

They don't follow in detail what is happening on this bill, or this conference on foreign aid, or whatnot, but they all know about this tax bill and of course they would welcome the report of a combined package and of additional expenditure reductions.

They would like to see that. But the effect on confidence, of the expression of will, that we are willing to make the effort to reverse this cycle of increasing deficits and move down towards substantially decreased deficits and in the direction of balance, would have immediate effect.

Now, I would only say that I think the effect on the balance of payments would be slower but it would begin to help our trade balance, and I personally don't think that with all of the measures that we have and all of the measures that could be reasonably devised we are going to be able to maintain confidence in our trade balance as others look at the future, or in fact maintain it, which is the mainstay of our balance-of-payments situation, without taking the kind of action that is recommended here to bring us back, to reverse this cycle of accelerating inflation and cost-push, whatever you want to call it, and move back down towards stability which will make us increasingly competitive.

I think if we run the risk you might be right. This $16 billion in a given quarter might not seem like a boom to you, but if we move into a period of excess demand such as we did in late 1965 and in early 1966 we will have a percentage increase in our imports, far exceeding the percentage of increase in our exports and our trade balance will greatly suffer.

The CHAIRMAN. Mr. Secretary, let me understand now what is in title I. I have read it. It is my recollection that you would have us impose a tax of 10 percent across the board. In other words, a man figures his tax to 100 percent and he pays 110 percent of what he figures. That is really what it is.

Secretary FOWLER. That is correct.

The CHAIRMAN. Except for those in the lower brackets. That applies to both individuals and corporations.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. That would become effective October 1 with respect to individuals and July 1 last with respect to corporations.

Secretary FOWLER. That is right, sir.

The CHAIRMAN. That proposal would remain in effect either until June 30, 1969, or in the event the war in Vietnam was over at an earlier date. Is that still in it?

Secretary FOWLER. I think that is correct.

The CHAIRMAN. Yes. All we have talked about is fiscal year 1968 because we have no budget yet for 1969. What would this produce in the way of revenue if we enact it for the entire fiscal year 1969?

Secretary FOWLER. About $12 billion.

The CHAIRMAN. About $11.9 billion.

Secretary FOWLER. Eleven to twelve, in that range.

The CHAIRMAN. Something like that.

Secretary FOWLER. That includes the excise tax factor of $2.5 billion and that is a continuation of an existing tax. The increase in taxes on a full year basis would be about $9.5 billion.

The CHAIRMAN. There has been nothing so far about fiscal year 1969 and I am not because I know you don't have any figures or anything of that sort. I know you can't tell us what it looks like now.

Does this package, however, contemplate any rigid holding of the line with respect to the budget to be submitted in 1969?

Secretary FOWLER. Mr. Chairman, let me make two comments on that and then defer to the Director of the Budget. There is nothing in title II that would directly impose any element of control on the budget in 1969. I should also like to correct one impression that was left. I don't think there is anything in the bill that relates to termination of the tax with Vietnam but the President's message made that point abundantly clear that that is his intention.

The CHAIRMAN. That is what I am talking about.

Secretary FOWLER. And certainly our intention.

The CHAIRMAN. It is not in the bill but that would be what you would expect.

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Mr. Schultze.

Mr. SCHULTZE. As I indicated earlier, we are right now in the midst of reviewing the 1969 budget and I don't have any numbers, but our objective is to apply very rigid criteria to that budget taking into account the fact that these reductions that we have proposed this year will hold down the base so that they can also be carried forward into next year.

Now, I think if you look at the budget in three parts, while I can't give you any numbers, I can give you some ideas and those three parts essentially would be Vietnam, where the Secretary has not completed his review of requests and requirements——

The CHAIRMAN. On that point, if I may interrupt, I would predict if we are still in it it would be even greater than 1968.

Mr. SCHULTZE. History would indicate that.

The CHAIRMAN. Yes. It always costs us a little more in the succeeding year than the preceding year.

Mr. SCHULTZE. Secondly, for those areas in the budget where the expenditures are relatively uncontrollable, where they primarily result from the operation of specific laws, there will clearly be some increases. Again I can't put numbers on it yet.

The CHAIRMAN. Is there any thought being given to the possibility of some changes in the law where these increases may be avoided?

Mr. SCHULTZE. We are, in the process of reviewing the budget all the way through this, taking a look at what we can do to help on it.

The CHAIRMAN. Don't just rely upon what you can do, but lay out to us and tell us what we can do here through changing some laws to help you to hold it down. That is the point I was making.

Mr. SCHULTZE. Well, Mr. Chairman, there are several points involved. One of them, as you recall from my initial statement, is that this problem is considered to be a highly appropriate subject for the group, commission, or task force that the President might appoint to look at the long term impact of the budget—that this, to take a look at the programs which have open end appropriations in effect.

The CHAIRMAN. I think some of them can be closed.

Mr. SCHULTZE. That is correct. It will not be easy. Nevertheless, it seems to me that it is clearly worth a major effort to take a look at this problem. And it seems to me this is a key area involved here that is, what kind of a formula do you write for these essentially open ended type appropriations.

Secondly, having written a formula, how do you prevent unanticipated larger-than-expected increases from occurring, what kind of fiscal controls can you put on in addition to the program controls that you write into the law.

It seems to me it is that second area, in particular, that could stand a very careful look. It is not something that can be done overnight; it is not something that will be easy, but it seems to me well worth a major effort by such a group and I would certainly presume that is one of the things that they would look at.

The CHAIRMAN. Is there one more?

Mr. SCHULTZE. The second one is, of course, as I say, changing the programs themselves. For example, as you are well aware, both the House and the Senate versions of the social security bill have a number of provisions—different, but going to the same objective—with respect to both medicaid, particularly medicaid, but also to some extent affecting public assistance. I would presume in conference that these will be reconciled, but both of them have a significant impact, particularly in 1970, as I understand the way the provisions are written.

The CHAIRMAN. I am going to ask you if you will be there or send word to these people who come to the conference with us. Maybe you better be there. You are helping me but I don't know whether I am going to get any help in the conference from those who will be there.

Mr. SCHULTZE. I have talked to the people who are concerned with this and they will be most happy to work with the conference in working out a means of doing this.

The CHAIRMAN. Some way to get to a lower figure.

Mr. SCHULTZE. That is correct, yes, sir.

The CHAIRMAN. All right. That is very reassuring.

Mr. SCHULTZE. So as I say, we have the two elements of the budget, one Vietnam, the other these uncontrollable programs. It really isn't so much budgetary control that can be exerted; it is a combination of program control and a longer range look at the subject of these open ended appropriations that is needed to get some kind of fiscal control.

In the controllable area, we are adopting criteria to keep as tight a lid as we can on controllable programs of the Federal Government.

Now, there is no one number I can give you, but as we go through

the process of reviewing the agency budget requests we have well in mind the objective of keeping the lid on those programs.

The CHAIRMAN. Let me be very confidential with you, Mr. Schultze, and just express to you a basic concern that I have about this whole situation. If we should enact the package that has been presented to us and develop a $11.9 billion of additional revenue for fiscal year 1969 can we do it with the assurance that expenditures in 1969 will not rise by the same dollar amount that expenditures have risen in 1968 or 1967?

Otherwise we are merely using the $11.9 billion to pay for increased spending in 1969.

Mr. SCHULTZE. Yes, sir, barring always the Vietnam situation, yes, sir. I am not saying Vietnam completely; I am simply saying barring a real crisis.

Mr. CHAIRMAN. I don't know whether I want to bar anything or not in this kind of situation.

Mr. SCHULTZE. Don't get me wrong. I don't want my answer to mean that for Vietnam, we see it going up anything like that. In that sense, yes, sir, we can give you that assurance. I simply have to leave a qualification for some really major change that I can't be aware of.

There is nothing in the wind now to make me believe that there will be an increase of that magnitude.

The CHAIRMAN. Mr. Schultze, some of the agencies of Government have been held to the 1967 level of spending in 1968, have they not?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. Do you remember what percentage?

Mr. SCHULTZE. I am not sure I have an easy comparison. NASA clearly is below.

The CHAIRMAN. It looks like all this economy is being taken out on my friend, Jim Webb.

Mr. SCHULTZE. No, sir. It turns out, as a matter of fact, that NASA has come down over the last 2 years.

The CHAIRMAN. I have been told that by some of them within the agency.

Mr. SCHULTZE. Yes, sir. I am embarrassed, Mr. Chairman. I have all sorts of comparisons, but I do not have such an after-the-cut agency by agency comparison. I can develop one.

The CHAIRMAN. There are other Government agencies outside of NASA that are either at the 1967 level of expenditures or below it.

Mr. SCHULTZE. Yes, sir; there are.

The CHAIRMAN. Could you have somebody on your staff prepare that list for us and let's have it in the record at this point.

Mr. SCHULTZE. Yes, sir.

(The following information was received by the committee:)

The following are examples of the larger agencies and programs that are now expected to have lower administrative budget expenditures in fiscal year 1968 than in fiscal year 1967 taking into account the reductions we are proposing. (The decrease is expected to be approximately the amount indicated in millions of dollars):

Department of Housing and Urban Development	90
Post Office Department	350
General Services Administration	30
National Aeronautics and Space Administration	600
Agency for International Develepoment:	
Economic assistance	60
Military assistance	100

The CHAIRMAN. I understand there are some you cannot hold to that level. I had hoped very frankly, as I have expressed the view, that it might have been possible for us to have held more of them at that level and to have insisted with respect to the 1969 budget that they also be held at that level.

I know you have become very unpopular with all these agencies because you have been a good Director of the Bureau of the Budget and a good Director can't be popular. I am just hoping you will get a little bit more unpopular.

Mr. SCHULTZE. I might point out that with the cutbacks we have proposed, very roughly, controllable expenditures in 1968 would be $2 billion above 1967, of which $1 billion is for pay.

The CHAIRMAN. Is what?

Mr. SCHULTZE. Is for the pay increase, so aside from that the increase is $1 billion in round numbers. It might be $900 million or $1.1 billion. I mean it is in that range.

The CHAIRMAN. That is the controllable within the nondefense area.

Mr. SCHULTZE. Yes, sir. Defense outside of Vietnam would be up $0.7 billion, so you would add another $0.7 billion to the $1 billion; you are quite right, yes, sir.

The CHAIRMAN. I apologize to my colleagues and to you gentlemen for delaying us so long.

Mr. Secretary, I checked back on what we did in 1950. It wasn't quite as bad as far as retroactivity is concerned as you may have initially thought. The bill finally became law in November as I recall. We made the rate effective with respect to corporations back to July 1 of that year and we had a peculiar arrangement for that calendar year with respect to individuals in 1950 as I recall that really taxed them only at a rate equal to what they would have paid on an annual basis for November and December.

You check back on that. I think I am right.

Secretary FOWLER. I was aware of the corporate thing. I hadn't analyzed the individuals.

The CHAIRMAN. My memory may be faulty. Mr. Curtis.

Mr. CURTIS. Thank you, Mr. Chairman. Before developing my line of questioning I do want to pick up on what I thought was a very key question you asked at the tail end and the response; namely, if we gave you $11.9 billion in new revenues for fiscal 1969, would you hold the expenditure level. The answer to the question was hedged in light of Vietnam.

Now, the point I would like to make is that the other alternative is to stay with the expenditure figure and then in light of unexpected additional expenditures in Vietnam be flexible and be prepared to cut back expenditures in other areas.

Now, this I might say up to date has been something this administration, at least in the testimony before this committee, has been unwilling to do. It is the very point I raised in August and before in public hearings. Granted you have a situation where you might have to increase expenditures in Vietnam. If this is as serious a situation as you now are describing it, and I have said it was for some time in light of the amount of the deficit, I would think the administration would be prepared to cut back expenditures in other areas in order to make way for it.

Now, let me be certain of your answer. The administration presently, as far as 1969 is concerned, is not approaching the budget with that kind of flexibility in mind?

Mr. SCHULTZE. No, sir; that is not my answer.

Mr. CURTIS. I am proposing it because I interpret it that way and I certainly have interpreted the actions of the administration this way. Certainly I would argue their actions indicate that they have not either been prepared to or have they cut back on non-Vietnam expenditures, when the expenditures in Vietnam actually did go beyond the anticipated levels that were in the original budget.

Mr. SCHULTZE. No, sir; I think I made two points with respect to that.

I was not trying to say, with respect to the chairman's question, that any increase in Vietnam would lead us over the kind of increase he was talking about. I simply wanted to hedge some really large, unforeseen, contingency.

Mr. CURTIS. Is the administration prepared? Let's answer directly.

Mr. SCHULTZE. Yes, sir. It has done it this year.

Mr. CURTIS. I will get into that. I am trying to ask the questions, please. I hope to give you plenty of opportunity to respond. I don't want a long rambling answer at this point.

All I am trying to find out is whether it is the intention you say it is.

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Then you start to say that your record shows that you have done it. I would simply observe that the record clearly shows the reverse. This is the issue that I am trying to develop; to whether or not non-Vietnam cutbacks will be made.

Now, I want to start out on a point of agreement. I couldn't agree more with the presentation and the rhetoric—in fact the rhetoric is better than mine—as to the very serious fiscal situation that faces this Nation both in our international picture as well as domestic. The only observation I would like to make is there is great emphasis on what will happen in the future with little emphasis, I regret to say, on what has happened already as a result of the policies that have been pursued.

It has been clearly established that right now in November, going into December, we have the highest interest rates probably since the Civil War, some of them breaking all records in areas. The Consumer Price Index for last month has just come out reporting another 0.3-percent increase. We have at present an inflationary situation that is quite disturbing.

We have a very serious deficit in international balance of payments. Where we are right now has no reference really to the proposed remedies that are presented to this committee to prevent this sickness of whatever it is—I think it is a sickness—from becoming worse.

Would you agree that this is a fair statement to make? Two things are presented. One is the situation we are in now, and this can't be blamed upon whether or not a tax bill was enacted last month or not. This situation was before us in August. I think the Secretary himself presented it in December rhetoric. The President did.

So this relates to policies that have been pursued to date.

Is this a fair observation on my part, Mr. Secretary?

Secretary FOWLER. I would only make this comment: That as of last December all of us sitting at this table came to the conclusion that a

combination of a tight budget and a tax increase to become effective on July 1, taking into account the inventory adjustment that we would be going through in the early part of the year, was the right policy combination to deal with the situation.

The developments which we went through at the time of the August hearing, both on the expenditure side and the revenue side, seemed to indicate the likelihood the situation would be far worse than we had contemplated.

Mr. CURTIS. But it was bad right then, wasn't it?

Secretary FOWLER. Yes.

Mr. CURTIS. That is the point, Mr. Secretary. It was bad in August when the President finally sent up his tax message, was it not?

Secretary FOWLER. Yes. The review of June and July that I referred to yesterday in my statement indicated to us that not only did we have to increase the surcharge from the 6-percent figure to the 10-percent figure, but we also had to begin to knock out both expenditures in fiscal 1968 and appropriations that would apply to fiscal 1968 and the future years. The pattern that had been contemplated in January had to be modified wherever we could, as the President put it, without damage to the national security.

Mr. CURTIS. But we were in a serious situation in August, were we not?

Secretary FOWLER. That is why we came up here, Mr. Curtis, with the revised program.

Mr. CURTIS. Yes, I understand; but the administration did nothing from January until the message in August as far as coming up to Congress. And at least the situation was there in August.

Whatever the administration had done or not done the situation in August showed that we had this very difficult situation, high interest rates, and inflation coming in the Consumer Price Index.

Secretary FOWLER. And we wanted to be sure. We did not come in in May or in April and ask this committee to take the type of action that is contemplated here because, as Chairman Martin has indicated, he and the Federal Reserve Board were following a very easy monetary policy. We were following a fiscal policy that resulted, as you know, in increasing pattern of deficit in——

Mr. CURTIS. And I am going to get to this, Mr. Secretary, and increased expenditures, not decreased.

Secretary FOWLER. And the economy was having this severe adjustment to the inventory cycle and you were concerned, the committee was concerned, we were concerned, and I think the country at large was concerned, that we not take action that might convert a period of stagnation and adjustment where we had a $4.2 billion increase in gross national product in the first quarter and a $8.8 billion increase in the second quarter, that we not hit it in such a fashion or in terms of timing as to produce a recession or an exaggerated stagnation. When we came up in August we felt confident at that time that we could give the committee the assurance and the country the assurance that we were out of the adjustment period and that there was no substantial risk that to take the actions recommended would have a deleterious effect on the economy.

Mr. CURTIS. What you are discussing now, Mr. Secretary, are the proposed remedies, which, of course, I am most anxious to discuss;

but I was first introducing the subject by first saying what the diseases or the malaise was. All I was trying to point out was that most of the testimony has been directed toward what will happen to this sickness or malaise if we don't take this remedy now in December or whenever, and I didn't feel enough attention was being directed to the fact that we already had a very serious situation, even if nothing worse developed.

We have a serious situation as it is and we did in August.

Now, whatever brought us there, evidently we had not applied the proper remedies or we never would have reached this situation in August. Maybe it was beyond the comprehension of man to be able to do it, but let's at least recognize this situation because this leads to this question.

Secretary FOWLER. The principal factor that I would point out in this connection is the rapidly increasing scale of involvement and expenditures in Vietnam that characterize the period since mid-1965—moving up this particular period to about $22 billion now.

Mr. CURTIS. Now, I come back and I am not trying to quarrel. I am trying to find out where the difference of opinion is without the concomitant plan of being able to cut back in non-Vietnam expenditures to take care of this increase. Obviously you didn't have such a plan because you have said that that was the underlying problem.

If you had had plans and actually had cut back in non-Vietnam expenditures, then at least as far as the fiscal problem is concerned the Vietnam increase wouldn't have produced it.

Secretary FOWLER. Let's just get the figures out on that. As I understand them up through the fiscal year 1967—I have them here, and we are talking about 1968 so it is a little indeterminate, but the non-Vietnam outlays in 1965 were $96.5 billion.

If you leave out the Vietnam increases we went from a $96.5 billion figure in fiscal 1965 to $100.9 billion in fiscal 1966 and to $105 billion in fiscal 1967.

Mr. CURTIS. What is your point?

Secretary FOWLER. I am trying to give you the exact dimensions of the increase in non-Vietnam expenditures in that period.

Mr. CURTIS. Oh, I know them. I understand you thought in August, and that developed, that the increases were the result of the Vietnam increases that were beyond the planning that had gone before.

I then raised the point that it is a policy question. I made efforts to determine whether or not I am correct that it was not this administration's policy to cut back and be prepared to cut back on non-Vietnam expenditures to compensate for unexpected increases in Vietnam.

Now, can you answer the question directly?

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. OK.

Mr. SCHULTZE. I have three specific points with respect to that. In the first place——

Mr. CURTIS. I wish you would answer the question first and then explain it.

Mr. SCHULTZE. May I answer the question in three parts?

Mr. CURTIS. You answer it the way you choose.

Mr. SCHULTZE. Thank you. The burden that Federal expenditures lay on the economy, measured as the percentage of our expenditures

in the total economy, outside of Vietnam, as you know, has actually gone down over the——

Mr. CURTIS. This is not responsive to my question.

Mr. SCHULTZE. Yes, sir, it is.

Mr. CURTIS. Well, go ahead. It isn't responsive, I can assure you. Go ahead though.

Mr. SCHULTZE. Three percent roughly of our national resources are going into Vietnam. Two percentage points of that have been absorbed by a decline in other expenditures, as a percentage of GNP—a decline compared to 1964, a decline compared to the 1960's, a decline compared to the late 1950's.

Mr. CURTIS. This isn't an answer to my question.

Mr. SCHULTZE. It is. You have asked about what we have done in terms of reducing other expenditures to take care of Vietnam.

Mr. CURTIS. I didn't say burden.

Mr. SCHULTZE. Isn't that the relevant point with respect to the impact on the economy?

Mr. CURTIS. No.

Mr. SCHULTZE. Then I am sorry, sir.

Mr. CURTIS. Well, we are talking about dollars and you go and want to measure the percentages of GNP, and I can get into that debate too, but we are in a fiscal problem that has to do with dollars and cents.

The Secretary himself used dollars. He said $20 billion, I think was the figure, of the increase in Vietnam.

Mr. SCHULTZE. That is roughly right. It is somewhat more than that.

Mr. CURTIS. So I said in terms of dollars in order to understand the administration's policy they did not or apparently did not decide as a matter of policy that it was——

Mr. SCHULTZE. We did, sir.

Mr. CURTIS (continuing). That it was necessary to cut back in dollar amount non-Vietnam expenditures to compensate for the unexpected dollar amount increases in the Vietnam war.

Mr. SCHULTZE. I said I had three parts to the answer, first in terms of percentages, and now let's look at the dollars.

Mr. CURTIS. Let's answer my question.

Mr. SCHULTZE. I am.

Mr. CURTIS. OK.

Mr. SCHULTZE. As I say, we did cut back in terms of percentages. In terms of dollars, Mr. Curtis, last year, compared with the January budget, it turned out that when we ended up the year Vietnam expenditures were $500 million higher than expected in January. We cut nondefense spending by $1½ billion from the January estimate.

Secondly, this year——

Mr. CURTIS. Let me interrupt just a minute to be sure that you don't buck the Secretary of the Treasury. The Secretary of the Treasury said to me in response to my question that the problem of August resulted because of largely the Vietnam war expenditures increase of $20 billion. So I asked him the question, and I am just rephrasing the question, then it wasn't the policy of the administration to cut back on non-Vietnam expenditures to compensate for this increase? This is a limited question. Go ahead.

Mr. SCHULTZE. I am trying to answer the question in three parts. As I indicated, the first part of the answer had to do with percentages. The second part had to do with last year's unexpected increase in Vietnam expenditures from January to July which you talked about.

Mr. CURTIS. I am talking about the Secretary of the Treasury's figure of $20 billion.

Mr. SCHULTZE. No, we have not offset the full $20 billion increase dollar for dollar, of course.

Mr. CURTIS. You haven't offset any of it as near as I can figure, but go ahead. I am seeking a policy question of whether the administration felt that it was necessary in this fiscal situation to cut back on non-Vietnam expenses where there were unplanned and unexpected increases, and the Secretary gave us the figure for those increases of $20 billion.

Now, that is a limited area. What was the policy? Apparently it was not to cut back.

Mr. SCHULTZE. The policy, as I have indicated, was to hold down non-Vietnam expenditures so they would grow by far less than the gross national product in order to absorb as much as possible of the increase for Vietnam. That is policy No. 1.

Policy No. 2 is in terms of the unexpected portion of the increase for Vietnam from last January to July, and as I noted we cut more in civilian expenditures than that increase. Some of it was fortuitous, I want to make that clear. It was not all deliberate, some cuts were fortuitous. Nevertheless, expenditures were reduced by $1 billion compared to January, and the civilian budget non-Vietnam went up $1½ billion last year compared to the January expenditure budget.

We now expect Vietnam expenditures to be up $2 billion in 1968 over the January estimate. The Defense Department alone is reducing other expenditures by $2 billion to offset that, so in terms of the policy involved we are offsetting the increase.

I realize we have not done it in terms of offsetting the total increase in dollars for Vietnam with absolute cuts in other areas, but the relative economic impact is the burden on the economy that has to be absorbed by the 3 percent of resources going into Vietnam, and that we have done.

Mr. CURTIS. Well, we can get into that argument and I might say that I think your arguments would prove to be equally faulty, but I was talking fiscal.

Mr. SCHULTZE. That is what I am talking about.

Mr. CURTIS. All right, let us look at the record. Here is your budget message that was given to us in January. Here is the expenditure level for fiscal 1968. I am not talking about appropriations. I am talking about the administration's budget of expenditure levels, and that is the crux of this debate or discussion. It is $135 billion.

For the sake of the record the chart is on page 49. But it is throughout the budget.

Now I am going to read from the November indicators, page 35, Federal finance, and we have the actual expenditure figure. We are talking about the administrative budget in both instances. For fiscal 1968 for the first 3 months it is 36.7. I have multiplied by 4 just to get the expenditure level for the full year.

I am talking about flow. We can discuss whether that needs adjustment, but for the sake of the raw figures that gives us $146.8 billion, not $135 billion.

Now, the point is that, sure, there are a lot of increases in Vietnam in this, but obviously the administration did not cut back on those increases. As a matter of fact, your increases in non-Vietnam areas went up too, and I am talking about expenditures.

I don't care what figures you use to adjust, but there is the crux of it, and however you adjust them differently you end up, to use your own figures, which are open to considerable question, 138—what was it that you gave us for expenditures for 1968 revised? 138 point what?

Mr. SCHULTZE. Before the cutback?

Mr. CURTIS. I am not talking about any proposed cutback.

Mr. SCHULTZE. I am just asking which information you want.

Mr. CURTIS. I am simply talking about what you think the expenditure level is right now without a tax increase, without anything. What will your expenditure levels be?

Mr. SCHULTZE. $136.2 billion.

Mr. CURTIS. $136.2 billion?

Mr. SCHULTZE. That is right.

Mr. CURTIS. And add $5 billion for the PC's, of course. We have to do that because that is a method of financing. That isn't a cut in expenditures because that was included in the $135 billion.

We are talking about apples and apples, if you please, to try to find out what the administration policy is.

Mr. SCHULTZE. Would you like to talk about the first 4 months of this year or do you want to go to another subject?

Mr. CURTIS. I am just relating to expenditures by your estimates in January and where we are right now. I am simply saying that they have gone up. They haven't gone down. Mr. Byrnes says you gave us yesterday a figure of 138.8. I thought that was the figure too.

Mr. SCHULTZE. Before the cutback, Mr. Curtis.

Mr. CURTIS. I said that was the question I asked you.

Mr. SCHULTZE. You asked me what is my prediction of expenditures.

Mr. CURTIS. No; I didn't. I am trying to find out what policy this administration pursued on expenditure policy up to the day you are sitting right in front of me.

Mr. SCHULTZE. Aiming at an expenditure——

Mr. CURTIS. And the expenditure policy was to go ahead and increase——

Mr. SCHULTZE. No, sir.

Mr. CURTIS. Well, this is the fact——

Mr. SCHULTZE. No, sir.

Mr. CURTIS (continuing). Of $135 to $138.8 billion. That is where we are as of right now, and that includes the $5 billion PC's.

Mr. SCHULTZE. The $135 billion includes them. The $138.8 billion includes them. The $136.2 billion includes them, so we are talking apples to apples now.

Mr. CURTIS. Let me get this. I want to be sure of Federal financing, the $136.7, doesn't—well, you did sell some.

Mr. SCHULTZE. Not in those numbers.

Mr. CURTIS. Not in those numbers, so those numbers haven't got that figure.

Mr. SCHULTZE. That is correct.

Mr. CURTIS. All right. Those are the numbers that add up to a level of 146.7, by cranking in that other figure.

Mr. SCHULTZE. Mr. Curtis, you take the numbers through October and the October figures are now out——

Mr. CURTIS. Why aren't they in here? I wondered about that. Why weren't they in these November indicators?

Mr. SCHULTZE. I have no idea.

Mr. CURTIS. I wondered about it at the time because they usually are month by month.

Mr. SCHULTZE. They are month by month. The only thing I can presume is that the date for release of the indicators was earlier than the date for release of the Treasury statement which came out at its normal time.

Mr. CURTIS. Well, the figure actually is 11.5, is it not, for October?

Mr. SCHULTZE. For October? The number for that month? Just a second. Yes, $11.5 billion; that is correct.

Mr. CURTIS. That adjusts about 0.1 down. I think it gives us a level of 146.7, by cranking in that other figure.

Mr. SCHULTZE. Mr. Curtis, if you take the civilian part of the budget, and do the arithmetic of taking the first 4 months and multiplying by three, and taking the PC's out, you come to exactly the number we are now predicting on civilian expenditures.

In Defense you are running about $3 billion over the estimate if you simply multiply by three. There are two parts to that. First, as you will recall, we are cutting $2 billion out of non-Vietnam defense.

Secondly, you will also recall the Secretary of Defense issued a statement, I think the weekend before last, pointing out that inventories in Vietnam had built up to excessive levels and he is going to cut back inventories, which will also bring the rate of expenditures down.

So on the basis of civilian expenditures to date this year we are right on the button in our prediction.

Mr. CURTIS. The point is you haven't done it.

Mr. SCHULTZE. We are doing it.

Mr. CURTIS. I am talking about real figures now, not about what you are going to do in the future. We are talking about real figures. This is in relation to whether this economy is right now, the policies that you have been pursuing.

Let me then get to a little different base because this debate should have started back in January at the time the Joint Economic Committee held its hearings on the President's economic report. An essential part of that of course is this budget that you gave us, $135 billion expenditures with 100 what——

Mr. SCHULTZE. $126.9 billion revenues.

Mr. CURTIS. $126.9 billion revenues, with a deficit of $8 billion. Well, anyone can easily see that the deficit was really about $20 billion simply by taking out of that revenue figure the $7 billion plus that which was being asked for in new taxes.

Mr. SCHULTZE. It wasn't $7 billion at the time.

Mr. CURTIS. I am simply saying that we are trying to find out what the deficit was, whether the new taxes were voted.

Mr. SCHULTZE. The proposed surcharge then was only 6 percent. The $7 billion applies to the 10-percent surcharge.

Mr. CURTIS. I thought we had $7 billion cranked in for the new revenue.

Mr. SCHULTZE. No, sir. I don't remember, but it was less than $7 billion—closer to $5 billion, I think.

Mr. CURTIS. Then we had $5 billion PC's which was another method of financing expenditures.

Mr. SCHULTZE. Mr. Curtis, it is a means of financing another credit obligation. In the effects on the economy the two balance out.

Mr. CURTIS. The effect on the economy is the same thing as selling a Government bond.

Mr. SCHULTZE. No, sir.

Mr. CURTIS. Well, we have debated that.

Mr. SCHULTZE. I would like to if we had a chance.

Mr. CURTIS. I say we have debated that in the past. I am only trying to get back to the economic problem, the fiscal problem, that the Joint Economic Committee sought to deal with. We immediately, as I say, cranked into these figures, to find out what was a realistic figure on the deficit, not an $8.1 billion. Around April many people were computing, not just people on the Joint Economic Committee, but also the chairman of this committee, that the deficit could run to $29 billion.

The President now says $35 billion. I agree that is an irresponsible figure, but certainly somewhere in the 20 billions was not irresponsible.

Now, the Joint Economic Committee after listening to witnesses did something rather unique in their report. They prepared a statement of agreement by majority and minority members of the Joint Economic Committee because we felt the fiscal situation was that serious at that time.

In fact we thought, from the experience of 1966 of high interest rates on home building and many, many areas, and the actual inflation and the further cost-push inflation that would result from that, it was that serious.

So we said in this statement, and I have this report before me, on page 3, No. 5:

> In view of the substantial budget deficit projected for the fiscal year 1968, there should be reduction of expenditures. In the first place, there should be greater assertion of priorities in terms of economic growth and national interest. This is imperative as part of our efforts to achieve an efficient allocation of resources. We agree that there is considerable room for reducing lower priority items or in some cases improving efficiency in government.
>
> The prospect of reduction in expenditures reduces the case for a tax increase even if the economy's expansion is restored during the second half of the year.

Then on the tax increase the recommendation was to remain flexible. On page 9, the majority, the Democrat members of the committee, made their recommendations in more specific terms:

> This suggestion is the first imperative for fiscal policy in 1967.

They even bold typed this.

> Federal expenditures that are not absolutely essential to national defense or our economic growth or welfare must be sharply reduced. Congress must find ways to reduce expenditures for fiscal 1968 by at least $5 billion to $6 billion per year.

Now this is relating to a $135 billion expenditure figure which the administration had given us for fiscal 1968. On page 61 the minority addresses its attention to this specific and has this specific statement on it:

> We believe the economy would benefit by a substantial reduction in planned federal outlays in fiscal 1968 based upon a careful evaluation of the national priorities. Many programs themselves would profit from a slower rate of advance in spending. We believe the recommendation of the majority of this committee—referring back to this $5 to $6 billion cut—represents a feasible and desirable goal.

Now, this is what this committee recommended. If that recommendation had been followed the expenditures in 1968 would have been reduced to around $130 billion. Instead of following that policy recommendation the administration chose to follow the policy that these figures represent. These are the figures I have read here and anyone can adjust them somewhat to suit themselves. The net result is that far from a cutback to a $130 billion level of expenditures the administration has increased the $135 billion level.

Am I unfair in stating that in that fashion?

Mr. SCHULTZE. It looks like an exceedingly unbiased explanation. I say that with irony in my voice.

Mr. CURTIS. Then if you can, do come forth with your reasons and please direct it to specifics with dollar figures for expenditures of fiscal 1968. That is all we are talking about right now.

Mr. SCHULTZE. To hold expenditures in fiscal 1968 to $135 billion apart from participation sales would require another $6 billion cut below the numbers we are now talking about.

Mr. CURTIS. You are darned right it would.

Mr. SCHULTZE. Yes, sir; and in turn another $12 billion reduction in appropriations.

Mr. CURTIS. You are right.

Mr. SCHULTZE. That is correct. I think that is clearly impossible and impractical. I would suggest, by the way, Mr. Curtis——

Mr. CURTIS. I am not asking that. I am asking what the administration did.

Mr. SCHULTZE. The administration came up to the Congress and has been before the Congress now for 4 months with a specific package to try to handle the fiscal problem.

Mr. CURTIS. I am talking about where we are, where we were in August, where we are today, and the policies this administration followed. Now, they did not cut $5 or $6 billion. If you want to include the Democrat leaders of this Congress and the President, who is a Democrat. I hate to put it on this basis, but maybe you force me to because this is a matter of fiscal policy that honest men can disagree with, but let's get it out.

The administration's fiscal policy was not to follow the recommendations of the Joint Economic Committee, which consists of 20 members, 12 Democrats and 8 Republicans, to cut the expenditure level of $135 to $130 billion to avoid the very situation that has come about.

Mr. SCHULTZE. Mr. Curtis, the Congress after going through almost all the appropriations has reduced them by $4½ billion. Perhaps another amount will be cut. We are asking for another $4½ billion re-

duction in obligations on top of that. You were citing a policy which in turn would require another $12 billion on top of that.

Mr. CURTIS. I certainly am.

Mr. SCHULTZE. I would suggest perhaps that in line with what has happened and in terms of practicality—as I recall yesterday, Mr. Byrnes asked who it was in the administration who worried about the practicalities of things—I would suggest that our two staffs better get together because we are already proposing to double, or almost double, depending on or exactly how you want to count it, the congressional cuts, and you want to add another $12 billion to that in terms of unspecified reductions.

It seems to me, Mr. Curtis, you are not talking practicalities. You are not talking good sense for the country as a whole. You are not talking good sense for anything on that. It seems to me that what we are here for is to try to present a package to Congress for action. Neither the Secretary nor the Chairman of the Board nor I came up here to rehash this one.

If you want to we can. We have a specific proposal here which we are asking people to act on.

Mr. CURTIS. Now the gentleman is being unfair. Both your papers recited history, and of course you have to.

Mr. SCHULTZE. We only recited the background of what we propose.

Mr. CURTIS. That is all I am seeking to do, to get this into context, and the answer is very clear. Whatever the reasons are, the administration pursued the fiscal policy that has led us to this point. That fiscal policy did not include cutting the level of expenditures——

Mr. SCHULTZE. That much was not cut out of the budget, that is quite correct.

Mr. CURTIS. OK, and the situation as has been described here of our being in this very serious fiscal crunch with all the rhetoric that has been presented here as the dangers and the damage certainly does apply and this is one of the reasons that those of us on the Joint Economic Committee took what we thought were extraordinary steps to make our views known as to what we thought the policies should be.

Now, your answers here are simply that it is unrealistic. Now I will get to that.

Mr. SCHULTZE. And unwise.

Mr. CURTIS. Unwise? So it is wise to be where we are with the high interest rates and the inflation?

Mr. SCHULTZE. No, sir; it was wise, I would have hoped, to have acted much sooner.

Mr. CURTIS. Well, I do not want to get into this business of blaming people as much as finding out what policies were pursued that got us here and what policies might have been pursued that would have avoided it so that from that we can figure out what is the best policy to pursue from now on. Again our policy must be an austere expenditure level, much more austere than presented here, because one of the questions I was going to ask, even granting the remedies that this administration offers, and if your figures were accurate and if your economic estimates were within reason, we still would be faced with a $14 billion deficit; am I not correct?

Mr. SCHULTZE. That is correct.

Mr. CURTIS. Now, it seems to me that that is too large. That deficit of $14 billion is going to continue to create these difficulties of both high-interest rates, which can lead to a slowdown of the economy, and continued inflation. Does the administration say that with this package they can so handle the $14 billion additional deficit that we then can look forward to a lowering of interest rates, healthy economic growth, and no inflation?

Mr. SCHULTZE. You have three questions there, and I yield completely to Chairman Martin. I can only repeat what he indicated earlier.

Mr. CURTIS. He hasn't answered that one. I wonder what Mr. Martin would say if this package could be obtained. I think all he said is it would alleviate the situation.

In other words, it won't be as bad, but how about handling a $14 billion deficit, Mr. Chairman?

Mr. MARTIN. I think we can handle a $14 billion deficit. It isn't going to be easy. We are dealing with fears of inflation and fears of a bigger deficit, and this would be a smaller deficit, and we are dealing with the fear of possible controls of one sort or another in the economy and I think all of those fears would be diminished by reducing the current budget deficit. That would not bring the budget into balance.

Mr. CURTIS. It wouldn't eliminate inflation, would it?

Mr. MARTIN. It would be a step in the direction of curbing inflation.

Mr. CURTIS. It would be not as bad. We still would have, would we not, inflation?

Mr. MARTIN. We would still have some inflation.

Mr. CURTIS. Wouldn't we still have high-interest rates?

Mr. MARTIN. We would still have higher interest rates than I would like to see, but we would have less high-interest rates than we will if nothing is done.

Mr. CURTIS. I appreciate what you have said, that it will lessen the aggravation. What I am directing attention to is this too little? It is too late, that I agree with, but is it still too little and too late? You yourself have said that you would like to see the expenditures cut a great deal more.

I couldn't agree with you more because I think the $14 billion is such that even with your abilities I don't see how you can handle that, Mr. Martin.

Mr. MARTIN. I think we can handle it. I think it is possible to handle on this basis. You are bringing it into more manageable proportions and you have to take this by steps. I think that we did have a slippage here and let's don't get into how we got there. That is past history now.

But I think if we should suddenly at this juncture come out and try to balance the budget and have a surplus we would throw the economy into a tailspin.

Mr. CURTIS. Yes; I am willing to discuss that and this should have been a part of it. I think this is true. My own figure—everyone has some figures—is to get the difference set down to about $7 billion. As I said in these supplemental views and the majority views that I had something to do with, that I would consider in light of real expenditures control that probably a tax bill would be desirable and very beneficial, but what I was hoping was to get the budget deficit down to $7 billion. But then I see this kind of administration performance of

ignoring the recommendations of cutting the level of expenditures for fiscal 1968 and doing the reverse, actually increasing. Then see the damage that has come as a result of not getting these levels down.

Well, let me say this, Mr. Martin. When you testified before the Joint Economic Committee with a $8 billion deficit you expressed grave concern at that size and now it is $14 billion even if we were to accept this proposal. To be realistic we know that we just don't have the time to come forward with the package the administration presents. When you said before the Joint Economic Committee that $8 billion in the budget message was going to create the damage, what have you to say now?

It is 14 now. It is worse, isn't it, than when you testified before the Joint Economic Committee?

Mr. MARTIN. The situation is more grave than it was when I testified before the Joint Economic Committee and I regret that, but I think, taking all factors into consideration that the package that is being proposed here is a step in the right direction. It is not a step that is going to solve all of our problems. That isn't being presented here in that form.

And I am sorry that we have gotten into this particular position that we are in, as I am sure others are, but here we are and now the question is how do we deal with it, and I say we can in my judgment manage a $14 billion deficit where I find it getting to be impossible—I won't say impossible, which is too strong a word, but very difficult without just printing money to deal with the budget deficit of the size we currently have.

Mr. CURTIS. I too wish that we could get these hearings back to the kind of discussion that might lead us to some rational policy both in the tax area and the expenditure area, and that is what I am seeking.

Let me say this. From an economic standpoint isn't the $14 billion deficit really to be considered along with the sale of $5 billion PC's. A PC (participation certificate) from this standpoint is no different from a Government bond, is it, as far as the impact on the money markets and on the economy? That is simply another way of financing a deficit, so with the expenditure that is reflected by the financing of it through the PC's really the equivalent base is the $14 billion deficit, or we have a $19 billion deficit, as I see. Although I think it is true that this was a $13 billion deficit by the same logic when it was presented to us in January and not $8 billion.

Would you care to comment?

Mr. MARTIN. Irrespective of whether you put the PC's in, I still think that we can handle the situation. It is not going to be easy, but I am fully in support of the program that we are up here discussing as a step, not as the conclusive solution, not as the medicine that is going to cure the patient, but a step in the right direction.

Secretary FOWLER. Mr. Curtis, I would just like to add this note to that. Chairman Martin and I have discussed this quite often, and he properly stresses this action that we are proposing here in lowering the deficit from whatever the figures would be by an appreciable amount would reverse the trend toward increased deficits which began with our increased participation in hostilities in southeast Asia in fiscal 1966.

We had a deficit in fiscal 1965 of $3.4 billion. We had come down from an $8.2 billion in 1964 and in 1966 it was $2.3 billion despite some increases in Vietnam in that fiscal year.

Then it went up to $9.9 billion in fiscal 1967 and projections all during the last 3, 4, 5 months have been somewhere between $20 and $29 billion.

Now, by taking this step, and I think it would be a very meaningful step to bring that deficit down to the figures that we have indicated here, certainly this isn't going to solve the problem, but it will indicate to us and to the rest of the world that we are now moving in the right direction. We might not be moving as fast as you would like to move or others would like to move, but we are moving up that road and, as I tried to indicate to you yesterday, this is about as far as we think is appropriate at this time.

However, we are not ground in concrete on that and if the Congress should act to change those percentage figures in title II to provide for deeper cuts I think it would present somewhat a question of judgment about how much you can do at a single time, but the President would give it very sympathetic consideration.

Mr. CURTIS. The first thing I would like to get to feel a little more secure in this would be a clear expression of policy of whether the President, if it were enacted, thinks that we can have guns and butter both. Two years ago I said I thought we could if we carefully handled our programs, if we carefully looked in and cut back. But then early this year I said I thought we had gotten ourselves to the point where it was clear we couldn't have guns and butter; it was going to be necessary to even take some desirable programs and probably defer them and put them on the shelf to make way for these Vietnam war increases.

Well, as I say, the record indicates that the administration doesn't share this policy. That's fair, but let's debate the policy then.

Now, I don't think that what has been presented to us here in the way of this expenditure cutback is enough to make any difference. It is not enough, frankly, for me to be willing to engage in the next colloquy or discussion of what would happen to the economy if we increased the tax rate because many people—Chairman Mills I think is probably one, Senator Proxmire certainly is another, and many economists—think that increasing rates would not necessarily increase revenues because of the impact on the economy.

I don't believe I share their views. I personally think the economy probably can stand it and I think that is the point of view that I have heard expressed here.

Secretary FOWLER. That we share.

Mr. CURTIS. But I don't rule out of court or think somebody is being irresponsible who sees these indicators differently and I would want this committee to get into this. I would also want the committee at the same time to look at the economic impact of the cutting back of expenditures because that has an effect too, where you cut back.

It can make quite a bit of difference. I would establish some priorities of cutting back around $15 billion. I am talking about expenditures. And I must recognize that that would have some deleterious impact that needs to be weighed, but we haven't even gotten from my standpoint to the point where that can be discussed because the results

of the administration package on expenditures are entirely too little and clearly are late.

At the time that this dialog began back in January when the recommendations were to cut then, a lot of these things that the Director of the Budget identifies as noncontrollable, could have been controllable if the planning, the policy, had been directed at that level. This is where my difficulty lies.

Let me go on to another very important point.

Secretary FOWLER. Mr. Curtis, I should think we could, again in the spirit of recognizing the problem in the context of the first four paragraphs of the statement that you and the minority members of the Joint Economic Committee issued last Tuesday, could move down the road and take this step together that we all agree is a step in the right direction. Maybe we would not go as far as you would like to go, maybe further than the Congress would like to go, or the Senate would like to go—we may find the House Appropriations unwilling to go further.

Mr. CURTIS. Well, sure. This is entirely possible, but the first thing would be to zero in on at least what we think is the economically feasible package, and I must say, Mr. Secretary, there has been no dialog.

You talked about the 50 Republicans that were called down to the White House. Not a member of the Ways and Means Committee was among the 50. I have never been invited down to discuss any of these aspects in spite of the fact that many of us worked our hearts out trying to present what we thought, at any rate, was a proper solution. Even at this late date I would welcome the dialog on getting these priorities considered.

Secretary FOWLER. Don't you think we ought to take some action and then discuss how we can go further but take some action.

Mr. CURTIS. You already said, Mr. Secretary, that the Congress won't act, and probably won't, and I must agree that until the study has been made I don't know what action to really take. I have my ideas and I have tried to put them forth. They have not been received well nor have the ideas here of cutting expenditures to $130 billion.

The Director of the Budget says it is an impossible kind of thing. I am talking about an austerity budget. I am talking about what the British Labor Government was forced to do, I think it was 2 years ago, after having presented a very splendid budget with lots of welfare and good things for the people, found that because of their fiscal difficulties they had to withdraw and they used the term "austere."

Now, this is not an austere budget, $135 billion. Even as presented here it is almost $10 billion more than we spent last fiscal year. We spent $125.7 billion and that must be related to what we spent the previous year, $107 billion, and that must be related to the year previous which was $96.5 billion.

We have gone up in expenditures almost $50 billion from fiscal 1965 to fiscal 1968, way beyond our revenue increases, which were going up too, way beyond, Mr. Director, our gross national product increases.

Mr. SCHULTZE. Not way beyond——

Mr. CURTIS. Yes, way beyond. I have multiplied it out. GNP increased 15 percent while the Federal expenditures increased 50 percent. These are rough figures, but they are about accurate.

Mr. SCHULTZE (continuing). Because as a percentage of GNP, from 1964 to date, we have gone from——

Mr. CURTIS. I gave you the figure for fiscal 1964 of 581.1 billion, and using the third quarter—these are adjusted figures of course.

Mr. SCHULTZE. Adjusted? I am not sure what you mean.

Mr. CURTIS. Seasonally.

Mr. SCHULTZE. I am sorry.

Mr. CURTIS. Or adjusted rather to the 1957–58 dollar.

Mr. SCHULTZE. Oh, but then you have included price increases on the expenditure side and not the GNP side.

Mr. CURTIS. I am talking percentages. I could use other percentages. I happened to use $581.1 billion for fiscal year 1964. Using the figure of $671.6 billion for the third quarter of 1967 gives a $90.5 billion increase which I think is about 15 percent. Federal expenditures I have again given you in the chart here starting off with $96.5 billion to where we are around $140-odd billion, depending on who adjusts the figures, but roughly a 50-percent increase.

Mr. SCHULTZE. My only point, Mr. Curtis, is that in the GNP comparison you took the price increase out. In the Federal budget you didn't. You are comparing apples and peanuts.

Mr. CURTIS. It doesn't alter the fact that when you have bare figures of around 15 percent of GNP increases and other figures of 50 percent that there is a marked increase in expenditures beyond what I have said, gross national product increases, and beyond our revenue increases, because the revenues are right here too.

We have increased them a little better than GNP. I think they have gone up around 40 percent. At any rate, this is the problem on the expenditure side. Another point that worries me about the administration's statement is the rhetoric of how serious a situation we are in fiscally.

This would indicate to me, Mr. Director, that the budget for 1969 ought to be accelerated, as far as the taxpayers are concerned certainly, rather than being delayed another month.

Mr. SCHULTZE. If it was at all possible to do it I assure you we would.

Mr. CURTIS. I am saying when you are in a crisis things that didn't look to be possible become necessary and one just does it. The aggregate figures are the ones that we need to know; the aggregate expenditure levels for fiscal 1968, and if we can get the revenue estimates, which we can, with some accuracy, with the contingency of 11, whatever, but certainly get the deficit figure.

That ought to be available as early as possible and I would even suggest that the administration on a basis of meeting the fiscal problem set a target for the deficit. I think you are going to have a target beyond which you cannot go, and everything else in the budget must revolve around seeing that that deficit does not exceed that figure. It would mean putting a level upon expenditures say, of—I hope you can do it—$135 billion. If you had an increase in Vietnam war expenditures the budget must be flexible so that those expenditures could be taken out of non-Vietnam expenditures.

Now, this committee needs to know this I think in behalf of the people and the Congress in order to make intelligent judgments. It is necessary on even the package that is presented to us to know whether this is a step forward. This is one chance to enforce a proper step.

Secretary FOWLER. Isn't that really cutting it a little bit fine when we are all agreed that we want to reverse this trend and we want to

substantially reduce the existing deficit, that we argue and talk and argue and talk for months and months and then more months of putting off at the very initial stage the taking of any action that is going to be, as we all agree, a step in the direction that we want to go.

Mr. CURTIS. You are so right, Mr. Secretary, let's take action. The action the administration took was to increase the expenditure level from $135 billion instead of decreasing it. I am talking about action.

Mr. SCHULTZE. There was no action to do that.

Mr. CURTIS. Of course there was action to do it because now we come to the key and get to your package. You asked in this chart—and I wish this were printed all over the United States so some of this shell game would stop—on page 49, table 8, new authority recommended to the Congress—this is appropriation—$144 billion, of which your chart says $95.7 billion will be used in fiscal 1968——

Mr. SCHULTZE. Will be expended.

Mr. CURTIS. It says "to be used."

Mr. SCHULTZE. Mr. Curtis, I'm sorry. I apologize.

Mr. CURTIS. I am reading your own figures.

Mr. SCHULTZE. You are quite right, Mr. Curtis, I apologize.

Mr. CURTIS. To be used in 1968, and of course that is only $95.7 billion. The next figure in that line is expenditures in 1968, $135 billion. So we look at the line below relating to unspent authorizations enacted in prior years, $125.6 billion. Then a little line going up here indicates the amount to be used in $1968, $39.3 billion. So there is where we got the total of $135 billion.

Congress already has appropriated those moneys to which will be added the $144 billion, giving the President the power to spend $269.6 billion, assuming the appropriation bills are voted.

Each one of these then has a chart from the top line of the $144 billion expenditures in future years, $48.3 billion. It comes on down, to be held for expenditures in later years from the unspent authorizations enacted in prior years, $84.5 billion, to give a total of $132.8 billion unspent authorizations for expenditures in future years beyond 1968.

Now, it is very interesting to me that your plan that you presented to this committee related to controlling appropriations to be voted by this Congress but didn't refer back to this $125.6 billion carryover. I am anxious to know what disciplines might be exerted there, how many of those programs might be cut back and rescinded and so forth, so that we would then understand what the carryover balances for fiscal 1969 might be to make meaningful the figure of appropriation requests of the Congress for fiscal 1969.

Now, and we have argued this before, Mr. Director. Regarding the expenditure level, how much of this $269.6 billion is to a great degree vested in the Executive? He has considerable flexibility. He demonstrated it. He gave us $135 billion.

Without any reference to the Congress he increased it to where I think it is over $140 billion now.

Mr. SCHULTZE. No, sir. May I respond to that?

Mr. CURTIS. As soon as I discuss this other matter. You have been before us to tell us already how on your own initiative the Executive has cut back on expenditure levels. So I think this narrows down to the question which has never been resolved of just how much of this

pool of $269.6 billion is really controllable, is really within the power of the Executive to do something about.

I have said it is as much as $40 billion. I know you disagree. What is your figure, by the way?

Mr. SCHULTZE. I have no specific figure in that sense.

Mr. CURTIS. What is it?

Mr. SCHULTZE. I don't know, Mr. Curtis. May I comment on a couple of points you made?

Mr. CURTIS. Yes, certainly.

Mr. SCHULTZE. In the first place, you said that the administration has taken action to raise these expenditures.

Mr. CURTIS. Yes.

Mr. SCHULTZE. We haven't taken action to raise these expenditures. These expenditure increases all come in areas where it is events outside of the administration that have caused expenditures to rise. If you look at the controllable expenditures——

Mr. CURTIS. Will you stop there please so we can carry the dialog? The increase in Vietnam war expenditures was by action of the administration and will be taken care of in the supplemental budget to a large degree.

Mr. SCHULTZE. No, sir; they will not. You were here yesterday. I explained——

Mr. CURTIS. Then let's put it this way. This is the way it was done the 2 preceding years. Maybe your planning is a little better, but let's not quibble on the point.

Mr. SCHULTZE. Let's not slide over that so quickly.

Mr. CURTIS. I don't want to slide over it. I want to develop it. I am trying to point out that the Executive can and does act and should act and has in the past. Now, maybe this year——

Mr. SCHULTZE. We have a proposal here for it, yes, sir.

Mr. CURTIS. And the Executive, in the event the Vietnam war was shut down tomorrow, would have the right, have the power, to cut back expenditures without any reference to the Congress and I hope he would. If it were to flare up over in Vietnam he would have the right and I would hope he would go ahead and increase the level of expenditure.

All I am trying to say and bring home is the power the Executive has over this key figure of expenditure level.

Mr. SCHULTZE. Mr. Curtis, what you are in effect asking me is to give an estimate of how long would it take to spend all the authorized funds if we shut down the Government tomorrow. I don't know.

Mr. CURTIS. That is the way you interpret what I said?

Mr. SCHULTZE. You asked how much power we have over these expenditures. If you want an aggregate figure of how much power we have over these expenditures, that is literally what you are asking—how much would spending amount to if we shut down everything? I don't honestly know. We have never tried to make the calculation.

Mr. CURTIS. You know how you put on.

Mr. SCHULTZE. What do you mean by how much power does the President have to control expenditures?

Mr. CURTIS. Just the very thing you have done yourself in listing what you say is uncontrollable items and controllable. You did go

through that exercise but apparently you have no desire for anyone to look over your shoulder.

Controllable expenditure means that the Executive has flexibility.

Mr. SCHULTZE. I am sorry, Mr. Curtis, I thought you had asked me how much did we have control over those balances in the sense of never spending them. I thought that is what you asked.

Mr. CURTIS. I guess I just don't handle the English. We have discussed this before. As I understood your definition of what is controllable and noncontrollable, anything that was under contract was automatically noncontrollable.

Mr. SCHULTZE. Relatively. We have agreed before that there is some moderately small amount in that category that you can move.

Mr. CURTIS. I don't think we agreed to that. I was glad to get that discussion from you.

Mr. SCHULTZE. Excuse me, sir. I have indicated that the figure for payments under contracts, on the margin, does have some small relative flexibility.

Mr. CURTIS. I pointed out that there are Federal contracts that in effect have cancellation clauses and certainly have deferral clauses, and this is done constantly just as a matter of good business. I call attention to the fact that when we entered into World War II the Federal Government cut back on all public works and a lot of this was under contract. To do a thorough job on figuring out how to cut back, particularly in relation to programs, I can't accept the administration's definition of what is controllable and noncontrollable.

I think it is necessary to get into a lot of contracts in being to see whether they can be phased back, put on the shelf, and so on.

I can easily see if the administration just automatically lists as noncontrollable an item because it is under contract, you have certainly cut back on the areas where you might otherwise defer expenditures and so get this $135 billion figure of January down to a lower amount.

Mr. SCHULTZE. Mr. Curtis, on that point I must say that what we have done here is attempt to give the committee and the Congress what I believe is the most effective means of controlling expenditures, which is control over the obligations which precede expenditures—for example, when the contracts are made or people hired.

I might point out that this is, I think, really a bipartisan view of the way to control expenditures. There is nothing, you know, Democrat or Republican on this. I think if you ask, most of the members of the appropriations committees as a general proposition, they would agree the way to control spending is through obligations.

Mr. CURTIS. There is no question that is the orderly way to do it, but you have pointed out we are in an emergency, and I agree. Therefore we have to review what was done and go back and reestablish priorities in light of the emergency.

This is all I asked in August.

Mr. SCHULTZE. This is precisely what we have done.

Mr. CURTIS. This is where we disagree. At least if this record that is presented to us today is an example of what you have done, I have no faith in what might be done in the future because it is so pitiful and because of a fundamental disagreement.

I don't really think you understand the extent in your rhetoric in describing the serious fiscal situation this country is in because if you

believed that rhetoric you wouldn't be quarreling about moving in a really rough way to get these expenditure levels down. Apparently you almost live as we have lived in the past, not applying priority standards that an emergency would dictate, but coming along and saying, "We can't do it because of this, this, and this."

All I have heard from the administration is why you can't do it. The little bit you have done isn't enough to put in your eye and when you get done with that you have ended up with a bigger figure than you had back in January.

I know you don't understand my exasperation but believe me it is real.

Mr. SCHULTZE. Mr. Curtis, speaking of rhetoric, we have come forward with a package which would reduce the deficit by $11 billion and I would respectfully suggest that those who think the situation is as serious as you think it is might very well help us to do that, reserving their right presumably to try to get additional amounts of reductions enacted on top of it.

Mr. CURTIS. I wouldn't give this administration another cent in light of its expressed policy on expenditures. The administration comes over here and does everything it can to increase these bills every time, and I have voted against most of them. I am regarded as the enemy of the people I suppose because I have insisted on, at least by my vote, and even when I have been a single vote, that we have to cut this back.

No, until we have a better understanding from the executive on what its expenditure policy really is, until we stop this cuteness that goes on—I am trying to dig at basic figures—I wouldn't feel I was living up to my obligation to the people.

Mr. SCHULTZE. Mr. Curtis, I think there is a basic disagreement.

Mr. CURTIS. There sure is.

Mr. SCHULTZE. I think the disagreement stems from just the simple point that the administration is interested in expenditure control. It has presented a very specific plan for control. It has given you a whole fistful of numbers agency by agency on the proposed reductions. It has given the Congress a specific means for getting at this.

Where the difference lies, I think, is that we do not believe that any old expenditure cut anywhere is necessarily good, but the Congress has an option here to change this.

Mr. CURTIS. Now, in fairness did anybody ever say that any old cut in expenditure anywhere is good? Who has ever said such a thing?

Mr. SCHULTZE. The point essentially is that anyone who wants, without regard for the implication, for example——

Mr. CURTIS. Who has said it? Who has ever said such a thing?

Mr. SCHULTZE. That has not been said precisely; it is the implication, Mr. Curtis. You have just charged the administration, because it has supported certain bills, with not being for expenditure control.

Mr. CURTIS. Everything that has been said, for example, in this report of the Joint Economic Committee. Everything I have ever said, relates to establishing priorities and talking about which programs are best, not cutting out any old program. That is the difficulty I have, Mr. Schultze, in trying to move forward in the dialog.

Instead of developing what I am trying to say, you then resort to an expression like that. You take refuge in a response like, "Oh, you want to shut the Government down" or "You want to do this."

Secretary FOWLER. Mr. Curtis, could I appeal to you in this sense? That I don't think it profits any of us very much to talk about how we are not going to do this unless the administration does that or we are not going to do this unless the Congress does that. We have a mutual problem here.

Mr. CURTIS. We have.

Secretary FOWLER. We have something that we ought to try to work out together. The spirit of the resolution that you enacted on October 3 called for some kind of an understanding that would take us down the road together, that really we believe that we have a lot in common on this very question, on this very issue, and we believe we can take this one meaningful step together. You will have every right to make all the comment then, all the examination, and press for a far deeper measure with all of the eloquence and facts that you can summon, in speeches and in debates, but can't we go down and take this one little step—if you think it is a little step. I happen to think it is a meaningful step, and Chairman Martin thinks it is a meaningful step, and most of the people that would look at a reduction of $11 billion in this deficit as being a very meaningful step. Can't we do that together and then debate all this a little bit later as to whether we ought to do more?

Mr. CURTIS. The problem is this, Mr. Secretary. Your figures, your record, doesn't match the words. The words of this administration are bold in rhetoric but I have to look at the figures and they belie all this rhetoric.

Secretary FOWLER. I know but there are more than words here.

Mr. CURTIS. There certainly should be.

Secretary FOWLER. There is a bill. It is presented. It is concrete. If you don't like the figures you try to change them. We think they are the the best figures we can come up with.

Mr. CURTIS. Mr. Secretary, doing the job that I think is necessary, and I would be willing to sit here to do it I might say, would take at least a month. We have wasted month after month after month. This is what we asked the administration to do—I thought we were asking—back in January.

Secretary FOWLER. I was ready on October 3 to do that. I had four proposals to make and you shut me off.

Mr. CURTIS. Now, wait. Mr. Secretary, I have heard you made such a remark. Regrettably I didn't get the floor, if you may recall. The gentleman who shut you off was Congressman Watts. I did suggest——

Secretary FOWLER. You suggested you not hear from any outsiders.

Mr. CURTIS. I certainly did to save you embarrassment as I thought and I so expressed, and I am willing to discuss this one because——

Secretary FOWLER. I wouldn't mention it except you said we wasted a month. I have been ready since October 3 to work on any proposal you have or anybody else has.

Mr. CURTIS. Yes; in context with all figures that showed you were going in the opposite direction. Let me terminate this because the record is there, not for me to express, for anyone to look at, and I hope people will look at it and I must say the record is what has produced the situation we are in. You have the unhappy record of going down in history as the Secretary of the Treasury under whom the highest interest rates this country has seen have come about, whatever the reasons are.

Now, one final item I just want to mention on controllable expenditures. If you get to some of these things soon enough they can be controllable by law. Early this year I introduced a bill to remove price supports on wheat and feed grains to try to help the farmer. It would help the farmer according to the economic theory that I think is sound, because we were basing our programs on their not producing when the world demand for agriculture is beyond the world capacity to produce. It seemed to me that this was an area where we could be hitting at an expenditure item of around $2 billion.

Instead of the administration moving in this direction, and this was an item for discussion before too, we now find that the agricultural support program is $500 million more than was even anticipated in the budget. As Mr. Schneebeli said, and it is probably true. Now, in December, there is nothing that can be done about it, but next year there sure is something that can be done in the next year's budget.

These are programs. These are the things that can be controlled and I think need to be. Many of these programs will reach such a point that although they are good and almost necessary, if we think that the situation is as bad as it is fiscally, and I do, we are going to have to even move in on those. But I see no inclination of the administration to even talk in terms of programs of this nature. I might mention one other, troops in Europe. This is a policy question, true, but it bears on the fiscal question to the extent of some $2 or $3 billion probably.

It seems to me that Western Europe is perfectly capable of financing their own defense even though some of our men might actually still be deployed there. I am only illustrating what I think is the kind of dialog that is necessary, at least before this Congressman, is to take the proposal of the administration to cut its deficit seriously and in an able fashion.

Secretary Fowler. On that score, Mr. Curtis, let me point out that taking the long-range problem that is involved here of weeding out and reducing or perhaps eliminating various programs that have outlived their usefulness, we have come forward, knowing the concern which many of us share about our inability to reestablish priorities, with a weeding out of the old and substituting the new.

We have proposed and suggested, and the President is prepared to establish, a special bipartisan task force to take a look at these priorities, to examine the effectiveness of each such program or activity in the context of its present and projected costs, whether the program at that level should be continued, and the relative priorities that should be assigned.

This is responsive to your concern about——

Mr. Curtis. But it is not responsive in the sense, to use your words, to produce pretty quick action. If I am to take the testimony here, this administration is telling the people of this country that it cannot live within a budget of $130 billion and provide the services that the people have a right to expect.

Now, if this administration does not have those capabilities, and apparently they don't have, this is then an issue for the people to consider. Maybe another administration has those kinds of capabilities. I hope they would.

Secretary Fowler. I think there are many issues to be considered and they undoubtedly will be and I don't myself expect to have any

major part in them the way you do in the events of next year. But let's forget that for the moment and get back to the action that we can both take now for the good of our country in moving this particular package forward.

Mr. CURTIS. Don't you see, Mr. Secretary, you are asking me to accept your views and your views of how to solve this. I am saying to you, sir, I don't believe that will do any good.

Secretary FOWLER. No.

Mr. CURTIS. No, what I am saying is that to meet this problem I feel that the administration—and hopefully the Congress will help and I will try to help—must cut back on expenditures. Otherwise it doesn't do any good.

You are saying take a little bit of this. I say, sir, if I thought that would be helpful I would even go along with that, but I must say to you that it isn't helpful in my judgment.

Secretary FOWLER. We said insofar as this bill is concerned two things: That the allocation of national resources to programs has always involved the cooperative effort between Congress and the President. The President is most anxious to cooperate in developing a meaningful statutory package of fiscal restraint.

We have indicated that we will be flexible in our reactions to suggestions for changes.

Mr. CURTIS. These are words and the action constitutes the fact that the Joint Economic Committee, all 20 members, suggested these things. The Executive was so little concerned about it that it never even wanted to discuss apparently with the members of the Joint Economic Committee—Republicans or Democrats—whether or not this was good advice that we gave back in early March. Certainly the administration action demonstrated that they didn't think it was good advice because instead of cutting the $135 billion figure we end up with a figure that is at least several billions more, so there we have words of cooperation.

Secretary FOWLER. But now you have an act.

Mr. CURTIS. But the performance is reverse.

Secretary FOWLER. Now you have an act. You have a bill in front of you and the bill in front of you will cut more, twice as much, as the Congress has already cut this year.

Mr. CURTIS. I am talking about the $135 billion expenditure. You end up with more, not less.

Secretary FOWLER. I am talking about actual cuts which are depicted in Mr. Schultze's——

Mr. CURTIS. But what level of expenditure, Mr. Secretary? You talk about cuts without any context. I am relating it to the $135 billion figure.

Secretary FOWLER. Those cuts will produce a level of expenditures that will be less than it would be if you didn't make those cuts.

Mr. CURTIS. And that is more than $135 billion.

Secretary FOWLER. And the passage of this package will produce a deficit which is substantially less than the deficit you will have if you don't enact the package and if we just talked and talked.

Mr. CURTIS. The administration instead of following the advice of cutting to $130 billion has now increased to $146 billion and claims that this will cut us back $6 billion. All I can say is it still leaves us $5 billion more than the level that we wanted to cut and this is the kind

of credibility gap, if I may say so, that has been created between us, whoever is involved.

Secretary FOWLER. Why don't we take that cut and then argue about how much more we should take.

Mr. CURTIS. Because, Mr. Secretary, I regret to say the actions of the administration render it unbelievable, not just to the Congress, but the people.

Secretary FOWLER. Why don't we forget the administration and the Congress.

Mr. CURTIS. I am talking about the people in charge. You give them a name then. Who are they? Lyndon Johnson. Name the names and don't quibble with me.

Secretary FOWLER. I would like to forget personalities. I would like to forget this and that.

Mr. CURTIS. I am talking about the people in charge of setting the budget.

Secretary FOWLER. I would like to join together with you in doing something concrete and specific—that is action that will forward the tenor of thought which was expressed in your November 21 statement.

Mr. CURTIS. Mr. Secretary, words, words, words and no action.

Mr. HERLONG (presiding). Mr. Secretary, we are going to have to recess now. I understand you all can't get back until 3 o'clock this afternoon.

Secretary FOWLER. We will be here at 3.

Mr. HERLONG. Thank you.

(Whereupon, at 1:18 p.m., the committee recessed to reconvene at 3 p.m., the same day.)

AFTER RECESS

The committee reconvened at 3 p.m., Hon. Wilbur D. Mills (chairman of the committee), presiding.

The CHAIRMAN. The committee will please be in order. Mr. Herlong.

Mr. HERLONG. Mr. Secretary, there may be a lot of reasons for the situation in which we find ourselves and it probably would be an interesting discourse to go into great lengths to assess the faults of where we are.

One of the faults I am sure is with the Congress itself in that we appropriated more money than we should have. True, we yielded to armtwisting and things like that in order to get these appropriations passed but I for one was not one who voted for these appropriations bills. That doesn't excuse me from my responsibility of trying to get us out of the fix in which we find ourselves at this time.

I am deeply concerned about this fix. I think the only way to get out of the fix that we are in is that you have to start where you are now. You can't start anywhere else.

Secretary FOWLER. That is correct.

Mr. HERLONG. We do have this deficit. Everybody admits we can't live with this deficit, we would be in much worse shape if we did nothing, but my feeling, and I would like your comment on it, is that the only worse thing than failing to pass this bill would be to pass it and then have the money frittered away and we would then still end up with a $29 billion deficit.

That would be the only worse thing that we could do because this would make it an inflationary tax and I have heard you say on occasion, Mr. Secretary, that it would do no good to raise taxes if we spent it on nonessential items.

Secretary FOWLER. That is correct.

Mr. HERLONG. Now, there are a lot of things that may be considered essential by some people that are not by others. I for one would vote against, be glad to vote against, any price-support programs because we don't get any, but everybody here feels that he has his own particular sacred cow that he has to protect.

This is where your difficulty comes in priorities and in selected programs to cut. That is why I think maybe an across-the-board cut may be the best idea. I think what we are concerned about mostly here is the long-range cut in spending. The best assurance that we have had so far was the statement by the Director this morning, the sense of which was that there was to be next year the same type of austerity, if you please, in spending as we are trying to put in for the rest of this year. Is that correct?

Secretary FOWLER. Yes, sir.

Mr. HERLONG. This is the first time we have had something like that. A lot of people in the Congress simply don't believe that because what people do uptown sometime speaks so loudly that you can't hear what they are saying.

Secretary FOWLER. Mr. Herlong, I recognize that from the discussions that we have had here both in open hearings and in executive sessions. Frankly one of the purposes in bringing forward this proposal is to put into statutory form precisely what is going to be done to get away from these feelings, whether they are justified or not, and provide a tangible concrete specific law which spells out in very specific terms a quantitative reduction which is derived from the 2-percent to 10-percent formula. Of course, there could be differences of view on that as my statement indicated, but in getting it down into a concrete specific form we then reduce our problem at least to the question of the dimensions——

Mr. HERLONG. Yes, sir.

Secretary FOWLER (continuing). And not the method and not trust and confidence in whether people uptown are talking one way and then acting different downtown.

We are acting downtown now in this proposal before this committee in the most concrete way which I can imagine. Maybe somebody can come up with a better one.

Mr. HERLONG. But there are so many people in the Congress who are fearful that if this package were passed at this time, and I am just talking as cold turkey as I know how to talk, that come the next message on the state of the Union to the Congress we would have a message that would project maybe $150 billion spending for next year and then we would say we have done this all in vain.

This is a matter of people, as I said, believing what they have seen done in the past rather than what has been promised for the future.

Secretary FOWLER. Well, as I have indicated yesterday, if you take the views that have been expressed by the members of the committee here as to the effective dates, that means a $3.4 billion tax increase as compared to $4.1 billion expenditure reduction for this fiscal year.

Now, whoever these people are and whatever their doubts are, they are getting better than a matching process as far as this particular year is concerned.

Now, when you come to next year, presumably what happens next year is going to be again a function of attitudes on the part of the Congress and on the part of the administration and I daresay on the part of the sentiment and attitudes of the American people, as they find themselves with the tax increase, as they find themselves affected in various ways by the cuts in the programs that are devised here.

Now, I can't look into the minds and hearts of all of the Members of the House and all of the Members of the Senate and come up with any one magic figure which is going to be the consensus of choice of all those varied points of view, as you have earlier expressed it, as to what the right mix is.

This is the mix that we think is appropriate for the year that we have at hand. This deficit in the year 1968 is formidable. We want to try to take a definite positive step, not look back at the past. There is plenty of time to talk about the past next year but to take some action right now to deal with the situation at hand. Now, you are never going to get a perfect world. You are never going to get all the assurances that each individual Member would like to have and I daresay that the assurances that this particular committee would like may not be the assurances that the House Appropriations Committee would like, maybe not the assurances that the Senate would like.

But I would simply urge with all the earnestness I can, that we start moving to get somewhere.

Mr. HERLONG. Everybody agrees we can't have this big deficit.

Secretary FOWLER. That is right.

Mr. HERLONG. What is going to happen, Mr. Secretary, if we don't do anything?

Secretary FOWLER. I have tried, and I think Chairman Martin also has tried, to move down the fairly narrow path here of explaining to you gentlemen on the committee what we think the consequences of inaction are without going so far as to scare the markets to death about what those prospects are.

I mean we could talk man to man perhaps a lot clearer about this. But markets react. The bond market has gone down three-quarters of a point this morning on what went on here and I daresay it will go down more. So markets don't wait for men. Markets react. I mean judgments are being made all the time. I can't predict to you, and I don't think Chairman Martin would want to, what is going to happen in the markets if we put this matter to one side as though it is dead and forgotten.

I don't dare contemplate the consequences.

Mr. HERLONG. I understand as far as the markets are concerned and because you wouldn't want all that to happen, because the administration wouldn't want all these dire things to happen, would there be some possibility that they would do more than has been indicated here in this 10-percent to 2-percent deal?

Secretary FOWLER. Congressman Herlong, as I said in my opening statement——

Mr. HERLONG. To try to lower the amount of the debt.

Secretary FOWLER (continuing). As I said in my opening statement as plainly as I could, we have come forward with a plan that we think is appropriate. I have also said that if somebody else has a different point of view—I would like to read it again:

> Undoubtedly each committee may find it desirable to make changes in the title of the proposed law which is in its particular jurisdiction. The administration will be flexible in its reactions to any changes provided they do not thwart the primary objective—the enactment of a law prescribing a combined package of expenditure reduction and control and a timely and meaningful tax increase that will reduce the budget deficit for fiscal 1968 to manageable proportions.

That is what we are trying to accomplish. For example, title II is our recommendation on expenditure reduction and control. It is based on all the discussions the President, the Director of the Budget, and I have had with you gentlemen here, with the leadership of both Houses, with members of the Appropriations Committee and many other informed persons.

It represents our best judgment on what is appropriate under all the circumstances. Now, if there are those who can persuade the House Appropriations Committee or the Senate or the Congress to accept a larger measure of reduction by changing the figures in title II of the proposed bill, let them proceed. If Congress passes a bill with deeper cuts, I can assure you that the President will give that bill as it comes over to him very sympathetic consideration.

But this represents our judgment as to what the situation currently requires and what it is feasible to accomplish in timely and prompt fashion.

Mr. HERLONG. I am thinking about the pragmatical effect of this bill, this package. I am not at all sure if it were to be passed by the committee that the House of Representatives would buy it. In fact, if I am any judge of the House at this time, I would say they would not buy it.

What would be the situation if we brought the bill out and it was defeated?

Secretary FOWLER. I don't know whether you think the House won't buy it because it has the tax feature or the expenditure cuts are too small or too large. I don't know.

Mr. HERLONG. There would be people who would vote against it for both reasons, some because it was too small and some because it was too large.

Secretary FOWLER. It seems to me, as I said in my earlier statement, that the world is looking at this Congress as made up of four kinds of people with four attitudes.

One group wants to deal with the problem just by cutting expenditures and no tax increase.

Mr. HERLONG. Right.

Secretary FOWLER. Another wants to deal with it by a tax increase and some cutting of expenditures. A third group I thought wanted a combined package that provided a kind of a balance mix of both.

Mr. HERLONG. This is what the committee told you last October.

Secretary FOWLER. And the fourth group doesn't want either a tax increase or any economies. They are just ready for the sky is the limit. Now, it seems to me that regardless of the differences in view in the first three groups, it is time for them to get together and take control. Inaction will give the ball game to the fourth group.

It is doing it as we sit here and has been doing it for the last 2 or 3 months.

Mr. HERLONG. I have no further questions.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Thank you, Mr. Chairman. Gentlemen, I have listened intently and without any predeterminations for the past 2 days. Certainly I would not attempt to adamantly challenge the expertise of the fiscal experts but I come to the conclusion very frankly that the urgency of this bill before us is prompted more by the psychological effect than the actual fiscal effect it will have upon the impending problem of inflation.

Would you say that was a fair statement?

Secretary FOWLER. Not in my book. I think it is a combination of both factors. I think to look at the pure econometric impact of what we are trying to do, on that ground and on those grounds alone there is plenty of room for passage but in addition to that there is a very real psychological factor that we are up against and when you crank that into the equation that seems to me to adequately meet the need for urgency in our approach to this problem.

Mr. COLLIER. If that is in fact the case then, Mr. Secretary, as one who respects your years of experience in the fiscal field as well as the depth of your understanding of the free enterprise system or profit system, let me ask you this question: If you were a businessman with 200 employees, let's say, and you knew that as of January 1, you were going to be obliged to pay 10 percent on your tax liability with the possibility and the probability of an additional obligation that the social security bill will impose, would you as a businessman be willing to absorb that in your profit or would you not pass it on in the form of an increase in the goods or commodity that you produced?

Secretary FOWLER. Well, I think that I would be looking for an opportunity to pass it on if I reacted the way I would expect the average businessman to react but my ability to pass it on and still maintain my business would depend upon the competitive situation. If the competitive situation in the economy is one of unbridled and unsustainable expansion, then I am much more likely to be able to modify my price than I am if it is a fairly stable situation because in our competitive system it is not just up to the individual businessman who has 200 employees to determine whether he can increase his price.

It is whether or not he can sell in competition with his competitors who may not wish to increase prices.

Mr. COLLIER. But if the demand is there and indeed it must be, then certainly——

Secretary FOWLER. If there is an excess of demand there, you can be sure he is going increase that price.

Mr. COLLIER. Right. Now, if you were a labor leader and you were going to be negotiating a new labor contract as many unions will be doing in 1968, and you knew that the workers that you represented were going to be obliged to pay a 10-percent tax——

Secretary FOWLER. Not a 10-percent tax, Mr. Collier.

Mr. COLLIER. I mean a 10-percent surcharge.

Secretary FOWLER. We have had great trouble with that. Let's say they are going to have to pay 1 penny out of every dollar.

Mr. COLLIER. I will add "surcharge". If in addition thereto you knew that your employees were going to be obliged to pay an additional amount in some cases and if the Senate proposal goes through, there will be roughly 17 million Americans paying more into social security tax than theye were in income tax, would you take this in as part of your consideration of your negotiations with the employer on your wage rate?

Secretary FOWLER. Undoubtedly, I would. Undoubtedly, there will be many other factors taken into account and one of the most important factors to be taken into account in the situation at that time is the general state of demand in the economy and the excess of demand in the economy that enables the businessman to pass on the additional cost, not just this tax cost but a lot of other costs that may have occurred, to pass them on in his price. On the ability of the negotiator for the trade union to effect an increase in wages that takes care of all the additional costs that the men he represents undergo, this depends upon the economic atmosphere at the time.

Mr. COLLIER. Certainly you don't see anything on the economic horizon that would tend to make the labor leaders who are going to be faced with the responsibility of negotiating new contracts in 1968 temper their demands even with full knowledge of this situation.

Secretary FOWLER. Well, the fellow they are negotiating with may want to temper their demands. He may not just want to lie down and roll over and say "Yes, take it from me."

Mr. COLLIER. I am certain that this is the history of labor negotiations. I am not suggesting that anybody is going to roll over. It has been more evident in recent labor disputes than it ever was before.

Secretary FOWLER. I would say that it will strengthen the collective bargaining process to produce wage increases that are closer to productivity increases if you have a stable economy free from excess demand——

Mr. COLLIER. That is wishful thinking that I wish I could share.

Secretary FOWLER (continuing). Than it will if you have a boom.

Mr. COLLIER. Well, I don't think that you are talking in terms of a tax increase, Mr. Secretary, a tax increase that actually is 1 percent of the gross national product that you are talking in terms of.

I wish I could believe that but I think a few months from now we could meet in this same room and see who is right since we don't have a crystal ball, neither one of us. I am merely saying that to suggest that this tax increase will not in turn be passed on to the consumer in the form of higher prices, that at a time when that same consumer is going to be obliged to pay higher taxes that this will not be part of the vicious circle, that there is no guarantee and no one in this world can provide a guarantee that this will not in fact be the case because historically this has been the case.

Secretary FOWLER. Let me just say that historically, I don't agree. The reasoning is not right. Economic experience indicates that it just simply is not the case that a tax increase doesn't have any restraint.

It will dampen demand. It will remove or lessen what could be a major force for price increases reflecting these costs and a lot of other costs in the months ahead. Let me say that while higher taxes are one factor that makes the laboring man desire increased pay, also higher profit taxes may cause business to wish they could keep after-tax profits

intact by raising prices, but to want these things and to make these wants effective in a competitive economy are two entirely different things.

When total demand is reduced, it will not be as easy for the wage demands to be pressed or for businesses to make price increases stick.

Now, this is not just me talking. This is universal experience which is recognized not only throughout the length and breadth of this country but in other countries who have had experience with so-called incomes policy.

They cannot make incomes policy effective in country after country after country where they are also confronted with an excess of demand, where the demand and supply factors are sufficiently close together so that the pressures are there for what we call demand pull inflation.

Mr. COLLIER. You are saying that any double-barreled tax imposed—and when I speak of double barreled, I am talking about the surtax on the one hand and a social security tax increase on the other—will not be a consideration in the labor negotiations in 1968?

Secretary FOWLER. No, I didn't say that. I said it would be a factor. I conceded that point. Let me add one more thing. I think without the surcharge if the cost of living pushes higher by more than the additional 1 percent that would be the average tax increment for those affected, then you are going to get much more intensive collective bargaining on the part of the representatives of those workers to protect their take-home pay in real terms. So that you are not going to avoid this question. The question is, which is the method which is calculated to reduce these pressures to enable us to come out of the upward movement from a 1.7-percent increase in the Consumer Price Index in 1965, which was up from the average of about 1.4 percent a year which characterized the years 1958 through 1964, and the upward movement to the 2.7- or 3-percent range per year we now have, and to have that start moving back down.

That is what is going to take the pressure off the cost push type of inflation. You are not going to take it off with the cost of living going on up.

Mr. COLLIER. It happens, but there are other factors as you well know that directly or indirectly contribute to inflationary trends to which this tax bill, this package is directed but certainly does not really touch.

Secretary FOWLER. Mr. Collier, I will just say this. I think that the vast majority of opinion in the business community, among people who are knowledgeable about pricing practices, among committees who study these things and spend a lifetime at it, both the business committees and the academic committees—put it this way. I think the vast overwhelming majority of them will tell you that the combination measure we have here of increasing taxes and reducing government expenditures and reducing the deficit from whatever it is to substantially less is going to be a deflationary factor.

It is going to work against the movement upward of prices and wages and it is going to move toward the stabilization of prices and wages at much more moderate levels than we are facing without this package.

Mr. COLLIER. I hope you are right, although——

Secretary FOWLER. It is not a question of me being right. This is conventional opinion, Mr. Collier.

Mr. COLLIER. Well, I have heard so many conventional opinions and economic theories since I have been on this committee that have not turned out to be that I can't accept these things as bible.

Secretary FOWLER. You heard the witnesses who came here before this committee in August and September and you will find practically all of them saying to you in perhaps different words, but the thrust of their views is exactly what I am saying to you here now. And you will not find in the experience as reflected in the testimony of these men much if anything to support an opinion that this tax bill in the form and package it is presented here is going to have an inflationary effect.

To the contrary, they will tell you that it would have a deflationary effect as compared to allowing the situation to go on as it is today.

Mr. COLLIER. I have not suggested that I had any certainty that it would. I explored this area and I think perhaps all we can do now is wait and see what the months ahead will bring. I certainly would not wager that this is going to turn out exactly as they suggest.

Secretary FOWLER. I just want the record to show that I am not one of those who would wait and see.

Mr. COLLIER. Well, I think that you will have to wait and see. I think you are exactly in the same position.

Secretary FOWLER. I may have to wait and see but I want the record to be abundantly clear that I am not one of those who is for waiting and seeing. I am for acting.

Mr. COLLIER. What I am talking about is waiting and seeing on the presumption that there is action. There won't be too much to see unless we take this action to see whether the impacts are as you say they will be.

Mr. SCHULTZE. Mr. Collier, may I add one point to the colloquy, if I might?

Mr. COLLIER. Surely.

Mr. SCHULTZE. It seems to me there is a historical case in point, on a vastly greater scale than anything we are talking about now, but I think it does go to the point—and this is the financing and inflationary experience in World War II and its immediate aftermath. You will recall that during the war we did not finance the largest part of the increase in expenditures by taxes.

Mr. COLLIER. A completely different economy, wage and price controls, many factors.

Mr. SCHULTZE. I wanted to go beyond that. During the war we did hold wages and prices down by controls, direct controls. After the war, we reduced taxes substantially but let a huge surge of excess demand come into the economy. And despite the fact that taxes were down—in terms of your point about reducing or adding to costs—despite the fact that costs were down in terms of taxes, we had a very substantial inflation, the largest we have had as far as I know since World War I. World War II is a case that is the opposite side of the coin. Everybody who has ever looked at the history of World War II is convinced that had we taxed more during the war despite the fact that our tax rates—and therefore the cost—would have been higher, we would have ended with much less inflation after the war. We had

excess demand and by lowering taxes, we boosted inflation through the roof. You are quite correct that higher prices will undoubtedly affect the demand of labor unions but the point I think the Secretary was making, which is the kind of point illustrated during the war, is that by holding down that excessive demand you minimize the degree to which people can pass these increased costs on.

On the other hand, if you let that excessive demand continue, if you let it build up, then you are really going to get the wage and price increases even though you don't have the added cost because of taxes.

I think the World War II experience really demonstrates that.

Mr. COLLIER. Isn't it true, Mr. Schultze, that if there is not a wage demand that by imposing these taxes you reduce the area of consumer spending and thereby create this reservoir of demand that will build up and will always build up when there is a reduction of consumer capital?

Mr. SCHULTZE. Well, Mr. Collier, if you are reducing consumer spending without reducing consumer income you are quite right, but the whole point of the tax is that it reduces demand because it is reducing income and it therefore tends to reduce the ability of business firms and unions to pass on higher costs to the consumer because the consumer has somewhat small purchasing power.

Mr. COLLIER. Getting to another area of this, if I may, Mr. Martin, as you know, many international economies have indicated that when the United Kingdom comes out with its budget in, I believe, April of this year, that there may be a necessity for the British to further devaluate the pound. In fact the sterling pound has been in trouble consistently in recent years. On two occasions I believe we helped assist in bailing it out, if I can use that expression, before this most recent devaluation.

In the event that that is the situation and in the event that the United Kingdom would have to further reduce the pound, let's say by 15 percent, what effect would that then have on us and, No. 2, would this in any manner create a new threat to the dollar?

Mr. MARTIN. I think that if they had to devalue another 15 percent, it would cause competitive devaluations to take place in Western Europe. I think they went as far in the 14.3 percent as they could without invoking or inviting competitive devaluation.

Mr. COLLIER. It was competitive devaluation. As I understand, 15 nations devaluated as a result.

Mr. SCHULTZE. No, Mr. Collier, it was not a competitive devaluation.

Mr. COLLIER. There were devaluations.

Secretary FOWLER. The countries were minor.

Mr. MARTIN. Let's take Ireland, for example. They are so closely tied. Let's take Denmark and one or two others in the list. But the key countries that would really cause trouble in the international financial area if they devalued have not done so. Now, let's have no misunderstanding about the general situation. The American dollar is still the strongest currency in the world—I don't have any question about that—and there is confidence in the American dollar that there isn't in any other currency in the world.

The question is, can that confidence be maintained? Confidence is diminishing whenever they see a trend of this sort and see the international policy of a country go through the sort of, shall we call it,

osmosis that the British economy has gone through in the last 3 or 4 years, the 1964 problem, the 1965, 1966, and in 1967 they end in devaluation.

I don't believe that there is any likelihood of our being forced into a devaluation by virtue of the British action, but I think it is important that this committee realize, and not only this committee but that the country realize, that the size of the budge deficit which I have been hammering at since I have been up here is beginning to worry a great many people all over the world. They see in that budget deficit signs of the same strain that ultimately brought the British to the point of devaluation.

Therefore, it becomes more incumbent on us to see that we are not caught in a train of events that would lead to this. If we correct our own situation, if we would adopt measures, of which I think this is the first step, and do it promptly, if the British did devalue later, I think it would have little or no impact on us; but if we were in a progressively worsening budget situation in this country and they were to devalue, I think we would find the whole world in a situation of devaluations.

Secretary Fowler. Mr. Collier, let me say for the record here that I don't know who these international economists are that you referred to as having the view that this rate for the United Kingdom is not right. I only know that the great body of opinion I am familiar with among professional leaders and bankers and finance people is that the 14.3-percent devaluation is OK and about right.

Mr. Collier. Well, I think that in a recent French publication——

Secretary Fowler. In a French publication, did you say?

Mr. Collier. Yes, I was going to apologize for that.

Secretary Fowler. I wouldn't particularly rely on that source of information for views about the British economy at this time. I am delighted we could bring that out because as much as a French publication——

Mr. Collier. I would be delighted to disregard anything that any French economists say, were it not for the fact that historically we did place some credence in what some French economists have had to say, and again I have not accepted this conclusion. I merely offer it so that you can say that because it is a French economist's——

Secretary Fowler. These are matters in public discussion, Mr. Collier, and I would suggest that you identify the source if you are going to repeat this because it makes a lot of difference in how these things are weighted in meaning.

Mr. Collier. If we want to go further than that, I don't have to go to France. There are economists in this country, sir, who have indicated tremendous concern with the stability of the sterling pound long before the devaluation came.

Secretary Fowler. We are talking about the question you raised anticipating another devaluation.

Mr. Collier. That is right. That is right. But the fact that there was trouble before, I don't think there is any particular reason to get irritated with the suggestion that possibly——

Secretary Fowler. I am not the least bit. I am just suggesting that conversations about other currencies are delicate.

Mr. COLLIER. So my interrogation was merely based upon the fact that if this were the case, what would the effect be? I see nothing wrong with exploring this aspect of a problem that certainly has not been solved and there isn't anyone who would say that the British problem has by any means been solved up to this time, and that possibly they won't be facing pitfalls in the future. That is all.

Mr. MARTIN. Mr. Collier, so that the record will be straight, I was discussing what you are asking on the basis of a hypothesis, which is the way I understood you to propose it.

Mr. COLLIER. That is right.

Mr. MARTIN. But I don't want to imply in any way that I think the British pound ought to be devalued further. I think they have chosen the right rate and I go along with the new Chancellor Jenkins statement today that he can hold that rate.

I believe that it is the right rate for them and I think they can hold it and my remarks were directed toward the hypothesis you posed.

Mr. COLLIER. There is just one other matter that is disturbing me—and my disturbance has been reflected in the words of other members of this committee—and that is this: In the event that this package is enacted into law, at what point do you think that we must maintain the 1969 fiscal budget in order to avoid nullifying the action of this bill?

Secretary FOWLER. I would think that the 1969 budget should be designed with one of its objectives, given action on the 1968 deficit, being the reduction of that deficit a further step, I would hope a substantial step in the year to come.

Mr. COLLIER. I would say, Mr. Secretary, and I am sure you are well aware of the political implications, that no one who supports this type of proposal is going to pick up any great number of political brownie points.

That being a fact of life and there are many of us who recognize that sometimes you can't do this and you have to do what the situation dictates, nothing would be worse that I can think of, and I am echoing to some degree what my colleague, Mr. Herlong, said, if we proceed in this matter and do in fact enact this legislative package or something along the same lines. And we were to reverse ourselves again next year by reason of not exercising budgetary prudence in the same spot we are now.

Then it seems to me that we would have been led down the primrose path, so to speak.

Secretary FOWLER. Let me point out, Mr. Collier, in that connection that in fiscal year 1964 there was an $8.2 billion deficit. In 1965 that was reduced to a $3.4 billion deficit and in 1966 that was reduced to a $2.3 billion deficit despite the fact that in fiscal 1966 Vietnam expenditures went up $4.7 billion more than had been anticipated at the time the budget proposals were made.

So that the record of a steadily declining pattern in our deficits toward balance and surplus was interrupted only by the emergence of these additional expenditures in Vietnam. And hopefully, hopefully, Mr. Collier, these expenses have now stabilized—and this is the premise on which I am answering your question, hopefully they have stabilized, they won't be much more in fiscal 1969 than they will be in fiscal 1968. If this is the case, then, with a healthy expanding economy, I would

certainly expect that we would be able to resume the pattern of a movement down from deficit toward balance.

How far we can go, how big the step would be in fiscal 1969, I don't know. That is something the Director of the Budget can have a better view of than I can have, but I would certainly anticipate both in the light of logic and of experience that this will be the pattern.

Mr. COLLIER. Mr. Secretary, one further question. In the event the legislative package that you present here is adopted in the form it is presented, what would be the mechanics which the collection of taxes from individuals for the months of October, November, and December would be done?

Secretary FOWLER. The mechanics would be this: I said in our estimates that about two-thirds of the individual taxpayers would not receive the amount of refunds that they currently calculate they would receive on the basis of their tax liabilities up to now.

For the remaining one-third from whom additional payments would become due, at the time they make their final return, they would have to be reflected in the final payments paid on or before April 15.

Mr. COLLIER. In other words, they would have to come up with a lump sum of 10 percent?

Secretary FOWLER. Just like I do every year, or you do every year, I suspect.

Mr. COLLIER. Yes, but you and I are in, I think, better financial shape than a lot of people.

Secretary FOWLER. I am not. I don't know about you.

Mr. COLLIER. I am slightly better, I might say. So it would seriously mean the problem of some individuals coming up with this lump sum.

Secretary FOWLER. Two and one-half percent of their 1967 tax. If your tax is $100, you would have to pay an additional $2.50.

Mr. COLLIER. I do the old-fashioned mathematics and I was figuring 10 percent.

Secretary FOWLER. But you see the 1967 rate would be only 2½ percent because it would be only applicable from October 1.

Mr. COLLIER. I understand. We travel different roads. I was taking 10 percent of one-quarter of their 1967 tax.

Secretary FOWLER. Right.

Mr. COLLIER. Now, just one other thing. You speak in terms of two-thirds of the individual taxpayers not getting a refund; actually what we are talking about is two-thirds who will get some refund but who have an obligation beyond that so that there is really more than one-third of the taxpayers who will have to come up with the additional payment.

Secretary FOWLER. What I meant was that two-thirds of them will get a lesser refund than they would have, reflecting this 2½ percent on their tax. Those who are not entitled to a refund, the one-third we are talking about, in their final payment will have to come up with 2½ percent more of their estimated tax.

Mr. COLLIER. And those who did get a refund would have to come up with a partial payment?

Secretary FOWLER. No, they just would get a lesser refund. Let's take the same fellow. His tax is $100 and it has been worked out that way and he is anticipating a refund of $10. Instead he gets $7.50.

Mr. COLLIER. The way I figure——

Secretary FOWLER. No, he has made good by getting his refund of $7.50. They have taken the $2.50 out of his refund.

Mr. COLLIER. At the risk of pleading mental density, do I understand that two-thirds of the taxpayers would not be obliged to make any additional payment by reason of the fact that they had due them in a refund a sum in excess of what their obligation was?

Secretary FOWLER. That is correct.

Mr. COLLIER. OK. I thank you, sir.

The CHAIRMAN. Mr. Fulton.

Mr. FULTON. Mr. Chairman.

Mr. Secretary, during the hearings in August and September, some of the witnesses testified in support of the 10 percent proposed surtax and at the same time they premised their support on the tax revision and possible closing the loopholes and I believe during the hearings it was pointed out that the Treasury Department did have a staff working presently on tax revision.

Secretary FOWLER. That is correct.

Mr. FULTON. Could you tell me what progress has been made and when we can expect a report of the proposed program for tax revision.

Secretary FOWLER. Well, as I have stated on other occasions so that there is nothing new about this, Congressman Fulton, the proposals have been under careful preparation and the President has promised that they will be forwarded to Congress for the deliberate study and debate and action that is always involved in a tax reform proposal and that study, debate, and action is obviously scheduled for next year in the light of the situation we find ourselves in today.

I want to underscore the point that the reform measures will not be designed just to raise revenue of the type we have here, but will have the purpose of accomplishing some permanent structural changes in the tax system. They are not an appropriate vehicle for meeting the temporary revenue objectives of the proposals before you.

Now, realistically viewed, these revenue reform measures, those of them that would result in increased revenue, would provide significant revenue only after a period of time has elapsed and they won't contribute to the fiscal action that we are seeking right now in this bill.

One reason for this is, of course, the time that is required for congressional action. In the last two major reform measures which would be of the magnitude of what we are talking about here we took from April 1961 to September 1962 for the Revenue Act of 1962. We took from February 1963 to February 1964, a year, for the Revenue Act of 1964. So it takes considerable time and debate not only in this committee. I mean numerous witnesses have to be heard in the public session and long and intensive examination in executive sessions is made, as the senior members of the committee will recall from their previous experience in this.

In addition, when it comes to imposing the reform that is going to close the loophole or is going to draw additional revenue from a particular source, the committee and the Congress have customarily followed phasing-in arrangements, making the effective date of the change in such a fashion that it defers realization of much of the potential income in some cases for several years.

So, it is the phasing in of these reforms and the time that it would take to have deliberate careful processing that has been characteristic

of these measures that make reform particularly unsuitable to raise revenue for a temporary period in the quickest possible time.

Mr. FULTON. Mr. Secretary, the Members of Congress have premised their support of a surtax on tax revision. I am one of them but it is quite evident I think at this time that a complete tax revision will require a year or more as you have stated and it is also quite evident at this time the expenditures will not or cannot be reduced to bring about a liveable deficit.

I think it is also quite evident that there is a possibility that there will be no tax bill as the President proposed. Therefore, I would like to ask your opinion of a proposal that in lieu of an outright tax, the 10-percent surtax, that the 10-percent surcharge be payable to the taxpayer 1 year from the end of hostilities in Vietnam. This would in effect be a loan to the Government from the taxpayer during this time of fiscal crisis.

The loan would carry the same rate of interest as is now being paid on Government savings bonds. A refundable surcharge would help curb inflation and would at the same time help prevent a revision when it is paid for on the cessation of hostilities in Vietnam. I just wonder if you could give your opinion or if you could give it for the record.

Secretary FOWLER. Yes, I would be delighted to, Congressman Fulton. At an early stage of our deliberations on the surcharge which actually occurred in the latter part of 1966—following the hearings before the subcommittee of the Joint Economic Committee headed by Congresswoman Martha Griffiths, one of your colleagues—in our deliberations on what would be the best form of a temporary tax, whether it is up or down, we investigated the question of a refundable tax and the tax experts found a number of objections to it for the purposes we have in mind here. The effects of a refundable tax increase in restraining demand is far less certain that a regular tax increase because it may cause the taxpayers simply to reduce the quantity of their savings and go ahead and spend in the same fashion because they count the refund as a replacement, as money in the bank in lieu thereof. It can also be shown that a refundable surcharge is less favorable to the lower income than to the higher income recipients.

A refundable feature implies an advance commitment of Government funds. At the time the refund is paid out it has to substitute for some other use of Government funds, such as a tax reduction in the traditional form which I, for one, hope will follow sharply on the heels of deescalation of hositilities in Vietnam.

Mr. FULTON. What would be the difference, sir, in a tax reduction or a rebate that would put money into circulation, not a rebate but the loan that the citizen has made?

Secretary FOWLER. The principal difference that we look at is the less-effective character of the refundable tax as a restraint on consumer demand.

Mr. FULTON. What if it were allowed as a tax credit on future income taxes?

Secretary FOWLER. I think it probably would have the same effect. It is just a credit that the taxpayer has. Moreover, let me say that the distribution of the refunds among the population would be based on the relative position of the taxpayers not at the time the distribution is made but at a prior date. I can only say this: There does appear

to be a strong consensus among the many public finance specialists that we have consulted—because I have had this suggestion rather pointedly made from several directions—there is a strong consensus among these specialists that the refundable tax is just not suitable for the circumstances that we have here.

Mr. FULTON. All right, sir. In the event of no tax, what would be your position, either, or? Either no tax or the refundable.

Secretary FOWLER. I don't think I care to make a choice on that.

Mr. FULTON. To go back just a moment on the tax revision proposal, when do you think that this will be ready for presentation to Congress to be considered?

Secretary FOWLER. Well, I certainly say it had been my intention and the President's intention as he stated in his message to have that message here sometime this session and had we been able to move this bill along and get it out of the way, I think you could count on that tax message following fairly promptly.

Mr. FULTON. Do I take that to mean now that if we go into the year 1968 and still haven't acted on this tax proposal, we will have to wait.

Secretary FOWLER. That presents a new problem, Congressman Fulton, on which I have not yet decided what I would recommend the President do except I do feel that the time has come for us to submit the proposals on tax reform that have been prepared, carefully prepared and devised.

Mr. FULTON. I should hope we would not wait until action has been taken on this proposal because that could mean that no action would ever be taken.

Secretary FOWLER. You can be assured that will not be the case.

Mr. FULTON. One other question, sir. I have had quite a bit of mail in recent days and weeks and, since France was brought into the colloquy just a moment ago, with reference to why France has not paid off their World War I debt and the 10 percent surtax that has been proposed would bring in approximately $7 billion and the principal and interest on the World War I debt approximately a half a century old now amounts to $6,850 million, I believe.

Could you tell me what effort is being made to collect this debt?

Secretary FOWLER. Yes, Congressman Fulton, I can, because shortly after my return to the Treasury to assume my present post, I made long and extensive examination of this subject. We also have had a good deal of mail about this subject in recent years and a good many occasions to deal with the query.

So let me say that first for the record, as of June 30, 1967, France owes $5,077 million on its World War I debt to the United States. Of this amount $2,091 million is past due on principal payments and $2,986 million is due in interest arrearage. There is also $1,773 million outstanding of unmatured principal.

Second, there have been no new initiatives to collect this debt although we remain alert to an opportunity which might present a realistic chance of receiving payments.

But you understand, of course, that several countries are in arrears on World War I debts. There is quite a list of them and I will be glad to supply you with it.

Mr. FULTON. May I interrupt one second. We are not having the same differences. We are not being fired upon almost every day by these other countries.

Secretary FOWLER. I will pass that observation and complete my own analysis. While the other countries, the countries which have large World War I obligations to the United States have never denied the juridical validity of their debts, there is a view that is widely accepted among them that the payment of these debts should be dependent on their receipt of reparations payments from Germany which were deferred as a part of the general arrangement on the deferral of World War I debts.

Now, the resolution of this problem of governmental claims against Germany arising out of World War I was deferred, and I quote, "Until a final general settlement of this matter" by the London Agreement of 1953 to which the United States is a party.

Now, the Government of the United States has never recognized officially that there was any connection between World War I obligations of those countries and their reparation claims on Germany and, while the London Agreement would not prevent the United States from raising on a bilateral basis the question of payment of any of the debtor countries World War I obligations, except in the case of Germany it must be recognized that any effort on our part to collect those obligations would undoubtedly raise the problem of World War I reparations.

Now, thus from a practical viewpoint, it is not just a simple operation of asserting a claim and reaching an agreement on World War I repayment.

I don't believe I would want to take a chance on that course of action as resulting in a diminishing of my need to borrow in the money market over the next 6 or 8 months which is the problem I am really concerned about and why I am before this committee.

Mr. BOGGS. Would the gentleman yield to me?

Mr. FULTON. Yes, sir.

Mr. BOGGS. Mr. Secretary, just for the sake of the record, I wonder if you would supplement that $6 billion figure approximately with the other programs.

Secretary FOWLER. $5 billion.

Mr. BOGGS. With the other programs that have been directed to France?

Secretary FOWLER. With the other World War I debts.

Mr. BOGGS. No, supplement that with all that transpired after that in World War II in the form of lend-lease.

Secretary FOWLER. As far as World War II debts are concerned, let me say that on World War II debts and the Marshall plan debts, the French Government is up to date and has repaid in advance some of the debts, in advance of the scheduled date of repayment. So that as far as the World War II and Marshall plan debts are concerned, they are up to date on their payments and somewhat ahead. There has been some debt prepayment.

Mr. BOGGS. How much did we make in outright grants in the Marshall plan?

Secretary FOWLER. I don't have those figures, Mr. Boggs. I will be glad to supply them for the record.

Mr. BOGGS. All right. That will be fine.

(The following information was received by the committee:)

In the period of July 1, 1945 through June 30, 1967, net grants of military supplies and services to France amounted to $4.4 billion and net grants of other aid (economic and technical assistance) amounted to $3.8 billion, a total of $8.2 billion.

Mr. FULTON. I would like to point out that even though I did realize that France is in advance of the payment due on their World War II debt, I still do not think that that should allow them to be excused from their indebtedness in World War I.

Secretary FOWLER. I share that view, Congressman Fulton.

Mr. FULTON. And I would hope that even though an effort has not been made recently to require them or ask them to pay this debt that there should be one initiated in the immediate future.

Secretary FOWLER. This is a matter on which there are a number of opinions that will have to be consulted in addition to my own.

The CHAIRMAN. Off the record.

(Brief discussion off the record.)

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Secretary, do you know offhand what the total foreign debt is, the total debt owed by other nations to us including World War I?

Secretary FOWLER. No. Those figures are in some of the figures here that we had on the interest equalization tax and they are easily obtainable and I will supply them for the record. It is a rather sizable sum.

(The following information was received by the committee:)

The outstanding debt on foreign loans and other credits provided by the United States since July 1, 1940, amounted to $21,442.8 million on June 30, 1967. The total obligation on debts arising out of World War I, including $16,726.7 million in principal and interest due and unpaid and $6,116.4 million of unmatured principal, amounted to $22,843.1 million on June 30, 1967.

Mr. BROYHILL. Somewhat in excess of $100 billion?

Secretary FOWLER. Not of that magnitude.

Mr. BROYHILL. Including Russia?

Secretary FOWLER. I will supply them.

Mr. BROYHILL. You do not know what part or how much would be in arrears?

Secretary FOWLER. We have those figures.

Mr. BROYHILL. The reason I asked that question is that I have been wondering if it is possible, in light of the $26 billion that are held by foreign nations for which they could demand gold whether there could be some offsetting arrangement; in lieu of sale of gold at $35 an ounce in exchange for dollars whether we could have the debt exchanged.

Is that possible? Is there some reason why that can't be worked out?

Secretary FOWLER. I don't think that it would be profitable for us to discuss that here at this time, Congressman Broyhill, because the willingness of the United States, as the President has repeatedly said, and other Presidents have said, to buy and sell gold at $35 an ounce from other official monetary authorities as they are called, underpins

the international monetary system, and I don't wish to indulge in a colloquy that will affect the confidence that people have, official monetary authorities throughout the world have, in that undertaking.

Mr. BROYHILL. I understand how that could cause some concern but yet if you and I owed each other personal debts, there would be little likelihood of your collecting from me as long as you owed me something.

Secretary FOWLER. Well, this is not a matter of collecting quite. These are two entirely different types of transactions and I just think it would not be the normal practice followed in the past.

Mr. BROYHILL. Mr. Martin, what would happen if demand for gold reduced our supply below that which is required by law to back the currency. Are we about $2½ or $3 billion away from that point now?

Mr. MARTIN. Well, the Federal Reserve has the authority, Congressman, to suspend this requirement for a 30 day period. We would have to tax the Reserve banks that are unable to meet the 25 percent statutory requirement. We would have to charge them not more than 1 percent of the deficiency down to the 20-percent level and below the 20 percent we would have to put a 1½ percent charge on top of this.

We could do it for 30 days. We could suspend it for another 15 days after that and extend it indefinitely for 15-day periods beyond that but I would think that that would be stretching the authoriy.

That is why I have recommended publicly the removal of the gold cover requirement. I think all of the gold that we have ought to be made available to meet any legitimate demands that are made on us.

Mr. BROYHILL. At the rate we are going, we are going to have to make it available: aren't we?

Mr. MARTIN. Over a period of time the increase in our currency in circulation requires $500 to $600 million added gold reserves a year just on normal growth so that if we have $2½ to $3 billion of free gold we are diminishing that quite apart from any international demand.

Mr. BROYHILL. What is the total actual amount of gold in the world today? Do you know?

Secretary FOWLER. Well, of gold in the world which includes private holdings, I don't have any ready estimate of that. The figure we tend to look at most, Congressman Broyhill, is the amount of gold held by official monetary authorities and that is roughly $41 billion.

Mr. BROYHILL. I think Mr. Martin answered the chairman's question as to whether or not the surtax placed on the corporation and the individual may cause them to pick up the slack in borrowing that may be eliminated on the part of the Government. I am wondering if there is a difference between the amount of credit required with the surtax being retroactive to July 1 on the corporation. You suggested a retroactive surcharge on the corporation to July 1 and on the individual at a later date. That would bring in more revenue, of course, but I wonder if it would not have an even greater adverse effect on credit by the corporation being taxed more severely and therefore going into the money market more quickly than the individual.

As you pointed out, the individual would be backed by the refund.

Secretary FOWLER. It is my impression that their liquidity has very substantially improved in the last year in view of the large amount

of issues that have gone into the money market and therefore, while I would expect that to some extent the retroactive feature might require some to go into the money market that hadn't counted on it, I think by and large this has already been taken into account in the financial planning by the corporate treasurers because they have looked at this July 1 date and they recognized that it was there and it was a possibility.

While we are on that subject of retroactivity, Mr. Chairman, I would just like to note for the record that this morning you referred to the 1950 act but the act I referred to was the 1951 law.

The CHAIRMAN. I misunderstood you.

Secretary FOWLER. And it had a 7-month retroactive feature for corporations. It was passed on October 20, 1951, made effective as of April 1, 1951.

The CHAIRMAN. Was that the excess profits tax?

Secretary FOWLER. It was the law of 1951. I don't know what was included. As to individduals, it was effective November 1 and applied about a 2-percent tax increase for the entire year going back at that time.

Mr. BROYHILL. Mr. Secretary, you also had the acceleration of the tax estimates on the part of these corporations.

Secretary FOWLER. That is correct.

Mr. BROYHILL. Which would have an adverse effect on their borrowing in addition to the surcharge?

Secretary FOWLER. Again, I would think that the treasurers of most of the major companies have taken this into account in their financial planning from the time these proposals were made last January in the budget message and in the President's state of the Union message.

Mr. BROYHILL. Mr. Director, I note this 2 percent plus 10 percent reduction. You did state that this would average out. It won't cut 10 percent.

Mr. SCHULTZE. We would cut 10 percent of the controllable amounts other than salaries, but on the basis of the combined totals for all items. For example, the Post Office would have to reduce its controllable obligations other than salaries by 10 percent but in the Post Office, where we in effect have to deliver the mail, we think of the controllable areas as being modernization, research, and Post Office construction and equipment, rather than the actual delivery of the mail.

Mr. BROYHILL. Have you given any thought to cutting the cost of the Office of Economic Opportunity more than it has been cut so far?

Mr. SCHULTZE. No, sir. We have the Office of Economic Opportunity in here with the same proportionate cut as all other departments.

Mr. BROYHILL. There is an authorization to cut it by as much as 20 percent.

Mr. SCHULTZE. That is correct.

Mr. BROYHILL. As Congressman Burke pointed out in his colloquy, the House by a rather substantial majority cut the amount of authorized expenditures down to $1.2 billion.

Mr. SCHULTZE. For the period during which the continuing resolution was in effect.

Mr. BROYHILL. Yes, and of course it was $4 billion below last year but $8 billion below what the President requested for this year. There

was rather substantial support for that. In fact someone asked why we didn't offer the amendment to cut it even more.

Subsequent to these cuts, Mr. Director, a lot of directives went out, a lot of orders, I guess, and all of a sudden "spontaneously" letters protesting the cuts started coming in from our districts.

I think my district is an exception but there were quite a number. This made it appear to a lot of Congressmen that they were being accused of being indifferent to the plight of the poor and it made it difficult to cut down to $1.6 billion. It cost the Government quite a sum of money to get this "spontaneous" reaction on the part of the people. But it paid dividends insofar as keeping the authorization high.

I don't think there is any question that a substantial majority of the American people would like to see this type of program cut back. Not that they are against doing something for the poor, but they don't like the way the program is operating and they question the good that it was doing; I don't think the people will accept the tax increase with so much being spent wastefully in that program. If we could cut back that program, I think not only the Members of Congress but among the American people, there would be more support for this tax increase.

Mr. SCHULTZE. Personally, from an administration standpoint, we see no reason to treat OEO more harshly than others. We obviously disagree on that, but I can see nothing in the effectiveness of the program to cut them more.

Should the Congress do it, the way our proposal is written, the larger congressional cut would of course prevail, but we are certainly not recommending a larger cut than that.

Mr. BROYHILL. It is an interesting thing. We were talking about the labor shortage here earlier in the questioning. I got an appeal from a substantially larger builder and developer in my area who operates several allied industrial operations which stated that he had no difficulty getting skilled workers, no great shortage of that category, but it was practically impossible for him to get common labor.

Of course his appeal or complaint was that we were doing things in Congress that made it unprofitable for the unskilled person to take these jobs. I am not talking about minimum wage. I am talking about substantially higher than minimum wage. Laborers get $3 an hour throughout the Nation but we can't get them.

Another protest that I get is that we are doing things here that are rewarding people with taxpayers money not to be willing to take these jobs, and now we are asking the taxpayer to pay more of the fruits of their labor to take care of the deficit we are creating.

This is that problem that I have. I share your concern about what it does to the system. I wouldn't hesitate to support the tax increase but this is my obstacle and I will have a difficult time overcoming it.

I say that necessarily and sincerely to you.

The CHAIRMAN. Are you through, Mr. Broyhill?

Mr. BROYHILL. Yes, Mr. Chairman.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. Thank you, Mr. Chairman.

Mr. Secretary, you said a minute ago that you weren't one who wanted to wait and see whether things would happen, you wanted us to act right away and I think made the point quite well in the last page

of your statement along with Mr. Schultz by saying "The eyes of the world are on this Congress. There is much at stake," and "The issue is squarely up to you," and I am sure you were referring to the members of this committee as well as to the Congress in general.

Isn't it a fact that you have been waiting to see what developed because way back in January or February when the President's message recommended a 6-percent surtax, you evidently saw some alarming signs then as far as how large the deficit was going to be. Here we are at the end of November and yet we are told in the last 2 days that the agencies of Government are only now being asked to see where they could put into effect title II of the bill?

Secretary FOWLER. I will leave that to Mr. Schultze but I don't think that is the case.

Mr. SCHULTZE. Let me make two points on that. First, Mr. Battin, you will recall it wasn't just now, but in October that we explicitly put in a very tight freeze and hold-down provision both on construction and other new commitments so that we could keep control over the budget. So it isn't just now that we are taking action.

Second, you will recall, in terms of waiting, that there has been a lot of colloquy back and forth today on the strength of the economy and whether or not it can stand a tax increase.

One of the reasons that, even though the increase recommendation was in the President's budget in January, we waited until August to come up with a specific set of new recommendations was that we wanted to be in the position where the indicators in the economy would give us a good case.

In other words, right now, when the economy has clearly picked up steam, we are still having a lot of questions from the committee on the strength of the economy; if we had come up in March or April with the tax proposal, clearly we would have had much more difficulty.

So that I think what we did was to get the recommendation in at a time when the actual economy had turned to a point where the case became more obvious.

Mr. BATTIN. Well, you have answered. In your statement on page 13 in dealing with defense appropriations and thinking now particularly of the supplemental you say: "Our present estimate of increased cost in Vietnam is $2 billion rather than $4 billion which appeared possible in August." Isn't it a fact that before the $2 billion that you talk of can be a realization, it will be necessary for the Appropriations Committee or the Armed Services Committee to give legislative language to allow a shifting of funds from one department to another.

Mr. SCHULTZE. Yes, sir. I am very glad you brought that up. I thought I made it clear yesterday, but maybe I didn't when I indicated it was our persent best estimate that we will not need additional funds—I thought I said, and if I didn't, I will now say—that we would need authority to shift funds.

Mr. BATTIN. So actually in the Defense Department then, we are in almost the same position that some of us view PC's when it comes to financing the Government.

If the Defense Department was correct in going before the Armed Services Committee and the Appropriations Committee to justify the

projects they felt were necessary for the security of this country and then to come in at this stage and say: "No, we want to either delay those or extend them and use the money that was appropriated for that purpose in day-to-day maintenance accounts." Aren't we robbing Peter to pay Paul here? In effect, putting ourselves in a position where sooner or later we are going to have to appropriate more money to the Defense Department to catch up for what we dent them now?

Mr. SCHULTZE. Mr. Battin, you put me in a fairly difficult position. I had a very long colloquy with Mr. Curtis this morning in which he was relatively hard on us because we had not done enough of that; namely, reduce other areas in order to pay for Vietnam, and I find it a little hard to turn myself around to respond to the fact that we are doing too much of it.

Mr. BATTIN. I was talking about the Defense Department.

Mr. SCHULTZE. He was talking in general as far as I know.

Secretary FOWLER. Talking about the increased costs in Vietnam.

Mr. SCHULTZE. Either in defense or elsewhere. Let me again point out, Mr. Battin, that in some cases undoubtedly there are deferrals in defense programs involved. In other cases there are little reevaluations in a lot of current fiscal exigencies and little cancellations.

Mr. BATTIN. So what we are talking about then in the $2 billion instead of the $4 billion that was anticipated in August is just a switching of funds and not any lesser cost that would be involved?

Mr. SCHULTZE. Well, in one sense, I do want to point out that the $2 billion reduction that I am talking about in defense is not—and I underline not—merely a reevaluation downward from $4 billion to $2 billion.

It is on top of that. There are items that were in the budget, $2 billion of items which were in the budget, which will be pulled out and used to finance Vietnam costs, so that in that sense it is a switch.

Mr. BATTIN. You gave us, in your statement, a table of the various agencies and how they would be affected. You have the Atomic Energy Commission. Do you have any breakdown there or is it just broad.

Mr. SCHULTZE. No, sir. I don't have a breakdown. As I indicated, each agency is right now in the process of assessing priorities within its budget to tell where the reduction is going to come.

Mr. BATTIN. Of course——

Mr. SCHULTZE. We have already been reviewing it with them, so I am not starting from nothing. I have some idea, but we haven't settled all the details.

Mr. BATTIN. I think all the members of the committee received a telegram from the United Mine Workers concerning the Atomic Energy Commission and their use of funds along with private funds in developing what would be beneficial to the private industry more than it would the Government.

Is this the type of thing that will be reviewed?

Mr. SCHULTZE. Yes, sir. I might point out that in very rough terms about half of the AEC's budget is for weapons programs. Particularly with the pressure on for the ABM and its nuclear components, therefore, it will, of course, be very difficult to get much, if any, of the reduction out of the weapons programs.

Therefore, it will have to come out of basic research and other civilian applications. So that, without being able to pin it down exactly, clearly a lot of it will have to come out on the civilian side.

Mr. BATTIN. According to their telegram they are not concerned with the defense application.

Mr. SCHULTZE. They are primarily concerned with nuclear power.

Mr. BATTIN. Mr. Chairman, I ask unanimous consent that the telegram be included in the record.

The CHAIRMAN. Without objection, it will be included at this point.

(The telegram referred to follows:)

WASHINGTON, D.C., *November 27, 1967.*

HON. JAMES F. BATTIN,
House Ways and Means Committee,
Washington, D.C.:

Many members of the Committee on Ways and Means have recognized that a reduction in Government expenditures must accompany any proposed legislation for a 10-percent tax surcharge.

Your attention is directed to the Atomic Energy Commission's civilian nuclear power program where significant reductions can be made. We do not propose any cut in necessary military funds or expenditures for national defense but approximately $1 billion of the annual appropriation of $2.5 billion for the Atomic Energy Commission is spent unnecessarily for promoting dangerous civilian nuclear experiments.

A prime example of spending which can be cut at this time is the "Project Gasbuggy" which cost $4.5 million ($2.8 million of which is taxpayers money) for the AEC to explode a nuclear bomb underground in New Mexico to determine the economic feasibility of liberating natural gas in this manner.

We urge you to give serious consideration to reducing the money spent on the civilian atomic power program in the interest of our country.

W. A. BOYLE,
United Mine Workers of America.

Mr. BATTIN. I would like to follow up just a little bit what Mr. Herlong said about the question of what we are to believe at any given minute.

I think, Mr. Martin, you said that on Thanksgiving eve, it was necessary for you to be on the telephone with your counterparts in Western Europe explaining that, well, it wasn't to be a $35 billion or $25 billion deficit but something less, that they were concerned. On November 9 of this year, the President went to New York to speak at a dinner that was honoring George Meany.

During the course of his remarks, and I have them here before me, he said and I am quoting: "I came to New York to tell you and to tell the country tonight that we can meet our commitments, we can keep our word at home and abroad and we will."

He goes on to say: "I believe the Americans can defend these principles abroad without relaxing and giving up the job we need to do at home."

If we are to take this in the light of all the programs that have been recommended, and this is on November 9 of this year, and then we are asked to not only increase taxes, but also to be the party to putting in the legislation, the reductions that the administration has already made without legislating, just where are we?

Is the President right, that we are going to continue on the model system program, continue on with the basic programs that now exist in law and have been recommended and remodel all the cities of the United States?

It all costs money and the question is, as Mr. Herlong said, Where do we get the answer that we can say: "Yes, by golly, something is going to be done," and based upon that, we can act?

Mr. SCHULTZE. Mr. Battin, you have an opportunity to act in law on this list of cuts. Obviously what the President was saying is what we have here, a middle course. We are not cutting these programs to zero. We are reducing them.

Mr. BATTIN. I am not talking about cutting to zero.

Mr. SCHULTZE. I am saying——

Mr. BATTIN. I think one of the points that Mr. Byrnes made yesterday certainly stuck in my mind because those of us, and the Secretary said he is one of them, who have been worried about deficits can remember some rather severe language that came from the other end of Pennsylvania Avenue after calling those people, I think the expression was, Puritans that couldn't see the need to go ahead with planned deficits to keep the economy moving.

If what Mr. Martin states is correct, and I have no reason to believe it isn't, that nearly half of our gross national product for the third quarter of the year is reflective of rising prices rather than growth in real output, that is inflation; isn't it?

We can talk about the gross national product going up but if it is just going up in inflated dollars, that isn't anything constructive, anything to be really proud of.

Mr. SCHULTZE. I fully agree.

Mr. BATTIN. But we keep using this as to what is going to happen economically. We have this great increase, $16 billion, wasn't it, in the third quarter?

Secretary FOWLER. Correct.

Mr. BATTIN. How much of that is inflation?

Mr. SCHULTZE. Over $7 billion, and that is precisely what we are here to devise means to moderate. This is exactly why we are here before you.

Mr. BATTIN. I have been geting some letters and I am sure that others have also received similar correspondence, asking that we go ahead and pass the tax surcharge. All of them have the same basic argument. Generally, they say that inflation is bad for our balance of payments and that the surtax would favorably affect our position internationally.

Now, other questions have been asked here that if I understood the answers correctly, I would like to summarize and then ask the question. If the surtax that we talked about is imposed on the corporations, if they can raise their prices—provided the competitive factors allow it and you all seem to agree that they would raise prices—and if the surtax is applied to the individual and through a labor negotiation, he can recoup some of that loss through higher wages, then how in the devil does that surtax that increases the price of the products we have to sell abroad, how does that improve our international position?

Secretary FOWLER. You jumped a gap in your thinking, Mr. Battin. They would like to but they would be less able to reflect these increased costs or any other increased costs in increased prices or increased wages in the atmospher of a stable economy than they will be in the atmosphere where there is demand-pull inflation.

Mr. BATTIN. Mr. Secretary, I think you have a copy of the hearings of the panel of economists who testified before this committee and I think they very ably stated their position. Each one would not put

himself in a position of saying that if this tax went through and there were reductions, we wouldn't continue to have inflation.

Secretary FOWLER. Sure, and I am not ready to say it too. I am saying you will have less if you put this through than you will have if you don't put it through. You are going to get an increasingly accelerating spiral.

Mr. BATTIN. What you are talking about is nothing more than a degree of stability then?

Mr. SCHULTZE. We might continue to have a cold, but we sure want to prevent pneumonia, and the fact that this medicine won't cure the cold——

Mr. BATTIN. We can't cure a cold but we can cure pneumonia. I am not sure you used the right analogy.

Mr. SCHULTZE. That may be the situation we are in. We might keep the cold. We might keep 2 percent. That is possible but certainly without these actions we might face worse inflation. While it might be nice to cure the cold as well, let's hope we can work toward that later and that in the meantime this package will have a major beneficial effect on both the pneumonia and the cold.

Secretary FOWLER. The way you get back to stability so that you don't have inflation is to reverse what has been happening and to cause it to begin to decelerate and then there is less reason to reflect necessary changes in prices and in wages, or in wages and then ultimately in prices.

Mr. BATTIN. Mr. Martin, is there anything that the Federal Reserve can do at this point in conjunction with the legislation that has been proposed to put on the brakes as far as inflation is concerned? I am not trying to reopen any old wounds because I can remember in late 1966 there was some great debate going on in the country that involved what the Federal Reserve was doing as it affected things at that time.

Certainly there must be some point between high and low where the Board can act that would help put a damper on the spiral of inflation.

Mr. MARTIN. Well, the Federal Reserve is constantly struggling with this problem. That is our job and we are facing a real dilemma in the absence of any assist from fiscal policy. The growing budget deficit places that much more burden on monetary policy to carry the load.

During the year we have been proceeding on the assumption that we would get some fiscal complement to monetary policy and the fact that we haven't gotten any has made the situation more difficult. Now, there has been fear of inflation, compounded by actual inflation and the expectations of a further inflation, and to some extent that has caused interest rates to rise. This has been abetted by demand pressures, of course, but rates have risen even further than would have been the case in my judgment if we had had more fiscal responsibility.

Secretary FOWLER. Could I say, Mr. Battin, on that, in assisting you to understand the problem that Chairman Martin has, that the finance ministers of five countries, the United States, United Kingdom, Germany, France, and Italy met early in January in England to consider ways of deescalating the so-called international interest rate race. Rates had been moving up and matching the other fellow and they were leading the economic stagnation in a number of key Western European countries. We said after that meeting, and this is from the communique:

The ministers agreed that they would all make it their objective within the limits of their respective responsibilities to cooperate in such a way as to enable interest rates in their specific countries to be lower than they otherwise would be.

Now, the whole point of that was that we, the finance ministers, the fiscal men felt that undue dependence in the past had been placed on monetary policy and that this had produced needed restrictions in the economies to combat inflation but it also produced distortions and as the Chairman said, the way down that road ultimately is things grind to a halt and you have a hair-curling depression or a hair-raising recession, one or the other.

So we undertook, as the fiscal men, to try to do more in that direction. That is what we are here for, in order to get a mix of these two policies so the whole burden won't fall on the central banks and I might say that following that, despite the fact that our interest rates have risen in the United States and have risen markedly in the last few months, most of the European countries have continued to follow easy monetary policies.

The German rediscount rate has been reduced from 5 to 3 percent in a series of moves.

Belgium has cut its bank rate five times from 5¼ percent to 4 percent.

The Netherlands from 5 percent to 4¼ percent.

France and Italy have continued their fairly low 3½ percent and Austria reduced its rate at the close of October.

Since we recessed these hearings, since we started on this tax bill, because our interest rates have been going up, it was necessary for Canada, our neighbor to the north, to raise its interest rates in order to be able to continue its borrowing abilities and to maintain its financial posture.

It was necessary for the United Kingdom to raise its rates twice before the devaluation and there has been much criticism in the foreign press from sources that you would not welcome and from sources that you would respect, that it is the failure of the U.S. Congress to move on this bill that is causing interest rate escalation in the United States and putting the rest of the world in a box.

Mr. Battin. Although I don't want to get into an argument with you because we are good friends, it is a question of how we got here in the first place.

Secretary Fowler. That may be, but we are here and what we are trying to do is to take a step out of that box together.

Mr. Battin. I am not sure that I like the eyes of the world on me when I am not the guy that got us here.

Secretary Fowler. But you are the guy that can get us out.

Mr. Battin. Let me ask the question: How much do we lose in revenue as a result of the reinstitution of the 7-percent investment tax credit?

Secretary Fowler. About $800 million as I recall.

Mr. Battin. This year?

Secretary Fowler. That is right. $800 million, I think, is the figure.

Mr. Battin. Do you feel that that is doing the job it was designed to do in spurring modernization and putting us in a competitive position?

Secretary Fowler. Yes, I think we, the administration and the Congress, could fulfill the commitment appropriately that we made at the

time we suspended it, namely, to take it off when excessive boom that was characterizing the industrial plant and equipment field had subsided.

It did subside. It is now back in the much more normal posture. That is not the problem today.

Mr. BATTIN. Thank you.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. We are grateful that you gentlemen are so patient at this hour of a snowy afternoon.

Secretary FOWLER. We would like to make a convert or two as we get over on that side.

Mr. CONABLE. My colleague, George Bush and I have about 4 hours of questions left. We are trying to cut it down somewhat because we are at the end of the line.

Secretary FOWLER. I will be glad to be in your office in the morning.

The CHAIRMAN. Let me interrupt.

We are down to the last two. Don't you feel that because you are at the end that you are precluded from asking the questions you want to ask. I hope we can finish this afternoon. If we cannot finish this afternoon, let us finish tonight.

Secretary FOWLER. Mr. Chairman, I am good for at least another couple of hours. This is the most relaxed time I have had today.

Mr. CONABLE. Most of the questions I was going to ask have already been asked.

Mr. Schultze, we have had some talk that if we could sell Congress the idea of a greater cutback, the President would be glad to take a long look at it.

I assume that that cutback, if it came, should come, at least from your point of view, in something like the 2 to 10 formula that you suggested.

Mr. SCHULTZE. Yes, sir.

Mr. CONABLE. Would you suggest, for instance, that if some people felt there was not enough of a cutback, then you would go to a 3 to 15 formula or 4 to 20?

Mr. SCHULTZE. I can give you the formulas that would go along with a given level of dollar reductions.

Mr. CONABLE. I would like to have that.

If we could come up with a magic figure that would be an acceptable cutback, it would be of help to the committee to know how to arrive at it.

Mr. SCHULTZE. To postulate, again, we don't want to be rigid on the specific nature of the formula.

We looked around, examined, and searched. We think the 2-to-10 formula is about the most flexible type of formula you can use, given the complexity of the problem and taking into account what Congress has done.

Mr. CONABLE. Which reduces expenditures by $2.6 billion?

Mr. SCHULTZE. Well, it amounts to about $4 billion—you see, some of this counts doubly.

In other words, if you apply the 2- to 10-percent formula and do not have the Congress acting at all, it is a little less than $4 billion. There is an overlap, but very roughly in round numbers, if you have the 2-

to-10 percent for civilian, and 10 percent for non-Vietnam defense, you get a little under $4 billion.

If you want to go to $6 billion, you would need roughly 3 percent and 15 percent for civilian agencies and 15 percent for the non-Vietnam programs of the Department of Defense.

If you wanted to go to $8 billion, which would bring you to a budget level of expenditures of $132 billion you would go to a 4- to 20-percent formula.

These, again, are rough numbers. They are not precise.

Mr. CONABLE. "Twenty" for "non-Vietnam" defense?

Mr. SCHULTZE. Twenty for non-Vietnam defense.

These are round numbers, but they will give you a rough idea of what is involved.

Mr. CONABLE. I have one other question, Mr. Schultze.

A bipartisan commission has been suggested for a program analysis.

Mr. SCHULTZE. Yes, sir.

Mr. CONABLE. If nothing is done on this tax bill, would you still recommend this prior to the appropriation process next year?

Mr. SCHULTZE. I would not like to cross that kind of bridge, because I am hoping something is done.

Secretary FOWLER. It is not a 2-week exercise, Mr. Conable. It will be a long, drawn out exercise.

Mr. SCHULTZE. Nevertheless, we think the idea of taking a long-term look at Federal programs is a good one.

Mr. CONABLE. I am not sure if you recommend that Members of Congress be on this commission.

Mr. SCHULTZE. We did not recommend at this stage.

Mr. CONABLE. It is something that we ought to get at, in any event, isn't it?

Mr. SCHULTZE. Yes, sir.

Mr. CONABLE. And we would have the administration support for something of this sort?

Mr. SCHULTZE. Something of that sort, yes, sir.

Mr. CONABLE. The chairman has filed a very good bill in this respect.

Now, Mr. Martin, are there any striking differences between our position and England's position prior to the devaluation, except that England is farther down the road? They have not had a favorable balance of trade in the private sector, which we have had; is that correct?

Mr. MARTIN. That is a very significant difference.

We have had a trade surplus for many years. It is diminishing somewhat recently, which is one of our discouraging features.

Mr. CONABLE. But, in addition, we have not been dependent on world trade to anything like the same extent that the United Kingdom has. They have maintained a number of troops in Europe, have they not?

Mr. MARTIN. The United Kingdom?

Mr. CONABLE. Yes.

Mr. MARTIN. Yes, but they have also reduced them somewhat.

Mr. CONABLE. Compared to our commitment, is it similar?

Mr. MARTIN. I really don't know, Mr. Conable, what the relationship is.

Mr. CONABLE. Have they had a foreign aid program anything like ours?

Mr. MARTIN. Nothing like the scope of ours. But in terms of their GNP and their general position, they have had a very substantial foreign aid program.

Mr. CONABLE. Then the big difference has been that England has lacked the favorable balance in the private sector; is that it?

Mr. MARTIN. Yes.

Also, they have not had the reserves that we have.

Mr. CONABLE. How about their deficits? Have they had a continuing deficit in their public fiscal policy?

Mr. MARTIN. Their budgets and ours are not figured on a comparable basis. But by and large, if they were figured on a comparable basis, I would not say they have been in deficit proportionately to any larger extent than we have.

But I think one of the principal differences is that in the area of productivity our productivity has been going up much more than British productivity has for a long time. And this is a fundamental point.

Secretary FOWLER. Mr. Conable, just to underscore for record purposes, the most significant difference in our balance-of-payments situation is the magnitude of the trade surplus we have always enjoyed, whereas they have been carrying on with a trade deficit.

On top of a trade deficit, these external commitments have been the major burden.

In our situation the problem is whether or not, given our substantial trade surplus, whether we can carry the external commitments, private capital flows and public flows.

Each year, looked at, not from the standpoint of a banker but from the standpoint of, let's say a corporation executive, in each of the years in which we have had balance-of-payments deficits, the long-term liabilities of the United States measured against the long-term assets of the United States has been in an increasingly favorable position.

So there are these two elements of strength. We have had this trade surplus, which is the mainstay of our balance of payments. In addition to that, we have had an increasingly favorable position in our long-term asset-liability position, which over a period of time is a strengthening, sustaining force in our balance of payments, although currently it has been something of a considerable drain as outflows have moved up very steadily in recent years.

Actually, the American corporations, as we have noted, have increased the rate of investment in oversea installations, not only by increased outflows from the United States but by borrowing money abroad. These expenditures on plant and equipment have gone up from a rate of about $3 billion in the early 1960's to $10 billion in the last year or two. As a result we have, and are continuing to develop, a very substantial asset position abroad.

Also, the United Kingdom has less reserves. It suffered considerably more from the war. It has made a greater effort, I think, to maintain its military position outside the British Isles, I would suspect, at a larger percentage of the per-capita cost than we have.

It has maintained a very substantial per-capita aid program. Whether it is more or less than the United States proportionately, I don't know. I would suspect they are in the same general neighborhood.

Mr. CONABLE. In the light of the strength of our foreign trade, you have not changed your mind in any way about the point at which we impose the surtax relative to foreign tax credits?

Secretary FOWLER. No, no. That is a time-honored tradition. We can go into that later in executive session.

Mr. CONABLE. One other thing, Mr. Martin.

I don't recall your position on the interest-equalization tax, but I wonder if you think we should take another look at that in the light of the British change in interest rates.

Mr. MARTIN. I think we should take another look at it. We might want to increase the interest-equalization tax.

Mr. CONABLE. Other countries are following suit. It might very possibly result in an increment that would require another look at that tax, mightn't it?

Mr. MARTIN. Within the flexibility which we have in the law now, as the Secretary has just pointed out to me. That is what I referred to

I think we ought to take a look at that.

Secretary FOWLER. Shortly after the law came into effect we lowered the rate from 1½ to 1¼ percent.

Mr. CONABLE. Now, there comes a confidence factor, which is something we have talked about a lot as having a psychological impact on inflation.

Don't economists agree that cutbacks have more impact on inflation than tax increases by a factor of, let us say, 25 percent?

Mr. SCHULTZE. First, it is generally the case——

Mr. CONABLE. Because of the fact that people pay increased taxes at least partly out of savings?

Mr. SCHULTZE. That is correct. This applies only to Government purchases of goods and services and not to Government transfer payments.

The difference probably would not be in the order of the magnitude of 25 percent. Basically, there is a modestly larger impact from a dollar of expenditures cut than from a dollar of taxes. The difference is modest.

Mr. CONABLE. The reason I ask this is that it is always surprising that confidence has to be based on a tax increase——

Secretary FOWLER. Whether we like it or not, this is the psychological test. Are the American people willing, as the foreigner looks at it, willing to pay for the war they are fighting?

Mr. CONABLE. I think if it is so, it is only because of the public utterances that our Government is making in this respect. The administration never says a dramatic cutback is needed, only that a tax increase is needed.

Secretary FOWLER. No, I don't think it goes that far.

They all live in countries in which elected officials are in control of the spending and in control of the taxes. They all have a natural skepticism that we all share here about the willingness of officials to impose the additional taxes to pay for the additional spending.

There is a predilection to deficit financing in fiscal operations in most countries in the world today. This is a well-recognized fact.

Mr. CONABLE. Let me ask you this, Mr. Secretary.

Aren't the foreigners more concerned about the long-term deficits than the short term?

Secretary FOWLER. I would say they are equally concerned about both.

Mr. CONABLE. I noticed that President de Gaulle speaks of the incredible power of the dollar.

Secretary FOWLER. I haven't conversed with President de Gaulle on this subject, but I have with his Finance Minister.

He was most concerned and most sympathetic. He said if he thought it would be of any help to me—he recognized that it would not be—he would make a public statement on behalf of our tax program.

This was in a little meeting we had in Rio with a lot of people sitting around. I was forced just to thank him for his technical and moral support.

Mr. CONABLE. I do not wish to belabor the point about the long term, but it seems to me that we have to get our long-term spending under control. And we are reacting on a crisis basis at this point when even Mr. de Gaulle is saying the dollar still has incredible power.

He will pull it down eventually, he says, but he admits its short-term strength.

Secretary FOWLER. Mr. Conable, I think what they see is that we have been walking up this road for the last year or two. What they want to see is our turning around and starting walking down that road in the reverse direction.

They can see that more perceptively than any other way than I can imagine by the enactment of the proposal which is before you—or some equivalent proposal. They have listened to an awful lot of speeches about reducing expenditures. It does not have the same revealing ring as the news that this tax bill has been placed on the books would have.

Mr. CONABLE. Particularly when the White House has kept repeating that everything depends on a tax increase. Mr. Chairman, I yield the balance of my time to my distinguished colleague on my left.

The CHAIRMAN. Mr. Bush.

Mr. BUSH. I would like to ask a couple of questions.

Have there been any detailed discussions or any consideration of wage and price controls by the administration?

Mr. SCHULTZE. No, sir.

Mr. BUSH. Why not?

Secretary FOWLER. Because we think that the best prescription to be applied to the economic and financial problems we have today is an adequate use of combined fiscal and monetary policy. We don't think that the situation that we have today requires the imposition of direct wage and price controls, and we think it would get an admission of failure on the part of the administration and the Congress if we were reduced to that expendient.

Mr. BUSH. Are you concerned that there will be an automobile price increase early next year?

Secretary FOWLER. I am always concerned about a price increase.

Mr. BUSH. Do you have reason to believe there will be any increase in automobile prices?

Secretary FOWLER. I am not close enough to the situation to have an opinion.

Mr. BUSH. Are the projections based in any way on automobile price increases? We have heard talk that they think that the price will go

up. Is there any reason to believe that there will be? Has the administration's computation of increased prices included automobile prices?

Secretary FOWLER. No. What I am going on, as far as my opinion is concerned, is that it is much more feasible and effective for businessmen to increase their prices in an atmosphere of excessive demand than it is in a stable atmosphere when the economy is moving along at just a good cruising speed, sustainable cruising speed rather than a very high rate.

Mr. BUSH. The legislation that we passed on safety features, I understand, will require pretty close to a 4-percent increase.

In addition to that, there has been a substantial wage increase.

I am wondering about the projection, whether consideration has been given to this.

Mr. SCHULTZE. Nobody is making a very specific projection of the precise amount of price increase, but such projections and beliefs about price increases are not based on a commodity-by-commodity analysis, but rather on the overall economic situation.

Mr. BUSH. The automobile industry is important enough that one of the things in the chairman's testimony was the effect of the strikes. I presume a good deal of this was the automobile strike.

It would seem to me that the other side of this would be just as important in consideration of the inflationary effects.

Secretary FOWLER. I believe the morning papers indicate, although I have not read them closely, that the four-tenths of an index point or a three-tenths of a percent increase in the Consumer Price Index in October, which was released today, according to Commissioner Ross—and I may not be correctly presenting it, but my impression is—reflected some increase in auto prices, which was a substantial factor, along with increases in the cost of personal services, that was weighted into a causative factor for the increase in October.

Mr. BUSH. What would it take to effect a serious consideration of wage and price controls by this administration?

We have a large deficit. We have a $26 billion war. We are told we are sacrificing.

I am not advocating it, but when do you put these kinds of things on to control the economy?

Secretary FOWLER. I would rather not conjecture about the cause. I just think that the last time we put them on—I will go this far to give you the last historical bit. The last time we put them on was in the fall of 1950. The act was passed. And in January 1951 they were administratively imposed under the act.

As I recall it, the Consumer Price Index went up about 5 percent in that half year period of time between the outbreak of the Korean war and the end of 1950. And the wholesale price index went up around 13 percent.

Now let me say the last experience we had with anything like a boom period in peacetime was in the 1956–57 period, when, I think, the consumer price index went up about 4.7 percent over an 18-month period, which is a little faster rate than the period we are in right now.

There was no consideration of any price and wage controls under those circumstances.

Mr. BUSH. That was in peacetime?

Secretary FOWLER. That is right.

Mr. Bush. A different time than we have now. I am sure you consider and I consider that we are essentially not in peacetime when we are spending this kind of money on war.

Secretary Fowler. No; but Congressman Bush, I would look at it this way. If there had been a time during this period when consideration might have been given according to the past practice of instituting wage and price controls, it would have been at the outset of the escalation in Vietnam, when things were moving up on a very rapidly moving scale.

At that time the administration took a conscious decision. We didn't know how far it was going to go in terms of the order of magnitude of the problem. It seemed then to be quite feasible to handle the situation by the ordinary means and not put the economy in a straitjacket, including price and wage controls and allocation and priorities and the whole paraphernalia we employed in World War II and the Korean war.

This was the bet we made then. I think it paid off. It paid off handsomely because the rate of price increase, although undesirable as it has been, has not even yet reached the pace that occurred in 1956 and 1959. It has not even been comparable to the Korean war experience.

Now we are at a point where, as I say hopefully, the pressure from increasing defense spending, those pressures are tending to stabilize.

I see no reason today for us to resort to price and wage controls when we have the normal remedies of fiscal and monetary policy at hand to deal with our problems.

Mr. Bush. Mr. Director, the Congress passed a pay bill this year, which the first year is within the President's budget as far as the pay increase goes. But next year it will be considerably higher, and the year after, considerably higher than that.

We had 89 votes against this pay bill in the House. The administration, so far as I know, did not work against the pay bill.

Let me ask this question. Take the pay bill, and take the excess not this year but next. Can you give us a rough dollar figure for 1969 fiscal year of expenditures like this over which you have no control?

Mr. Schultze. Yes, sir.

Mr. Bush. I don't think you can look at the problem just this year. What would the dollar figure be on that?

Mr. Schultze. The House passed a pay bill, and the Senate passed a pay bill which is below the House in 1969 costs.

The administration proposal, the Senate bill, and the House bill are the same with respect to the formula for determining pay increases next year, with two additional steps to come.

However, the House accelerated the first step of that increase by 3 months and the second step by 6 months. That added $800 million to the fiscal 1969 costs, in round numbers.

The Senate also escalated the increases, but by 3 months less. By "escalated" I mean they moved the dates forward. That added $400 million.

In other words, the House bill is $800 million over what we had proposed, and the Senate bill is $400 million over, not in terms of the size of the increase but the effective dates.

Let us assume for the moment that the lower of the two bills prevails, which is the Senate bill. The total cost, including the implica-

tions for the military, because military pay is tied to it, is about a $2-billion increase.

Mr. BUSH. Just for the pay bill?

Mr. SCHULTZE. Just for the pay bill.

Mr. BUSH. What about for the other things, where the program starts out with x and the next year x plus what?

What I am getting at is that we are addressing ourselves to a problem for 6 months and yet we have a problem that nobody thinks will be solved in 6 months.

How many other things are—You have $2 billion for one bill, the pay bill. How many other dollar increases are there over which you as Budget Director, unless you change the program, could recommend to the program some kind of revision? What dollar figure are we dealing with that you will have some increased spending in 1969 that you don't have in 1968?

Mr. SCHULTZE. Mr. Bush, aside from the pay bill, I don't have firm figures. There are some areas——

Mr. BUSH. Is it something like $15 billion?

Mr. SCHULTZE. No, sir.

Mr. BUSH. Are we talking about $5 billion—just roughly?

Mr. SCHULTZE. I don't know. It is clearly not $10 billion, and it is not just $2 billion.

Mr. BUSH. Is it between $2 billion and $10 billion?

Mr. SCHULTZE. I hate to leave you with that broad a range. It might be less than halfway between the two, I think. We do have increased costs in medicaid and medicare. Presumably, interest will be up—well, I doubt that, but interest may be up. And there are a few other areas like this.

We are in the process of trying to thresh these things out. As I indicated in earlier colloquy this morning, apart from these areas, we are trying to build a budget which holds as tight a lid as possible on increases.

But you are quite right. There are areas where we cannot do this through the budgetary process.

Mr. BUSH. The thing that concerns me—and I represent, obviously, the least experienced person—is the dollar-for-dollar basis that the American people are looking for this thing to be solved on.

The thing that has been discouraging to me—and it might be foolhardy politically to vote for this bill—but I thought when we were getting dollar for dollar, we were getting a dollar-for-dollar thing.

I understand we are not going to have this on the pay bill, but the people don't understand it. I find it difficult to understand.

It is unfortunate that your proposal really does not have a dollar-for-dollar spending cut.

Secretary FOWLER. Mr. Bush, could I reassure you on that very quickly?

Mr. BUSH. Yes, sir.

Secretary FOWLER. Because if we are talking about the dates that I proposed, you might have some—Are you talking about the dates?

Mr. BUSH. I am talking about an impression that I have as a Congressman, that people in my district have, and I think everybody else has.

Secretary FOWLER. Let me put it this way. If both of these provisions on corporations and individuals become effective as of January 1, what we would get in the Treasury out of this in this fiscal year, 1968, is $3.4 billion.

Mr. BUSH. We are talking about a 7-point-something tax increase, and we are talking about a 2.6 or a 4.1——

Secretary FOWLER. We are also talking about a $9 billion reduction in appropriations.

Mr. BUSH. I am afraid I am not making myself clear as to my problem.

My problem is that I though very recently the administration was talking about we will save half of it, we will raise taxes for a quarter, and we will borrow a quarter.

No matter what the semantics are, I don't think this is the way the proposal was interpreted to the people.

Secretary FOWLER. I think you can help us because the figures are there. It contemplates a reduction of $9 billion in the appropriations.

Mr. BUSH. I think we have two different problems.

We are addressing ourselves to spending cuts. That is why I am not impressed with the relationship to gross national product. I think we are addressing the problem Mr. Martin is concerned about and that you are concerned about, the fiscal spending problem. I don't think the appropriations discussion is valid.

Mr. SCHULTZE. The point is that when you increase taxes, aside from a small lag in collections, you get the increased revenues all in.

When you cut spending, you have to cut actual program levels. It is not just smoke. You have to cut $9 billion in programs in order to get a $4 billion cut in spending.

Mr. BUSH. That is not my interpretation.

Mr. SCHULTZE. It is not dollar for dollar; I agree with you, sir.

Mr. COLLIER. Will you yield?

You say when you tax, you get it all in. You get in less than $3 billion by the end of fiscal 1968, even if the tax bill passes and even if it is retroactive, inasmuch as on a withholding basis you are not going to get the whole $7½ billion until the end of the fiscal year and even on into 1969.

Mr. SCHULTZE. No, sir. The calculation of $7.4 billion is for the fiscal year, not a day beyond. It includes collections for that year.

Mr. COLLIER. Then you will realize the whole——

Mr. SCHULTZE. $7.4 billion; that is correct.

Secretary FOWLER. Given the effective dates in the proposal we made here.

Mr. COLLIER. Including the retroactivity?

Secretary FOWLER. Yes. If you eliminate the retroactivity, we get $3.3 billion on the surcharge and we get $300 million more on the excise and $800 million more on the collections.

So we get about $4 billion without any retroactivity.

Mr. BUSH. One last question. Have you had any studies since our last hearing on how rapidly the corporations will pass along the tax increases by increases in prices? Has there been any study by the Budget on that?

Mr. SCHULTZE. No, sir.

I think we did point out the last time we were here that it is the general consensus of economists who have studied this problem that in the short run as opposed to the long run—say, a 5- or 10-year period—there is a substantial doubt that corporations pass the tax on. In the short run it is pretty clear among economists that it won't be passed along.

Secretary FOWLER. For a temporary tax, Congressman Bush, there is much less chance of its becoming imbedded in the system permanently.

Mr. BUSH. Thank you, sir.

The CHAIRMAN. Mr. Byrnes?

Mr. BYRNES. Mr. Chairman, just so that the record is complete and this is not a matter of necessarily asking questions at this point, considerable emphasis is made from time to time that this would not be very much of a burden on the American taxpayer, because in part we are just taking back a little bit of the reduction we have given in taxes in the last several years.

I would like, therefore, to have in the record a table prepared by the staff of the joint committee on "Federal Personal Tax and Nontax Payments and Such Payments Combined With Federal Personal Social Security Contributions as a Percentage of Personal Income Adjusted by Addition of Personal Contributions for Social Insurance."

(The document referred to follows:)

FEDERAL PERSONAL TAX AND NONTAX PAYMENTS AND SUCH PAYMENTS COMBINED WITH FEDERAL PERSONAL SOCIAL SECURITY CONTRIBUTIONS AS A PERCENTAGE OF PERSONAL INCOME ADJUSTED BY ADDITION OF PERSONAL CONTRIBUTIONS FOR SOCIAL INSURANCE

[Dollar amounts in millions]

Calendar year	Personal income	Personal contributions for social insurance	Personal income plus social insurance contributions (1+2)	Federal personal tax and nontax payments [1]		Federal personal social security contributions [2]	Federal personal taxes and social security contributions	
				Amount	As a percentage of col. 3		Amount (4+6)	As a percentage of col. 3
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1946	$178,730	$2,011	$180,741	$17,166	9.50	$850	$18,016	9.97
1947	191,266	2,118	193,384	19,643	10.16	1,051	20,694	10.70
1948	210,216	2,178	212,394	18,973	8.93	1,122	20,095	9.46
1949	207,154	2,234	209,388	16,137	7.71	1,093	17,230	8.23
1950	227,619	2,894	230,513	18,090	7.85	1,590	19,680	8.54
1951	255,595	3,442	259,037	26,131	10.09	1,967	28,098	10.85
1952	272,455	3,793	276,248	31,031	11.23	2,301	33,332	12.07
1953	288,163	3,985	292,148	32.247	11.04	2,413	34,660	11.86
1954	290,136	4,623	294,759	28,998	9.84	2,975	31,973	10.85
1955	310,889	5,236	316,125	31,437	9.94	3,431	34,868	11.03
1956	333,006	5,820	338,826	35,170	10.38	3,827	38,997	11.51
1957	351,101	6,692	357,973	37,411	10.46	4,499	41,910	11.71
1958	361,174	6,861	368,035	36,786	10.00	4,503	41,289	11.22
1959	383,528	7,922	391,450	39,900	10.19	5,443	45,343	11.58
1960	400,953	9,292	410,245	43,634	10.64	6,644	50,278	12.26
1961	416,814	9,629	426,443	44,685	10.48	6,815	51,500	12.08
1962	442,617	10,337	452,954	48,609	10.73	7,375	55,984	12.36
1963	465,487	11,823	477,310	51,471	10.78	8,666	60,137	12.60
1964	497,462	12,534	509,996	48,604	9.53	9,162	57,766	11.33
1965	537,760	13,428	551,186	53,806	9.76	9,759	63,565	11.53
1966	584,005	17,868	601,873	61,738	10.26	13,595	75,333	12.52

[1] Individual income taxes, estate and gift taxes, and a minor amount of fines, penalties, and incidental charges.
[2] Employee and self-employed OASDI and HI contributions and employee railroad retirement insurance contributions.

Source: Staff of the Joint Committee on Internal Revenue Taxation, Nov. 28, 1967.

Mr. BYRNES. The point that the table really shows is that in 1964 and 1965 after the tax reduction, the personal income tax and the social security tax amount to 11.53 percent of the total personal income, adjusted also to include social security payments as a part of personal income.

Also, I would like to have the record show that under the survey of current business, the expendable weekly earnings in manufacturing industries, reflecting both inflation and taxes, shows that in September of 1967 that amount is $86.54. In 1965 it was $88.06.

So we see the situation as it relates to the individuals today.

I think we should also probably have information in the record relating to the increase in the burdens on our people as a result of the State tax increases that have occurred in the last number of years and the local tax increases.

This table that I have asked be put in the record does not incorporate the increase that will fall on the American people in terms of the social security taxes, whether it is the Senate bill or the more moderate House bill.

Secretary FOWLER. I want to say that these figures you give me are ones that on frequent occasions when I encounter some of my friends who represent the labor unions, they provide these figures. And I usually like to reply and comment, in order to get them into proper perspective, that while the worker is paying a social security tax, the worker is getting prospectively a social security benefit, so that it is not exactly without some benefit that he is doing this.

The net take-home pay may be, according to the figures, represented, but it is the same kind of feeling I would have if I paid an insurance premium.

Mr. BYRNES. I suppose, Mr. Secretary, if you want to, you can rationalize that way for every new Government program, that if you impose a tax at that time to pay for it, the taxpayer ought to be willing to pay more because he is getting more services than he got before.

Secretary FOWLER. I don't put it on that basis. I put it on the basis that there is some particular personal benefit prospectively being provided for. And in terms of collective-bargaining purposes if I were the employer, I would certainly point this out, that he is getting something back for his money in a real and tangible way.

I only make this observation because I think it is something that gives perspective to these figures.

Mr. BYRNES. I was hopeful, because of the lateness of the hour, that we would not have to get into a lot of argument.

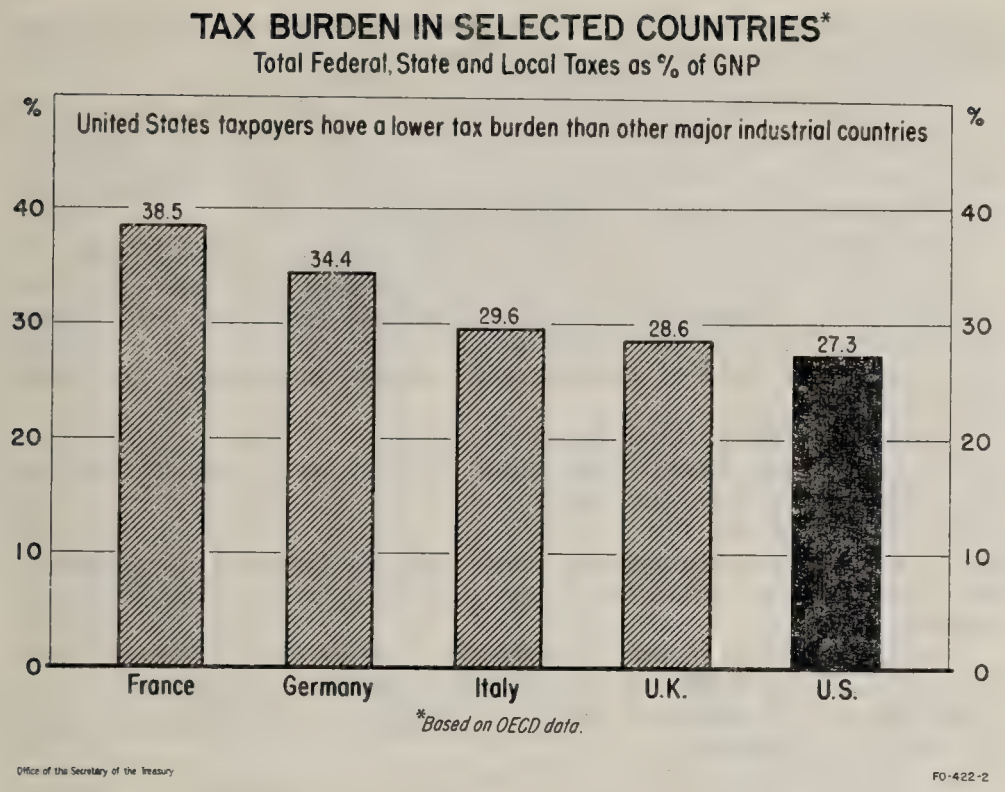
Let me on one occasion be a spokesman for labor. I have that opportunity so seldom, and I hate to have you take that opportunity away from me.

Secretary FOWLER. I was underscoring your position in this regard.

Could I also insert for the record a little chart showing the tax burden in selected countries, total Federal, State, and local taxes as a percentage of GNP, which shows that U.S. taxpayers have a lower tax burden than other major countries.

The CHAIRMAN. Yes. Not only should that go in the record, as it will without objection, but some statement should be made that people realize that.

(The document referred to follows:)



Secretary FOWLER. I think it is due to the work of this committee on the Revenue Act of 1964, which made the major contribution to that fine record.

Mr. BYRNES. I think part of our objective is to avoid emulating other countries. It is because of your failure to recognize this that there is skepticism here today about your proposal.

I wish we had time to go into the expenditure plan in more detail, as I had planned to do.

Le me ask this. Is it not contemplated that you will take your plan to the Appropriations Committee for consideration of the legislation as it affects limitations on appropriations?

Have you had any discussion with the chairman of the Appropriations Committee?

Secretary FOWLER. We are hopeful that we will be invited.

Mr. BYRNES. Have you sought any opportunity, or are you just sitting and waiting for Mr. Mahon to call?

Secretary FOWLER. I thought this was our first order of business before this committee. I did not know how long you would keep us.

We will accept such an opportunity at the conclusion of this hearing.

The CHAIRMAN. Mr. Secretary, you just insist on being heard.

Secretary FOWLER. I will call him, wherever he is, Mr. Chairman, and ask him for the opportunity.

Mr. BYRNES. I don't think you were very subtle about your desire to appear before this committee. I think you can be just as effective in getting an appearance before the Appropriations Committee.

Secretary FOWLER. I am going to try to arrange that. With the

help of the Director of the Budget and the Chairman of the Federal Reserve Board, we will seek an audience.

The CHAIRMAN. Take the three of you, and go together.

Mr. BYRNES. It does seem to me that this is an area in which I doubt that our committee would want to move ahead without at least having some kind of understanding and agreement that we were not usurping or moving into the appropriations process.

Secretary FOWLER. I am sure that is right, Congressman Byrnes.

The CHAIRMAN. I know it was your intention initially for this package to be considered by more than just the Ways and Means Committee. You had no intention of indicating that we would do anything in the field of appropriation. I had understood that from the beginning.

Secretary FOWLER. That is correct.

The CHAIRMAN. Because we would be very, very loath to get into the jurisdiction of any other committee.

Secretary FOWLER. Yes. I stated the procedure with which this committee and other committees are concerned, the House Appropriations and House Rules Committee, to move the legislation is not for me to suggest.

I certainly think it was understood that we would, I hope, have an early audience with the House Appropriations Committee.

Mr. BYRNES. Let me ask this, as one aspect of this plan, this overall effect, Mr. Director.

Of course, as you pointed out yesterday in the discussion, there is considerable flexibility within the agency.

Mr. SCHULTZE. That is right.

Mr. BYRNES. Also, it does not go to an expenditure level. It goes basically to obligational authority.

Mr. SCHULTZE. It applies to the actual obligations. It is a limit on the amount they may obligate, not on their authority to obligate, but simply on the amount of their actual obligations.

It says you must take the actual obligations from the level in the budget down to the level after the cut is calculated.

Mr. BYRNES. You had an estimate in terms of the obligations that would be involved. What was it?

Mr. SCHULTZE. $9.1 billion.

Mr. BYRNES. Now, is that capable of a firm statistical limitation with no leeway?

Mr. SCHULTZE. The one leeway, you will recall, that we built into the bill was $300 million as a leeway for the President.

Shall I explain that?

Mr. BYRNES. If you can do it briefly.

Mr. SCHULTZE. The bill provides a 2-percent to 10-percent reduction in controllable obligations. But the President may waive this in any case where he deems it to be vital to national security or interest, provided that the maximum of the waiving shall not exceed $300 million.

Mr. BYRNES. The total waivers in the whole realm of the obligational authority?

Mr. SCHULTZE. That is right. That is included in the $9.1 billion total.

In other words, we made the $9.1 billion up assuming he used the full $300 million.

Secretary FOWLER. So if he did not use it, it would be $9.4.

Mr. BYRNES. Is there no discretion within the executive branch to change that particular figure? Do you have to reduce $9.1? Or could you end up, by reason of the fact of the President finding some problem, with less than a reduction of $8.7 billion?

Secretary FOWLER. No.

In the civilian departments, none aside from the "$300 million."

The defense section of the bill does provide, on a matter within the vital concern to our national defense, he may waive this if it was an emergency essential to the national defense.

Mr. BYRNES. Is there any opportunity for transfer between departments?

Secretary FOWLER. No, sir.

Mr. BYRNES. If you find one department that you look at that is not contributing something essential to the overall security or basic needs of the Nation so that it could take a little more of a cut and some other that you might feel was more important would take a little less of a cut?

Secretary FOWLER. Aside from the $300 million; no, sir.

Mr. BYRNES. There is no other flexibility?

Secretary FOWLER. There is none, Mr. Byrnes.

We did consider a number of types of flexibility and finally came down on this one. I don't necessarily want to say that is the only provision that could be written into it.

Mr. BYRNES. Mr. Secretary, you mentioned, on a number of occasions, that you had some other plans. I wonder if they could be put in the record so that we can have a chance to review those.

Secretary FOWLER. Surely.

Mr. BYRNES. And see what we might have thought. Maybe those have some advantage over these.

The CHAIRMAN. Without objection that will be done.

(The following information was received by the committee:)

SOME SUGGESTED ALTERNATIVES

I. *Original HHF formula—a preamble to the bill, a statement in the Committee Report, and a letter from the President to the Chairman of the Committee—all expressing the following program:*

> After Congress has acted an appropriation bills, the President will effect additional reductions in Fiscal 1968 expenditures in addition to those derivative from Congressional action on appropriations. He will make such additional reductions—*civilian and military*—as are necessary to result in a total reduction in expenditures for Fiscal 1968 from both sources, when added to the restoration of authority to sell $2 billion of Participation Certificates and the savings of the contingency of additional employee compensation ($1 billion) beyond the January Budget, to equal the amount of revenues received in Fiscal 1968 as a result of a tax surcharge on individual and corporate income taxes voted by the Congress, up to the total of $6.3 billion requested in the Tax Message. As soon as action on the pending appropriation bills is complete and the results reviewed, the President will announce, identify and describe the specific expenditure reductions which are necessary to achieve this objective.

Let us make clear precisely what is intended by this commitment.

If Congress votes to approve the President's surcharge tax proposal to increase individual and corporate taxes, the revenue increase in Fiscal 1968 is estimated to be $6.3 billion. Counting the $2 billion from the restoration of authority to sell participation certificates and the $1 billion in saving on the contingent increase of employee pay beyond the January Budget, the sum total of additional savings in expenditures—civilian and military—in Fiscal 1968 resulting from other Congressional and Executive action combined would be $3.3 billion off the

total of $136.5 billion of expenditures for Fiscal 1968 projected in the President's Tax Message, without counting the contingent military expenditures that may be required.

Further, to make sure that these $3.3 billion reductions are not confined to defense spending, the cuts will definitely and positively bring reductions in controllable civilian expenditures (the items exclusive of the uncontrollable programs as identified in the January Budget, page 14) by at least $2 billion below the latest forecast stated in the President's Tax Message and outlined in the statement on August 14 of the Budget Director to this Committee. The total of $136.5 billion used above takes into account the revenues and expenditures for the Commodity Credit Corporation, public assistance grants, Medicaid, and similar relatively uncontrollable items outlined in the President's Tax Message. Further changes in such items, either up or down, could, of course, occur as the year progresses. Similarly, the $136.5 billion total assumes favorable Congressional action on a number of Presidential requests—such as the postal rate increase—which affect budgetary totals.

II. The personal tax surcharge would go into effect on the first day of the month not less than 15 days after the President presents to the Congress a new estimate of fiscal 1968 budget expenditures for each Federal agency which in total did not exceed $136.5 billion except to the extent that:

1. Estimated Vietnam expenditures exceed the $4 billion contingency already specified in the August 3 tax message.

2. There are increases for interest on the public debt, farm price support payments, public assistance and payments to the Medicare trust fund, beyond the figures included in the testimony of the Budget Director before the Ways and Means Committee on August 14.

3. Congress enacts legislation requiring additional expenditures above the January budget (e.g., the Federal employee pay raise) or fails to act on proposals reducing reported administrative budget expenditures (e.g., participation certificates, postal revenue increase).

The corporate surcharge would have an effective date three months prior to to the personal tax.

III. *Proceed with action on the tax bill proper up to the point of reporting it, while awaiting the outcome of the review by the House Appropriations Committee on rescission proposals.*

IV. *Negotiation and action by the House on a Joint Resolution identifying the major areas for reduction or deferral of expenditures, the criteria to be used and the range of amount of total reductions from the January Budget or spending level to be sought.*

The idea would be to call up this Resolution for a vote just prior to voting on the tax bill. Presumably, the form of such a Resolution would have to be worked out by a task force including ranking majority and minority members from the House Ways and Means Committee, the House Appropriations Committee, and, perhaps, the House leadership.

Mr. BYRNES. Can you briefly tell me why the preference is to obligational control rather than to expenditure-level control, other than you want to reserve the concept that it is the Executive that determines the level of expenditure and Congress determines the level of obligational authority; that you want to remain consistent with the congressional prerogative of limiting itself to obligational authority and preserve for the Executive the traditional authority and prerogative in the area of determining the expenditures?

Mr. SCHULTZE. Yes, sir.

The reason is that all expenditures flow from obligations. You must first obligate to expend.

The idea is to put the control precisely where the expenditures come from. You cannot expend a dime if you do not first obligate it.

The only way you can reduce expenditures is to reduce obligations. We can put ironclad control on obligations. We cannot put a real ironclad control on expenditures because we cannot control the rate at which an obligation is paid out in many cases.

Mr. BYRNES. Can you even under this present plan say with any degree of certainty exactly how much the expenditure level will be reduced by a 9.1 reduction in obligations?

Mr. SCHULTZE. Not as a certainty; no, sir. It could range from $3.8 to $4.3 billion or so. But it is fairly close.

Mr. BYRNES. We only have a general rule of thumb, don't we, as to how a billion dollars of obligational authority normally shows up in expenditures in any given period of time?

Mr. SCHULTZE. No, sir, Mr. Byrnes. Let me clarify that.

When we are talking about the overall impact of a cut, we do have a general rule of thumb. But when the agencies get down to taking the obligation cuts program by program, you can be much more precise. You know that a particular grant program and a particular agency tend to spend out at a certain rate, while another agency spends out at another rate.

So you can do this in terms of the 1,500-odd appropriations that are involved.

Now, I admit you still cannot be completely accurate. But as you get agencies making a given obligation reduction in a given program, program by program, it is not 100-percent precise but is fairly precise. You still need some flexibility.

The Department of Defense is a case in point. They may reduce the obligations for the procurement of aircraft, but the speed at which the factory turns them out is going to affect your final result.

Mr. BYRNES. I get your point.

As I say, all I want to get is your view on some of these things, due to the lateness of the hour, rather than get into an argument with you.

Because I don't on many things question the conclusion, it does not mean I necessarily agree. It does not necessarily mean I disagree. I don't want any assumptions drawn from the fact that I am trying to do this in a rather cursory manner.

But I think there are some things that we should have in the record, before we close this appearance at least.

Let me ask this.

We have just had, Mr. Secretary, within a month, I guess, the recommendations of the commission, of which you and Director Schultze were members, with respect to the budget presentation.

Secretary FOWLER. Yes, sir.

Mr. BYRNES. Can you give us any information as to the degree to which you intend to carry out the recommendations of that commission in the next budget, that you will be submitting next year?

Secretary FOWLER. I will defer to the Director because it is primarily a budgetary problem. We are involved, but much less.

Mr. SCHULTZE. My people are now in the process of examining the feasibility of what we can and can't do.

I don't have an answer, except we are generally looking favorably to doing what we can.

Mr. BYRNES. You are not just going to take the thing that you agree with and eliminate the other areas and put in a separate footnote?

Mr. SCHULTZE. No, sir; there was only one item for which there was a dissenting footnote.

Mr. BYRNES. That was PC's?

Mr. SCHULTZE. PC's; that is right.

Mr. Byrnes. I was wondering whether we were going to get that cleared up next January, so that every time we get into our fiscal problems, we don't have to waste time on PC's.

Now, to what degree do these recommendations require legislation?

Secretary Fowler. Considerable degree in the debt-limit field, but that we take up the next time we have a debt-limit problem.

Mr. Byrnes. Could we not get to it before then in terms of the budget so that when the budget came in, we would know what we are talking about?

Mr. Schultze. As a general proposition, aside from some highly technical points and aside from the debt-limit, we do not need legislation to carry it out. There are a few technical points where you would need legislation.

Mr. Byrnes. I wonder if you could advise me—not now but sometime within the next month what items require legislation?

Mr. Schultze. We will look into that and let you know.

Mr. Byrnes. Now, let me ask you about the budget for 1969. I was very disappointed to hear that you are going to delay its presentation.

Mr. Schultze. I am equally disappointed.

Mr. Byrnes. I think the way the thing is shaping up, the Congress frankly is going to want to have a look at the 1969 budget as a prelude to its action in the field of taxes and so forth.

To me it is going to be of considerable significance to see what has been done in 1969, primarily because I remember a situation back in 1964.

I believe it was in January, when President Johnson then presented his first budget message, which dealt with fiscal 1964 and fiscal 1965.

We had pending at that time, as you recall, also the tax reduction bill. The only real point of controversy was whether expenditures were going to be controlled so as to accommodate a reduction in taxes. That was the issue.

And that was resolved by a very salutary action taken by President Johnson in his first budget message, where he reduced the anticipated expenditures. He cut back what had been projected for fiscal 1964. He cut them back to a point that some of us suggested—I think it was September or October, Mr. Chairman—was a proper level with. But we were told by the administration at that time that, no, you couldn't cut back.

I think also it is one of the few years in the history of the country, other than following a big war, that there was a reduction in the overall expenditures for the ensuing fiscal year. The expenditures were going to be less than the current year that they were in.

In fact, if I recall correctly the budget reduced Government operations in fiscal 1965 to $96.5 billion.

Therefore, I don't always go on the assumption that expenditures have to go up from year to year, that the level of spending has to go up.

To me, the most salutary thing that the administration could do, I would think, which would be the most salutary thing not only for the American people but for the international bankers, would be to send up a budget message in January 1968 showing a reduction in the nondefense area.

This is the assurance that you gave the chairman, Mr. Schultze, that you hoped you would be able to hold the things at the same level. Is that what you said?

Mr. SCHULTZE. No, sir; the assurance I gave the chairman was that we were trying to hold the controllable part of the budget at the same level.

Mr. BYRNES. That year they took the controllable and noncontrollable and put them together and came up lower than the preceding year.

Mr. SCHULTZE. I am saying I don't want to mislead you.

Mr. BYRNES. I am saying this same President in 1964 said that it could be done, and that you did not have to rest on the crutch of having so many uncontrollables, unless with the majorities that he has had, during the intervening period, he transferred an awful lot of expenditures into the uncontrollable category. The President ought to be in as equally a good position today to accomplish the same kind of salutary result. I would say that if we had that kind of action, supporting a tax bill would be much, much easier. And I would think the stage would be set for action in that direction.

I think the fact that we don't seem to be moving in that direction, but away from it, is the reason that we are all having so much difficulty.

I think you gentlemen have done a splendid job during the 2 days we have been here in explaining the problems posed by the deficit. And I certainly sympathize with the problems that you have.

I hope that you also have sympathy for the problem that we have, because you seem to make it look as though we are obstinate little schoolboys. Let us have some little understanding of the problems we have.

I want you to know that I am very sympathetic to the problems that you have. But I would hope that with the picture you have given us here on the danger that this deficit holds, you could get that same message across to the heads of your departments, the heads of your agencies, or the heads of the bureaus who, from day to day, are making announcements of new spending proposals, new grants for this or new grants for that, so that they will weigh their decisions against the dangers posed by the deficit.

In other words: Is this so beneficial, the expenditure that is announced, that we are going to embark on, that it far outweighs the adverse consequence of this spending on our deficit picture and all the dangers that it poses?

I think that if you weigh it that way—and the American people are doing it that way—your job of convincing us would be easier. As they see new spending being embarked on the people say: "How does this square with the talk about putting a tax increase into effect? How does that square with what the administration says are the great problems of inflation? How does this expenditure square with the idea that we are in an international crisis and that the dollar is in jeopardy or is under attack?"

Don't underestimate the intelligence of the American people. They look not just to the words that you speak here but they also look to the announcements by the agencies that more money is being spent.

They also read the speeches that the President makes as when he went to New York a month ago, condemning those who voted against a lot of these appropriations as "mossbacks,"—that we were always against progress and always would be—and that our fiscal concern was just an excuse.

I don't think those kinds of speeches help.

I know this is not your problem. You don't make the speeches.

Mr. SCHULTZE. Nobody has made that kind of speech.

Mr. BYRNES. I will send you the text of it.

Mr. BATTIN. I will put the text of it in the record.

Here is the text of the speech.

Mr. BYRNES. If the gentleman doesn't want it in the record, maybe you can give it to the Director, so that he can be acquainted with some of the speeches that are being made at the same time that we are being told of this fiscal crisis.

We are getting the evidence, being told of dangers that this deficit is posing, that there is a real danger to the economy and the Nation. If we are in real danger, it seems to me we have to be careful how much we are promising to do in other areas and how much responsibility we undertake.

Frankly, I think there is a question here of good faith involved. I have said to you, Mr. Secretary—and I think I have said it to you, Mr. Schultze—that, to me, it is not just a matter of arithmetic. It is a matter of attitude. Are you convinced that we have to tighten our belts? Your actions haven't shown it.

There is an opportunity within the next few weeks to bring up your new budget, and in presenting that, to show that you are going to go through with this reduction that you talk about now—the 10 percent and the 2 percent—whether Congress acts or not, because the country needs it. I think that you have there the real opportunity to be helpful to us who do feel that you have to attack this deficit.

You do not help us by telling us, Mr. Secretary, as you did yesterday, that you had not changed your attitude at all from what your attitude was in August.

Secretary FOWLER. I did not say anything about changing attitudes. The record will speak for itself as to what I said. I don't need to repeat it.

Mr. BYRNES. I don't know why you didn't come in, frankly, and say:

> Our proposal is as of this date that you increase taxes by this amount, and we are going to cut back expenditures. We have this program for the cutback, and we are going to put it into effect. But if you want to have more assurance, here is the law that can force us to do it, and that is going to produce a cut of $2.6 billion. And that is the most we think we can do.

But, no, you have to advertise it, just as Mr. Bush says, and try to throw it out to the country as a $4 billion reduction of expenditures.

Those are the kind of things that just give me trouble.

Frankly, I have to tell you that they strike a note of caution as to your sincerity.

Secretary FOWLER. We can have a lot of personal views, too, on that particular subject. I wonder when we are going to get some action instead of a lot of talk.

Mr. BYRNES. I think maybe you can get some.

Secretary FOWLER. I am telling you that I think we need some action. Let me make a suggestion.

You are talking about 1969 budgets. We have heard a lot about it.

Why don't you report this bill out on the floor and pass it and provide that the tax end June 30, 1968?

Mr. BYRNES. I am not convinced yet that you are going to do any expenditure reduction. I am not going to pass any tax increase because I think that unless you effect expenditure reduction, the tax increase will have a negligible impact.

Now, if you go through with your "10 percent," you will have some basis on which to show your sincerity.

I joined in a report in January, drafted by me. There was another report in May, and two in June, saying that the situation required us "to stop, review, and revise" our spending plans.

But was there any action on your part? Absolutely not.

Sure, you came up and said: "We are going to have restraint."

But there was not one time that you came in and said: "Yes, we have a new system of priorities, and this expenditure should go by the board."

Before our committee your position was that the Congress should go through with all appropriation bills, the whole process, that after we got through, you would look to see what could be cut.

We suggested at that time that this was the time also to help Congress in getting some reductions in appropriations, instead of waiting.

Mr. SCHULTZE. Mr. Byrnes, it is kind of like having your cake and eating it, too.

You tell me, why don't we make the cuts and then we will have the tax increase. Then you say you don't believe we are going to make the cuts. Then we give you an opportunity by putting it in the law.

Mr. BYRNES. I was disappointed when you told me yesterday there was no Executive order. You told us the agencies were going to study it.

Mr. SCHULTZE. I never told the agencies to study this thing. What we have done is give the agencies specific dollar targets.

Mr. BYRNES. Why didn't you have an Executive order?

Mr. SCHULTZE. We don't make up budgets by Executive orders.

We told the departments to take these cuts and go ahead and figure out where they are going to make them.

Mr. BYRNES. In what form did you tell them?

Mr. SCHULTZE. Mr. Byrnes, we issued an order in October to hold down.

Mr. BYRNES. You hoped we would not have to get into controversy of this nature because your directive in October is just the kind of directive that, to me, was meaningless.

Mr. SCHULTZE. It certainly was not, to the agencies.

Mr. BYRNES. What was published in the paper, said in effect, "We are just going to get ourselves in line until we see what Congress does, which means you are not making any decisions at all except that you will, when Congress tells you, be in a position to do it."

You did not say that any of these freezes were going to be permanent.

Mr. SCHULTZE. Because at that time we did not know what was going to come out of the whole process. We wanted to be sure that whatever came out, we could make these kinds of cuts.

Mr. Byrnes. My point is that you could have helped yourselves, it seems to me, instead of waiting.

Mr. Schultze. We acted. We got ourselves in a position whereby we can now act in a number of different ways. We got ourselves in a position, Mr. Byrnes, whereby whatever the Congress did, we would be in a position to act, whereby we would be in a position ourselves to make these cuts if the Congress wouldn't do it. We are in a position to be flexible.

Mr. Byrnes. I was not desirous that you just be in a flexible position. My point was that I was hopeful you would take some action to cut back.

Mr. Schultze. We have gotten ourselves in a position whereby one way or the other the cuts will be made. We hope they can be made jointly.

Mr. Byrnes. I am very pleased, at least, that you have gone that far. I am not criticizing that at all. But I am disappointed you have not moved faster on it. And, I am disappointed that the figure is not larger.

Mr. Schultze. I realize that.

Mr. Byrnes. I certainly am not criticizing you for going ahead now. I am suggesting that you could have gotten that started in October, but you didn't.

I think it will be salutary to the deficit. It will be salutary as far as the American people are concerned as to how they look in terms of, Is the attitude in Washington consistent with respect to their attitude toward increased taxes and their attitude toward the dangers of a large deficit?

I would hope also that we could get more information as to the future, because I think there will be a requirement either here or in the Senate or before a tax increase is enacted—there will be a desire to know on the part of the Congress—what the budget presents for fiscal 1969.

The Congress will ask: "Are the kinds of cuts the administration is talking about now—the restraints—before the Ways and Means Committee, going to be reflected in the 1969 budget, which is the President's official determination of priority needs?

Secretary Fowler. Mr. Byrnes, you do not need to wait to take action governing fiscal 1968, which is the problem we are discussing here right now, until you see the 1969 budget.

Mr. Byrnes. We are concerned very much with 1969.

Secretary Fowler. I concede that. But hear me out.

You can protect your position. You can protect your position by reporting out this bill and passing it in the House effective only until June 30, 1968, seeing to it that what comes out of the budget when the Senate acts, let us say in January, you will be in conference, and you can go on to June 30, 1969.

Mr. Byrnes. Of course, you can do that, Mr. Secretary, but I have criticized the tax policy of "off again, on again." I don't like the idea of passing a tax bill for 6 months. And that is what you are talking about.

Secretary Fowler. No, we are not.

Mr. Byrnes. The bill will be retroactive for half a year and in ef-

fect another half year. I don't want to be in the position of supporting that type of bill.

Secretary FOWLER. Then you put yourself in a position whereby you can't take any action.

I am trying to get to an affirmative position.

Mr. BYRNES. You are forcing me into a position whereby I can't support you. That is what I am worried about.

Secretary FOWLER. Why? I need some support right now.

I want support right now, not in February or March.

Mr. BYRNES. I think you may be happy to get it whenever you can.

Secretary FOWLER. Well, in the meantime that we are running undue and unacceptable risks to the national welfare.

The CHAIRMAN. Mr. Burke.

Mr. BURKE. Mr. Chairman, before you close this hearing, I would like to commend the three gentlemen who have appeared here.

As one who voted to table the motion, I want to make it clearly understood that I don't think that we can ignore the statements made by Mr. Schultze or the Secretary of the Treasury or Mr. Martin.

In fact, I am very concerned about the statements made by Mr. Martin about the confidence and faith they have in the American dollar abroad. I think that this commitee and the Congress has a responsibility of looking into this question.

I don't think we can get a 10-percent surtax through. I think it would be possible on further examination after the Committee on Appropriations acts on this measure for some type of tax bill to be reported before the end of the year.

I don't feel in good conscience that I can go home this year without acting on this bill.

Thank you.

The CHAIRMAN. Are there any further questions?

We are always highly honored when we can have you three gentlemen with us. We appreciate so much the 2 days you have spent with us.

Let me make this very brief statement in closing the public hearing.

I think the exploration of expenditure limitations we have engaged in yesterday and today have been useful.

It seems to me that the position we are in shows an increasing awareness on the part of the administration of the need for expenditure cuts. I think we are making progress, but I feel that we still have some distance to go.

I would hope we could have a larger reduction in the fiscal year 1968 than has been outlined here. I am just as concerned about expenditure levels in the fiscal year 1969.

I was encouraged by Director Schultze's remarks which, if I understood them correctly, were to the effect that, apart from some major and now unforeseen change in Vietnam, he could assure us that spending in 1969, in controllable items, would not be above present levels.

Did I misquote you?

Mr. SCHULTZE. I just wanted—since I am in the middle of the process of reviewing the budget—I would just like to make it clear I said that this is what we are trying to do.

I hate to use the word "assure" when I am in the middle of a budget review.

The CHAIRMAN. When you try to do something, I am sure you will do it.

Mr. SCHULTZE. We will try. But I hate to use the word "assure."

The CHAIRMAN. I believe that more, particularly more specific, information is needed in this area before we can come to any conclusions on the tax increase.

I also want to say that I believe our discussions these past 2 days have given us a better understanding of the problems Secretary Fowler faces in the area of international finance and the monetary problems here at home which Chairman Martin is concerned with.

I have not seen as yet any evidence that we are currently in any demand-pull inflationary situation which requires immediate action, although, as Chairman Martin suggests, this could develop early next year.

This next week we will be primarily concerned with the conference on the social security bill, so I do not believe we will at this time be able to schedule our next sessions on the expenditure control and tax surcharge issue.

In any event, I assume that the next order of procedure would be for Director Schultze to discuss the proposed expenditure reductions with the Appropriations Committee.

We will reconvene whenever there is more for the committee to consider on which we can appropriately take action.

Does anyone want to say anything else?

If not, the committee will be adjourned subject to the call of the Chair.

(Whereupon, at 6:10 p.m. the committee adjourned, to reconvene at the call of the Chair.)

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CONTINUATION OF HEARING—JANUARY 1968

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HEARINGS

BEFORE THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETIETH CONGRESS

SECOND SESSION

ON

PRESIDENT'S 1967 SURTAX PROPOSAL: CONTINUATION OF HEARING

JANUARY 22 AND 23, 1968

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PRESIDENT'S SURTAX PROPOSAL: CONTINUATION OF HEARING—JANUARY 1968

MONDAY, JANUARY 22, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

The committee is meeting today in accordance with the announcement which was issued on December 15 that we would resume consideration of the President's surcharge proposal on this date in order to afford an opportunity for the officials of the administration to present to the committee a review of development, both domestic and international, since our last meeting on November 30.

We have with us this morning the Secretary of the Treasury, the Honorable Henry H. Fowler; the Director of the Bureau of the Budget, the Honorable Charles L. Schultze; and right back of him I think we have his successor within the next few days, Mr. Zwick.

We have the Chairman of the Federal Reserve Board, the Honorable William McChesney Martin, Jr.; and the Chairman of the President's Council of Economic Advisers, the Honorable Gardner Ackley.

I would like to suggest to the committee, in order to promote a more orderly presentation, that we hear these four gentlemen in the order I just read, and that all their complete statements be presented prior to the questions by members of the committee, just as we did on November 29 last.

Is there objection to that procedure? None is heard.

We will, therefore, hear them in the order I read their names. The first of our witnesses then this morning will be the Secretary of the Treasury, the Honorable Henry H. Fowler.

Mr. Fowler, we are pleased to have you with us and you are recognized.

STATEMENTS OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; HON. WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; AND HON. GARDNER ACKLEY, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Secretary FOWLER. Thank you, Mr. Chairman and members of the committee. I appreciate this opportunity at the start of this session to request early enactment of the President's tax recommendations, including a temporary 10 percent surcharge on individual and corporate income taxes. My colleagues and I will try to put these proposals in the perspective of the current situation—budgetary, economic, and financial.

You are familiar with the tax program itself in view of last year's hearings. Some of the recommended dates have been changed to accommodate to the fact that we are now in 1968.

This tax program is the key part of our fiscal response to a set of major challenges that face our Nation.

In international security affairs we have committed ourselves to repelling Communist aggression in Southeast Asia. Hundreds of thousands of our young men have accepted the burdens of carrying this commitment on the battlefields. It remains for the rest of the population, through the Congress to accept temporarily increased taxes as the most desirable means of financing a portion of this national effort.

In domestic affairs we have the challenge to government to help meet many problems beyond the scope of individual or private action. Meeting this challenge demands the courage to support cutbacks in Government expenditures for low priority programs and a willingness to meet the cost of the remaining activities—in a manner conducive to the maintenance of a stable and strong but well-balanced economy—in a manner that minimizes the dangers of serious trouble with respect to prices, interest rates, credit availability, and the health of our home-building industry.

In financial affairs we have a national and international responsibility of the highest priority which has grave significance for our economic security and strength and that of the entire free world. It grows out of the role of the dollar in the international monetary system—as a reserve currency and the principal "transaction" currency of the free world. It is our responsibility under present international monetary conditions, disturbed by the recent devaluation of the British pound and a deterioration in our balance-of-payments position, to take decisive action to bring our balance of payments to—or close to—equilibrium in the year ahead. A tax increase to preserve a stable economy, to protect our trade surplus, and to give the world confidence in our fiscal responsibility in this area, vital to others as to the United States, is the single most important step we can take to fulfill that responsibility.

A proper response to all of these challenges at home and abroad requires that we promptly enact the surcharge legislation.

DEVELOPMENT SINCE NOVEMBER

Mr. Chairman, the reasons for the surcharge that I gave in August and November have been strengthened by recent developments, particularly developments since we last testified in November. The most significant developments relate to the Federal budget, the balance of payments, the credit markets, and the economic situation.

THE BUDGET AND EXPENDITURE CONTROL

When we testified last November, we presented a legislative proposal for reducing obligations below the fiscal year 1968 budget proposals then outstanding. The reduction was to be, for civilian agencies, 2 percent of personnel costs and 10 percent of controllable costs; for defense, it was to be 10 percent of non-Vietnam, new obligation authority.

This measure was enacted by the Congress in December. It is now an operative part of the budgetary situation for fiscal year 1968 and provides a reduced base for fiscal year 1969 projections.

That measure in combination with congressional action on specific appropriation bills has reduced obligations in fiscal year 1968 by $10 billion from earlier requested levels. In many cases the reduction of an obligation in 1968 will reduce expenditures in fiscal year 1968. In other cases the expenditure reduction will show up in fiscal year 1969 or later. The expenditure reduction to be achieved in fiscal year 1968 is estimated to be $4.3 billion.

We have now the dimensions of the President's budget for the fiscal year 1969. Director Schultze will go over these, but I want to bring out some highlights.

The scale of increase in expenditures is less than one-half that of 1967 over 1966 and substantially less than that of 1968 over 1967. The fiscal program provides an increase of budget outlays of fiscal year 1969 over fiscal year 1968 which is less than the expected normal growth in revenues from expansion of the tax base through the rise in GNP. Even if no changes were to be made in existing income and excise tax rates, the budget deficit would thus be lower in fiscal year 1969 than in fiscal year 1968.

But it would not, in the current economic situation, reduce the level of deficit financing to a point consistent with the security and stability of the U.S. economy.

For this reason it is essential that the Congress enact tax legislation that would increase budget receipts before the end of fiscal year 1968 and maintain this higher level through the fiscal year 1969. The budget deficit for fiscal year 1968 would be reduced by the tax program from $22.8 to $19.8 billion, and in fiscal year 1969 it would be reduced from $20.9 to $8 billion.

It is not realistic from a standpoint of timing or amounts to expect to achieve this scale of deficit reduction by cutting expenditures—as long as military activities at their present level persist in South Vietnam. Outlays in the controllable civilian programs are only slightly higher than the already tight level of 1968, and rise by significantly less than the increase in payments on prior contracts.

Nor is the problem answered by pointing to the increase in budget expenditures in the budget for 1969 over fiscal year 1968 of $10.4 billion.

Of this total, $3¼ billion is for national defense, including the weapons program of the Atomic Energy Commission; $1 billion is for increased interest payments on the public debt; $1½ billion is for the second step of the civilian and military pay increase provided by act of Congress late last year; and $4¾ billion is for mandatory payments required by laws passed by the Congress, such as social security, public assistance, and payments to veterans.

The budget will recommend reductions and reforms in various programs which will cut fiscal year 1969 obligations for these programs by almost $3 billion below the levels appropriated in 1968. Some of the program reductions will be unpopular. The President's fiscal program represents a tough policy, but one which is responsive to important social needs while making the hard decisions to postpone or eliminate some desirable but lower priority items.

We need now to address ourselves to the problem of how to finance this budget. We cannot procrastinate further in a vain hope that a different and substantially lower budget will soon be forthcoming.

PRICES AND THE ECONOMIC OUTLOOK

Now, on developments since November in the field of prices and the economic outlook, which Chairman Ackley will cover in greater extent as Mr. Schultze will cover the budgetary material in a larger way, since our testimony of last November, the economy has developed substantially along the lines that we had predicted at that time. Income has risen sharply, and there has been disturbing price pressure.

The level of unemployment at the end of 1967 was, seasonally adjusted, 3.7 percent, and this after an unusually large gain in the civilian labor force of nearly 1.6 million in 1967. In the first half of 1967, however, general prices, as measured by the GNP deflator, rose at the disturbing rate of 3.8 percent a year.

Broadly, one goal of our fiscal program with the tax increase is to hold the growth of demand, that is, the growth of money GNP, to about $60 billion in the coming year. As you will see, this will involve some unwelcome price increases. Due to the sharper rise in consumer prices in 1967, it is inevitable that wage increases in 1968 will be somewhat above productivity gains. Thus, somewhat higher prices are in prospect.

Basically, our tax program to check the growth in money demand in 1968 is a matter of assuring that the price increase in 1968 slows down from the rate experienced in the second half of 1967. This will make it possible to move further in the direction of price stability in 1969.

I cannot overemphasize this point. We are not saying merely that a tax increase would be nice because we should have a better price performance than we had in 1967. We are saying more than this, that failure to take action to hold down the growth of money demand in 1968 would lead to a serious, progressive increase in domestic prices. It would lead to larger wage increases, and it would make it still harder to move toward price stability in 1969.

FINANCIAL DEVELOPMENTS

Let me turn now to developments in domestic financial markets since we last met with this committee. On balance, financial conditions improved slightly in January, although interest rates at the end of 1967 were extremely high. Both corporate bonds and State and local bonds were yielding rates well above their 1966 highs. The yields on FHA mortgages sold in the secondary market were back to their 1966 highs.

Money and capital markets remain cautious and uncertain. Interest rates and security prices will still gyrate dizzily at apparent changes in the prospects for congressional tax action. Almost all financial market observers fixed the principal responsibility for the financial pressures in the second half of 1967 on the U.S. Government's fiscal situation. The prospects of large Federal borrowing in the absence of a tax increase so dominate the financial markets that an investor's outlook at any particular time must be governed by his judgment as to the chance of a tax increase and the prospective Federal deficit. The financial markets received a considerable lift in December on the announcement that this committee would take up consideration of the tax proposal today.

Then early in January domestic financial conditions were buoyed by two additional elements—our balance-of-payments program announced on January 1—and press comments suggesting the greater likelihood of peace negotiations with Hanoi.

This market improvement lasted until early last week. Then, interest rates rose sharply again as stories about the possible imminence of peace talks diminished and as our communications media reported somewhat pessimistically on the prospects for a tax increase.

This brief chronology underscores the importance financial markets place on a tax increase. This widespread feeling in financial markets is based on a realistic estimate of the large demands on credit and capital markets—from private borrowers, State and local governments, and the Federal Government—that are likely to persist if a tax increase is not enacted. I shall have more to say about likely credit demands in this event later in my remarks.

THE BALANCE OF PAYMENTS

When we appeared before you on November 29, I said:

> Make no mistake about it—confidence in the dollar and the international monetary system depends on the ability and determination of the U.S. Government to act responsibly.

Developments in the weeks following the sterling devaluation both before and after the committee hearings on November 29 and 30 served to place in sharp focus the need for decisive and responsible action on our part. Against the background of a persistent deficit in the U.S. balance of payments, the British move resulted in a weakening of confidence in currencies and was accompanied by a burst of speculation in the gold markets which led to a loss of over $1 billion to our gold reserves.

In addition, it became evident during this period that our payments position in the fourth quarter had deteriorated sharply, and that for the year as a whole, we would be running a deficit of $3.5 to $4 billion.

The fact that the trade figures for October and November showed a disappointing decline in the trade surplus was quite disturbing. It was clear that new and decisive measures had to be taken to move the U.S. balance-of-payments position strongly toward balance.

These measures were announced on January 1 by the President, and you are familiar with them.

In order to give understanding of this action program and its importance at this point of time to the people of the United States and peoples everywhere, the Treasury Department issued last week a report entitled, "Maintaining the Strength of the U.S. Dollar in a Strong Free World Economy."

This document describes in detail the background and reasons for the January 1 program. It describes what we have done to date and what we propose to do, both over the short and long term, to bring our balance of payments into equilibrium and keep it there, as well as the relationship of this action to the viability of the international monetary system and maintaining confidence in its stability.

The keystone to this balance-of-payments program is the surcharge proposal you have before you. The other direct measures added and proposed in the January 1 program to the preexisting effort are like the four fingers of the hand. They cannot be effective in dealing with the problem without the tax proposal which is the thumb, enabling us to get a firm grip on the problem.

As the President said in his January 1 message:

> The first line of defense of the dollar is the strength of the American economy. No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year. Coupled with our expenditure controls and appropriate monetary policy, this will help to stem the inflationary pressures which now threaten our economic prosperity and our trade surplus.

THE TAX PROGRAM

These developments are all in the direction of strengthening our conviction as to the need for a temporary, but substantial, tax increase that would produce, at an annual rate, about $10 billion. Our program at the rates proposed last August does this, and it also postpones the revenue losses of almost $3 billion a year that would come from scheduled excise tax reductions. Only the dates have been changed to recognize that we are already in 1968.

Our tax program is this—we urge the enactment of a 10-percent surcharge on the income tax of individuals and corporations.

On individuals, the 10-percent surcharge would be effective April 1, 1968, and continue through June 30, 1969. The effective rate on individuals in calendar year 1968 would be 7.5 percent of their present law tax. The surcharge would not apply to about 17 million individuals whose taxable income does not rise above the second bracket.

On corporations, the surcharge would be effective January 1, 1968, and continue through June 30, 1969. This would give an effective rate of 10 percent for corporations in calendar year 1968.

Corporations should be moved to the same fully current payment basis now applicable to individuals.

The automobile and telephone excises now scheduled to be reduced April 1 should be extended, at present rates, to June 30, 1969.

The specific revenue estimates by fiscal years are given in the following table:

TABLE 1.—ESTIMATED EFFECT OF PROPOSAL ON BUDGET REVENUES

[In millions of dollars]

Proposal	Fiscal year 1968	Fiscal year 1969
Income taxes:		
Proposed surcharge:		
Individual income tax	930	6,920
Corporation income tax	970	2,880
Acceleration of corporation tax payments	800	400
Subtotal, income tax proposals	2,700	10,200
Excise taxes (extension of present rates):		
Automobiles	190	1,500
Telephone service	116	1,160
Subtotal, excise extensions	306	2,660
Total revenue under proposals	3,006	12,860

Mr. FOWLER. There has been, I think, some confusion as to the magnitude of this surcharge. It is not 10 percent of income; it is 10 percent of the present law tax. In the aggregate, Americans pay in Federal individual income taxes about 10 percent of their total income. The surcharge during the 15-month period, while it is in effect, will be about 1 percent of income.

Another way of putting the size of this surcharge in perspective, is to recall that the tax reductions enacted in 1961–65 came to 20 percent of the tax due, or somewhat over 2 percent of the income of Americans. Our proposal is to restore, on a temporary basis, less than half of this cut.

Another way of viewing this surcharge, is to look at shares of the national output. In 1963, excluding the largely self-financed social insurance, the trust funds, Federal Government expenditures were about 16 percent of GNP. In 1968, they will be 17 percent, even when we include 3 percent for Vietnam. Our total expenditures for other than Vietnam have not grown as fast as the GNP. We are able, therefore, to cover less than half of the war cost out of increased taxes.

As to termination of this surcharge, it will be keyed to our ability to reduce substantially expenditures in Vietnam following a cessation of large-scale hostilities. If it occurs before June 30, 1969, the President will recommend early termination of the surcharge.

THE RISKS OF FAILURE TO ACT

The issue on any tax increase is not whether we like it or not. Of course we don't like it. The only issue is whether we dislike it as much as we would dislike the consequences of not enacting the tax increase. If you will examine these alternatives with me, you will find the case for a tax increase overwhelming.

I am reminded of the advice of Edmund Burke. On one occasion he incurred the wrath of his constituents in Bristol by his vote on an Irish shipping bill. He wrote an open letter to the merchants of Bristol explaining why the bill was really in their interests. He closed with the comment, "I would rather displease my constituents than harm them."

I want to discuss with you the risks that we run through consequences of failure to pass a tax bill. These risks fall in three areas, financial and credit markets, prices and inflation, and the balance of payments.

FINANCIAL AND CREDIT MARKETS

An obvious alternative to a tax increase is tighter credit, since high interest rates can curtail demand as does a tax increase, although it curtails the demand of different people. Governor Martin will discuss this consequence with you in greater detail.

I want to emphasize, in the strongest terms, my conviction that it would be a reckless course of action to leave to monetary policy the task of curtailing demand.

Prospects for avoiding strains in money and capital markets in 1968 depend crucially on enactment of the tax increase. Failure to pass the surcharge would mean that the Federal Government would have to continue to tap the securities markets in volume. These Federal demands for funds would be occurring in the context of a more rapid economic expansion in the private sector, which would strengthen the demands for funds by private borrowers. The provision of needed State and local services will also call for larger borrowing by these instrumentalities.

Moreover, in the absence of a tighter fiscal policy additional monetary restraint would no doubt have to be brought to bear to stem the heightened prospects for accelerating inflation. This would contribute further to upward pressures on market rates of interest. Interest rates on long-term securities would no doubt rise to levels above their recent highs. Shorter term rates might again approach the peaks of 1966.

With this rise in interest rates, and reduced credit availability, some savings institutions and some potential borrowers are bound to get hurt. The net inflows of savings to thrift institutions began to slow in the latter months of 1967 in response to rising interest rates on market securities. Correspondingly, these institutions became increasingly reluctant to continue to commit funds to the mortgage market in the amounts they had earlier.

This trend toward "disintermediation" would step-up were market interest rates to rise much further. This would mean that the housing industry undoubtedly again would suffer most, as it usually has when interest rates are high and credit tight. And along with this squeeze in housing credit, one would anticipate a significant curtailment in fund availability to such other borrowers as State and local governments and small businesses.

To refuse to take fiscal action and leave to monetary policy the responsibility for a credit control approach to preventing inflation would be like enacting a special tax that would fall on home buyers, homebuilders and suppliers, the savings institutions, State and local governments, and small business—the groups most affected by credit tightness.

Clearly this is an inequitable alternative to a general tax increase. It will result in an unbalanced pattern of growth. It leaves an inadequate mix of monetary and fiscal policy that is unwelcome to those on this side of the table responsible for both of these elements of economic policy.

PRICES AND INFLATION

There are both limits and risks involved in trying to control inflation through resorting to credit restraint while fiscal stimulus flows from a failure of Congress to enact the surcharge. And the risks are unacceptable if inflation is not restrained in 1968.

I must start with our recent experience with prices. In 1967 we had an appreciable amount of price inflation. Thus the cost of living and the GNP deflator rose about 3 percent. The statistic, however, understates the problem two ways. The overall rise of 3 percent occurred despite generally lower prices for farm goods and for many industrial raw materials. Further, prices rose only a bit over 2 percent in the first half of the year and almost 4 percent in the last of the year. Thus we are going into 1968 with a very fast rate of price increase.

A basic point that I need to stress here is that price changes are closely related to things that have happened in the past. In 1967 wage increases were relatively high in large part due to the price increases that occurred in 1966 and were associated then with rising farm prices. During the first half of 1967 poor market conditions made it impossible to pass on in prices many of the wage increases that were occurring, but these started to be reflected in prices in the last half of the year.

For the first half of 1968 wage settlements will reflect a combination of adjustments to the cost-of-living increases in 1967 and the completion of multistage wage settlements arrived at under long-term labor contracts in 1966 and 1967. In addition, farm prices are likely to increase somewhat.

Since we will be at substantially full employment, these wage increases are likely to be passed on in higher prices. In the main, we could say that for the first half of 1968 something like a 3½-percent price increase is nearly assured.

With a tax increase there is every reason to expect that the rate of price increase in the last half of 1968 will be lower than the first half. Under this projection we would be coming out of 1968 with a tapering off of the rate of price increase, and the prospects for moving toward price stability in 1969 would be excellent.

Without a tax increase money demand will continue to grow through the last half of 1968. There will be continuing shortages of labor, particularly skilled labor. These are precisely the circumstances under which we would expect that any cost increases could be passed on and business firms generally would be in a position to raise price margins.

If prices are accelerating at the end of 1968, there will be a lot more at stake than what would appear from the simple statistic that the average price increase for the year was 4 percent rather than 3 percent. What would be at stake is the price pattern in 1969. The cost of living would be higher and rising. Labor would expect to get wage increases to cover these cost of living increases. The wage increases would push prices up still higher in 1969, and we could be well on the way to a spiralling price inflation.

The risks that we run by tolerating a budget deficit of over $20 billion for 2 years in a row and permitting the resulting inflation should be unacceptable.

A failure to take this tax action promptly will risk a declining trade surplus. This trade surplus is the mainstay of our balance-of-payments position. There are both short-term and long-term dangers to it if there is a failure of fiscal policy.

This short-term risk is a floodtide of imports—as in late 1965 and 1966—induced by an economy running at a very high rate of speed. When our rate of economic growth in money terms expands at a rate of 8 or 9 percent, there is an increased propensity to import. In that situation imports climb relative to our gross national product and our trade surplus evaporates.

As in 1966, excessive increases in income—especially when we have full employment—will be quickly translated into higher prices and capacity bottlenecks with a resulting surge in imports and a slowdown in exports. In 1965 and 1966, a period in which GNP growth exceeded 8 percent per annum, our average rate of growth in imports exceeded 16 percent per annum as compared with 5 percent in 1963 and 9.6 percent in 1964.

Our trade surplus—the excess of a large amount of exports over almost as large amount of imports—changes sharply with relatively small changes in imports or exports. If our imports rise 1 percent faster than our exports, we would in 1 year lose $300 million of our trade surplus.

The long-term threat to our trade surplus to which fiscal action is importantly related is the danger that a continuing spiral of increasing costs and price pressures will undermine the long-term competitive position of the United States in markets abroad and at home. With the economy picking up momentum in late 1967 and in 1968, and with cost and price pressures increasing, the risk of no tax increase is for higher prices in 1968 and particularly for a higher rate of price increase toward the end of 1968. The higher money incomes plus the loss of competitive position from rising prices of U.S. exports could make substantial inroads on our trade surplus.

All other efforts to improve our balance-of-payments position run the risk of failure unless we avoid the kind of excessive growth that floods us with imports and unless we return to relative price stability and cost competitiveness in the U.S. economy.

The prompt enactment of the President's tax-increase program is the single most important and indispensable step this Nation can take now to improve our balance of trade and payments and protect the dollar and the international monetary system.

The role of the Federal Government in the maintenance of an economic environment in which price and cost stability can be sustained is widely recognized by international financial authorities. The balance-of-payments-adjustment-process report by working party No. 3 of the Organization for Economic Cooperation and Development stated:

> It is agreed that there are certain general principles (or "rules of prudence") which should be followed by all countries in order to prevent as far as possible the emergence of balance-of-payment disequilibrium. In the field of demand management, it is agreed that it should be a general object of fiscal and monetary policy to maintain demand at a level which is neither excessive nor deficient, and to promote a continuing expansion of total national expenditure in line with the trend growth rate of productive potential. There is also agreement that, in general, fiscal policy should play a major role in the management of demand.

Over time we must be able to look to our trade surplus to be sufficiently large to finance a large portion of our other expenditures abroad. The sooner we achieve a sustained improvement in our trade surplus, the easier it will be for us to phase out the restrictive measures we have found it necessary to take.

In addition, if it is to be effective, the new balance-of-payments program requires other nations to make adjustments which in many cases will not be pleasant—particularly for the surplus countries in Western Europe, where the impact will be sharpest. It will be far easier for them to make these adjustments and not retaliate against our actions, if they know that they are not carrying the whole burden themselves—but that we, too, are taking difficult measures at home.

Last December the OECD Economic Survey of the United States stated:

> An immediate concern of the authorities must be to avoid an excessive increase in demand, which would strengthen cost-price pressures and aggravate the balance-of-payments problem. Given the likely strength of the expansion now developing, this can hardly be achieved without the tightening of fiscal policy proposed by the President.

A U.S. economist writing for a New York investment counselor last week described the situation as follows:

> The 10-percent tax surcharge has become a symbol of the sincerity of the U.S. Government's determination to defend the dollar. Unless Congress moves promptly to enact the surcharge, Europe will not be impressed with the rest of the balance-of-payments programs.

This observation squares completely with all the information and impressions we have received through official channels. For example, it was indelibly impressed on Under Secretary Katzenbach and Under Secretary Deming in their recent mission to seven countries to explain the new balance-of-payments program.

Action on the surcharge is imperative if we are to assure the success of the balance-of-payments program and maintain the strength of and confidence in the dollar.

CONCLUSION

Mr. Chairman and members of the committee, one may reasonably ask, however, whether there are risks if we pass the surcharge. There may be some who say that any increase will halt our economic expansion and push the economy into a stall or even worse. We do not foresee this as a real or substantial risk that is being run. Current and prospective demands are strong. The consensus of private forecasts, which typically have the assumption of a tax increase, agrees on this outlook. If by 1969 things change, both fiscal and monetary policies can be modified. In any event, a new decision will have to be taken since the proposed surcharge is scheduled to expire on June 30, 1969.

There may be some who feel that a temporary tax increase will not remain temporary and that we risk being locked into a higher level of taxation. No one can, of course, say that all things labeled temporary live up to their label. We have had "temporary taxes" that have outlived their "temporary duration." For the surcharge, how-

ever, there is solid foundation for confidence in the belief that it will remain temporary.

For one, the surcharge is needed because of hostilities in Vietnam. Its yield is only a portion of those costs. Moreover, the tax reductions of 1964 and 1965, have demonstrated to the country the benefits that flow to our economy and to all in the private sector from the policy of using some portion of the fiscal dividend that comes from economic growth to reduce our level of taxation. This policy will be reinforced at the end of hostilities in Vietnam, which will surely come, by the need to stimulate the private sector to put to peacetime tasks the resources of men, materials, and facilities that have been used in that effort. Indeed, the enactment of the surcharge now will provide a ready means for a smoother post-Vietnam adjustment through its quick removal.

The clear and present advantages of enacting the tax proposals far outweigh the minimal potential risks involved in taking the action. The prompt enactment of the tax proposal at this session of Congress would:

Reverse sharply and decisively the trend toward increased deficit financing which began with our increased participation in hostilities in Southeast Asia in the fiscal year 1966.

Reduce the budget deficits for fiscal years 1968 and 1969 by approximately $16 billion.

Take a giant step in providing the confidence and stability in financial markets here and abroad which is based on the strength of the dollar and the U.S. economy.

Reduce appreciably the most important source of pressure on our credit markets: the huge overhang of Federal borrowing which steadily ups interest rates.

Remove the threat to our housing industry which is in the process of a needed recovery.

Remove the risk of a credit crunch that will deprive States and local governments and small business of ready access to credit.

Reverse the trend from a creeping to an accelerating inflation and turn the economy back toward price stability and wage changes more closely related to increased productivity.

Halt movement toward another disruptive inventory cycle.

Prevent our returning to the old pattern of "boom and bust."

Protect, maintain, and expand our trade surplus which is the mainstay of our balance-of-payments position and which is vitally important to the preservation of international confidence in the dollar and the stability of the international monetary system.

Mr. Chairman, I would like to submit for the record a bill incorporating the statutory language to carry out our surcharge proposal with the changed dates and a technical explanation of that bill. (Tables comparing 1963–67 tax liability and 1968–69 tax liability under proposed surcharge increase of various categories of taxpayers were also submitted and appear at this point in the record.)

The Chairman. Without objection that material will be included in the record at this point.

(The proposed bill, technical explanation, and pertinent tables follow:)

TEXT OF PROPOSED TAX SURCHARGE ACT OF 1968

A BILL To amend the Internal Revenue Code of 1954 to impose a temporary tax surcharge, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) Short Title.—This Act may be cited as the "Tax Surcharge Act of 1968."

(b) Amendment of 1954 Code.—Except as otherwise expressly provided, whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. IMPOSITION OF TAX SURCHARGE

(a) In General.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"SEC. 51. TAX SURCHARGE

"SEC. 51. TAX SURCHARGE.

"(a) Imposition of Tax.—

"(1) Calendar year taxpayers.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:,

Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) Fiscal year taxpayers.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) Ten percent of the adjusted tax for the taxable year, multiplied by

"(B) A fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) Effective date defined.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) Low Income Exemption.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(1) $290, in the case of a joint return of a husband and wife under section 6013,

"(2) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"(3) $145, in the case of any other individual (other than an estate or trust).

"(c) Adjusted Tax Defined.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871(a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation), and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(d) Authority to Prescribe New Optional Tax Tables.—The Secretary or his delegate may prescribe regulations setting forth modified optional tax tables for calendar years 1968 and 1969 computed upon the basis of composite rates incorporating the rate at which tax is imposed by this section. The composite rates so determined may be rounded to the nearest whole percentage point and the tax tables so determined may be rounded to the nearest whole dollar. If the Secretary or his delegate prescribes regulations pursuant to this subsection, then notwithstanding section 144(a), in the case of a taxpayer (whose taxable year is the calendar year) to whom a credit is allowable for 1968 or 1969 under section 37, the standard deduction may be elected for such year regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) Estimated Tax.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the enactment of this section—

"(1) In the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201(a) or subchapter L;

"(2) The term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654(d)(1), and the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if tax had been imposed by this section for such preceding taxable year at the rate applicable to the current taxable year.

"(f) Withholding on Wages.—In the case of wages paid after April 1, 1968, and before July 1, 1969, the tax required to be deducted and withheld under section 3402 shall be determined in accordance with the following tables in lieu of the tables set forth in section 3402 (a) or (c)(1).—

Tables to be used in lieu of tables in Section 3402(a)

Tables to be used in lieu of tables in Section 3402(c)(1)

"(g) Western Hemisphere Trade Corporations and Dividends on Certain Preferred Stock.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) Section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) Section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) Section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the demoninator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(h) Special Rule.—For purposes of this title, except as otherwise expressly provided in this section, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.

"(i) Shareholders of Regulated Investment Companies.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a).

(b) Minimum Distributions.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) Taxable years beginning in 1963 and taxable years entirely within the surcharge period.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) Taxable years beginning after 1964 (except taxable years which include any part of the surcharge period).—", and

(3) by adding after the table in paragraph (3) the following:

"In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the close of the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

"As used in this subsection, the term 'surcharge period' means the period beginning on January 1, 1968, and ending at the close of June 30, 1969."

(c) Clerical Amendment.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"PART V. TAX SURCHARGE."

(d) Effective Date.—The amendments made by this section shall apply—

(1) Insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

SEC. 3. RAISING FROM 70 PERCENT TO 80 PERCENT THE ESTIMATED TAX WHICH MUST BE PAID IN INSTALLMENTS BY CORPORATIONS.

(a) In General.—Section 6655 (b) (relating to amount of underpayment), and section 6655 (d) (relating to exception), are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(b) Effective Date.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. PAYMENT OF FIRST $100,000 OF ESTIMATED TAX.

(a) Requirement of Declaration.—Section 6016 (a) (relating to requirement of declaration of estimated tax in case of corporations) is amended by striking out "$100,000" and inserting in lieu thereof "$40".

(b) Reduction of Exclusion from Estimated Tax.—Section 6016 (b) (relating to the definition of estimated tax in the case of a corporation) is amended to read as follows:

"(b) Estimated Tax.—

"(1) Definition.—For purposes of this title, in the case of a corporation, the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, reduced by the amount which the corporation estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1, over

"(B) an amount equal to the applicable exclusion percentage (determined under paragraph (2)) multiplied by the lesser of—

"(i) $100,000, or

"(ii) the amount determined under subparagraph (A).

"(2) Exclusion percentage.—The term 'exclusion percentage' means—

If the declaration is for a taxable year beginning in:	*Exclusion percentage*
1968	80
1969	60
1970	40
1971	20
1972 or later	0"

(c) Exception from Addition to Tax.—Section 6655(d)(1) is amended by striking out the phrase "reduced by $100,000" and inserting in lieu thereof "reduced by an amount equal to the applicable exclusion percentage, determined under section 6016(b)(2), multiplied by the lesser of $100,000 or the amount of such tax."

(d) Addition to Tax for Underpayment of Estimated Tax.—Section 6655(e) (relating to the definition of tax) is amended to read as follows:

"(e) Definition of Tax.—For purposes of subsection (b), (d)(2), and (d)(3), the term 'tax' means the excess of—

"(1) the amount of tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, reduced by the sum of any credits against tax provided by part IV of subchapter A of chapter 1, over

"(2) an amount equal to the applicable exclusion percentage, (determined under section 6016(b)(2)), multiplied by the lesser of—

"(A) $100,000, or

"(B) the amount determined in paragraph (1)."

(e) Technical Amendment.—Clause (v) of section 243 (b)(3)(C) is amended by striking out "$100,000".

(f) Effective Date.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 5. POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS.

(a) Passenger Automobiles.—

(1) In general.—Subparagraph (A) of section 4061 (a)(2) (relating to imposition of tax) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"7 percent for the period March 16, 1966, through June 30, 1969.

"2 percent for the period July 1, 1969, through December 31, 1969.

"1 percent for the period after December 31, 1969."

(2) Conforming amendments.—Section 6412 (a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969" and inserting in lieu thereof "July 1, 1969, or January 1, 1970".

(b) Communication Services.—Section 4251 (relating to tax on communications) is amended—

(1) By striking out subsection (a)(2) and inserting in lieu thereof:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered	Percent
"Before July 1, 1969	10
"After June 30, 1969, and before January 1, 1970	1"

(2) By striking out subsection (b) and inserting in lieu thereof:

"(b) Termination of Tax.—The tax imposed by subsection (a) shall not apply to amounts paid pursuant to bills first rendered on or after January 1, 1970."

(3) By striking out subsection (c) and inserting in lieu thereof:

"(c) Special Rule.—For purposes of subsection (a), in the case of communications services rendered before May 1, 1969, for which a bill has not been rendered before July 1, 1969, a bill shall be treated as having been first rendered on June 30, 1969. For purposes of subsections (a) and (b), in the case of communications services rendered after April 30, 1969, and before November 1, 1969, for which a bill has not been rendered before January 1, 1970, a bill shall be treated as having been first rendered on December 31, 1969."

(c) Effective Date.—The amendments made by this section shall be effective on the date of enactment of this Act.

TECHNICAL EXPLANATION—TAX SURCHARGE ACT OF 1968

This bill, which is entitled the "Tax Surcharge Act of 1968", has four substantive sections:

(a) Section 2 imposes a temporary surcharge on both individual and corporate income tax liabilities at an annual rate of ten percent.

(b) Section 3 raises from 70 percent to 80 percent, the percent of its estimated tax which a corporation may pay by installments without incurring a penalty.

(c) Section 4 eliminates, over a five-year period, the $100,000 estimated tax exemption presently granted corporations.

(d) Section 5 suspends the schedule for the reduction of the excise taxes on passenger automobiles and telephone service during the period of the temporary surcharge.

There follows a more detailed description of each of these provisions.

SEC. 2. TAX SURCHARGE

(a) *Imposition of tax.*—Subsection (a) of section 2 adds a new part to subchapter A of chapter 1 of the Internal Revenue Code which consists of a new section 51 imposing a temporary tax surcharge on corporations and individuals.

General Provisions.—Subsection (a) of the new section 51 provides for the imposition of the surcharge. The tax is at an annual rate of ten percent of tax liability (adjusted as provided in section 51(c)) and is effective from January 1, 1968, through June 30, 1969, for corporations and from April 1, 1968 through June 30, 1969, for individuals. For taxpayers who report their income on a calendar year basis, the rate of the surcharge for the calendar years involved is as follows:

[In percent]

Calendar year	Rate of tax	
	Individuals	Corporations
1968	7.5	10
1969	5.0	5

In the case of taxpayers who report their income on a fiscal year basis, the rate will be ten percent for years falling entirely within the effective dates, whereas, in the case of taxable years that straddle either the commencement or termination date, the tax will be prorated depending on the number of days in the taxable year falling within the period the tax is in effect.

Low income exemption.—Subsection (b) of the new section 51 provides an exemption from the surcharge for individuals (other than estates and trusts) whose tax does not exceed that generally applicable to the first two brackets of taxable income. More specifically, the surcharge will not apply to a husband and wife filing a joint return if their tax does not exceed $290. It will not apply to a head of household whose tax does not exceed $220, or to a single individual (or a married individual filing a separate return) whose tax does not exceed $145. In the case of a head of household, the exemption level is determined on the basis of the tax applicable to $1,500 of taxable income which is midway between the first two tax brackets of a single individual and the first two tax brackets of married couple filing a joint return.

Tax base on which surcharge is computed.—Subsection (c) of the new section 51 provides that the surcharge shall be computed as a percentage of the tax otherwise imposed by chapter 1 of the Internal Revenue Code, with the exception that it shall not be imposed (1) with respect to the 30 percent tax under sections 871(a) and 881 on non-resident alien individuals and foreign corporations receiving income not effectively connected with a business in the United States, or (2) with respect to any increases in tax under section 47(a) (relating to certain dispositions of section 38 property) and section 614(c)(4)(C) (relating to deductions taken under section 615(a) prior to aggregation). In the case of an elderly person who is eligible for the retirement income credit, the surcharge will be computed as a percentage of his tax liability after subtracting his retirement income credit. Similarly, tax liability shall be reduced by the retirement income credit in determining whether such an individual is eligible for the low income exemption. This treatment is afforded the retirement income credit in order to give it the same effect on the surcharge as the exclusion for social security benefits. Tax liability would not be reduced by any other credits in computing the amount of the surcharge. On the other hand, once the surcharge has been computed, it may be offset by credits to which the taxpayer is entitled and which are not absorbed by his regular tax liability.

Authority to prescribe new optional tax tables.—Subsection (d) of the new section 51 provides that the Secretary of the Treasury or his delegate may prescribe regulations setting forth modified optional tax tables computed on the basis of composite rates incorporating the surcharge. The tables may be rounded to the nearest whole dollar, and the composite rates to the nearest whole percentage point.

The usual rule that a taxpayer with less than $5,000 of income may take the standard deduction only if he uses the optional tax tables will be waived in the case of a taxpayer who is eligible for the retirement income credit. This special rule is to reflect the fact that the effect of the retirement income credit on the surcharge cannot be accurately incorporated into the optional tax tables, with the result that those claiming the retirement income credit will almost universally use the regular tax computation. Under these circumstances, without the special rule, most taxpayers claiming the retirement income credit would be precluded from using the standard deduction.

Estimated tax.—Subsection (e) of the new section 51 contains provisions conforming the estimated tax provisions to the new surcharge tax. Under present law, corporations are required to pay estimated tax only with respect to taxes imposed by section 11 or 1201(a) or subchapter L (relating to insurance companies). The new subsection (e)(1) provides that any surcharge that is attributable to a tax imposed under these sections or subchapter shall, for estimated tax purposes, be treated as a tax imposed under these sections or subchapter and, therefore, subject to estimated tax payments. Paragraph (2) of the new subsection (e) provides that, in the case of the option under which individuals and corporations may pay their estimated tax on the basis of their prior year's tax liability, their prior year's liability shall be adjusted to reflect the surcharge tax at the rate for the current year.

Under the provisions of the new subsection (e), corporations would be required to reflect the surcharge in their first estimated tax payment due more than 15 days after the bill is enacted. For individuals, the surcharge would have to be reflected in the first estimated tax payment due more than 45 days after the enactment of the bill. Fiscal year taxpayers will spread the surcharge ratably over the number of installments remaining in their taxable year. Thus, a corporation with a November 30 fiscal year would reflect the surcharge for its taxable year ending November 30, 1968 in three equal installments on May 15, August 15, and November 15.

New withholding tables.—Subsection (f) of the new section 51 will set forth new tables for computing the amount of income taxes to be withheld from wages paid on or after April 1, 1968, and before July 1, 1969. These tables will reflect an increase in the withholding rates of ten percent.

Western Hemisphere Trade Corporations and dividends on certain preferred stock.—The following two provisions of the Internal Revenue Code provide a special deduction with respect to certain income which has the effect of reducing the corporate tax rate applicable to that income by 14 percentage points. These provisions are:

(1) Section 922, relating to the taxable income of Western Hemisphere Trade Corporations; and

(2) Section 247, relating to dividends paid by a public utility on its preferred stock.

Section 244 provides a reciprocal deduction with respect to amounts received as dividends on certain preferred stock of a public utility. In order to maintain the 14 percentage point differential under these sections, subsection (g) of the new section 51 provides that the computation shall be adjusted, under regulations prescribed by the Secretary of the Treasury or his delegate, to reflect in the regular corporate tax rate the surcharge imposed under the new section 51.

Special rules.—Subsections (h) and (i) of the new section 51 insure that, under regulations to be prescribed by the Secretary, the surcharge interacts properly with other tax-imposing sections of the Code. Thus, for example, these subsections insure that the provisions of sections 72(n)(3) and 1378(b) (relating to reduction of taxes by certain credits), sections 815(b)(2)(B) and 815(c)(3)(B) (relating to adjustments to the shareholders and policyholders surplus accounts), sections 535(b)(1), 545(b)(1), and 556(b)(1) relating to adjustments for taxes of personal holding companies), section 852(b)(3)(D)(ii) and (iii) (relating to treatment of undistributed capital gain by shareholders of regulated investment companies), section 1361 (a) and (h) (relating to unincorporated business enterprises electing to be taxed as domestic corporations), sections 1373(c), 1375(a)(3) and 1378 (relating to subchapter S corporations), and sections 515 and 841 (relating to the credit for foreign taxes) will properly reflect the application of the surcharge. (This list is not intended to be exhaustive.)

(b) *Minimum distributions by foreign subsidiaries.*—Subsection (b) of section 2 of the bill amends section 963(b) (relating to receipt of minimum distributions by domestic corporations from their foreign subsidiaries) to provide for the use of a minimum distribution table reflecting the surcharge. The table is to be used for taxable years all or part of which fall within the surcharge period. It is the same table that was applicable for taxable years beginning in 1963 when the corporate tax rate was 52 percent (the present corporate tax rate including the additional surcharge is 52.8 percent). In the case of taxpayers with taxable year falling only in part within the surcharge period, the 52 percent minimum distribution table is to be used on a pro rata basis.

(c) *Clerical amendment.*—Subsection (c) of section 2 of the bill makes a clerical amendment to reflect the addition of the new Part V imposing the surcharge.

(d) *Effective date.*—Subsection (d) of section 2 of the bill provides the effective dates for the surcharge. These dates are explained in the discussion under subsection (a) of section 2 of the bill.

SEC. 3. INCREASE FROM 70–80 PERCENT THE AMOUNT OF ESTIMATED TAX WHICH CORPORATIONS MUST PAY IN INSTALLMENTS

Under present law, a corporation is not penalized for an underpayment of estimated tax if its payments equal or exceed those which would be required on the basis of estimated tax liability of 70 percent of actual tax liability (less $100,000). Section 3 of the bill amends section 6655 to raise the 70 percent figure to 80 percent. This conforms the percentage for corporations to that made applicable to individuals beginning in 1967. This change would be effective for taxable years beginning after December 31, 1967.

SEC. 4. PAYMENT OF FIRST $100,000 OF ESTIMATED TAX

Under present law, corporations are required to make estimated tax payments only with respect to their estimated tax liability in excess of $100,000. They are not required to make any estimated tax payments on their first $100,000 of estimated tax liability and, if their annual estimated tax liability is $100,000 or less, they are not required to file a declaration. Under section 4 of the bill, the $100,000 exclusion would be repealed over a five year period.

More specifically, subsection (a) of section 4 of the bill would amend section 6016(a) to require a corporation to file a declaration of estimated tax for a taxable year if it can reasonably be expected that its tax liability for the year (after taking into account credits) will exceed $40. As indicated above, the present exemption level is $100,000.

Subsection (b) of section 4 of the bill amends section 6016(b) to provide a new definition of "estimated tax" (which is the basic amount subject to payment by installment) reflecting the removal of the existing $100,000 exemption over a five year period. During the transition period, a corporation, in determining the amount of its estimated tax liability, would be permitted to exclude an amount

equal to the applicable "exclusion percentage" multiplied by the lesser of (1) $100,000, or (2) the amount which the corporation estimates as its income tax for the year less the estimated amount of its credits. The revised subsection (b) of section 6016 would define the term "exclusion percentage" as follows:

If the declaration is for a year beginning in—	The "exclusion percentage" is—
1968	80
1969	60
1970	40
1971	20

In the case of taxable years beginning after 1971, there would be no special exemption.

As an example of the transition rule, a corporation which estimates its income tax less credits for 1968 to be $80,000 would be entitled to an estimated tax exclusion of $64,000 for 1968; 80 percent (its exclusion percentage) times $80,000. Its estimated tax liability would, therefore, be $16,000. If the corporation estimates its income tax less credits for 1968 to be $120,000, its estimated tax exclusion would be $80,000 (80 percent times $100,000) and its estimated tax liability would be $40,000.

Subsection (d) of section 4 of the bill amends section 6655(e) to reflect the repeal of the $100,000 exemption in the provisions for determining whether, and if so, to what extent, an addition to the tax should be imposed for underpayment of estimated tax. The same transitional rules apply. Thus, for example, assume a corporation's tax return for the taxable year ending December 31, 1968, indicates an income tax liability of $150,000. To utilize the exception provided in section 6655(d)(1) permitting estimated tax payments to be based on the prior year's tax, such corporation would be required to pay for 1969 an estimated tax of $90,000, computed as follows:

1968 Income Tax Liability	$150,000
Less: $60,000; 60 percent (the exclusion percentage for 1969) times $100,000	60,000
Total	90,000

Subsection (e) of section 4 of the bill amends section 243(b)(3)(C) (relating to estimated tax exemption for members of an affiliated group) to reflect the repeal of the $100,000 exemption.

Subsection (f) of section 4 of the bill provides that the amendments made by this section shall apply to estimated tax payments for taxable years beginning after December 31, 1967.

SEC. 5. POSTPONEMENT OF CERTAIN EXCISE TAX RATE REDUCTIONS

(a) *Passenger Automobiles.*—Under present law, an excise tax of 7 percent of the selling price is imposed on the sale by the manufacturer, producer, or importer of passenger automobiles. This rate is scheduled to be reduced to 2 percent on April 1, 1968, then to 1 percent after December 31, 1968.

Subsection (a) of section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 7 percent rate will remain in effect until July 1, 1969. A rate of 2 percent will apply to sales between July 1, 1969 and December 31, 1969, with a 1 percent rate applying to all sales after December 31, 1969. Conforming amendments are made so that floor stocks refunds will apply on the corresponding date of each reduction.

(b) *Communication Services.*—Under present law, an excise tax of 10 percent is imposed on amounts paid for local and long distance telephone service (including teletypewriter service). A reduction of the rate to 1 percent is scheduled to apply to amounts paid pursuant to bills rendered on or after April 1, 1968, with the tax scheduled to terminate entirely as to bills rendered on or after January 1, 1969.

Subsection (b) of section 5 of the bill suspends this schedule of reductions for the period during which the temporary surcharge will be in effect. Thus, the present 10 percent rate will continue to apply until July 1, 1969, at which time the scheduled reduction to 1 percent will take effect. The tax will terminate on January 1, 1970. A conforming amendment makes corresponding changes in the

dates applicable under the special rules established under present law to adjust for billing practices.

(c) *Effective Date.*—Subsection (c) of section 5 of the bill provides that the amendments made by this section shall apply as of the date of enactment of the bill.

TABLE 1.—COMPARISON OF 1963–67 TAX LIABILITY AND 1968–69 TAX LIABILITY UNDER PROPOSED SURCHARGE INCREASE (SINGLE INDIVIDUAL)

Wage income	1963 tax [1]	1964 Tax Act decrease	1967 tax as result of 1964 tax cut [1]	1968 tax with 7.5 percent surcharge [2]	1968 increase over 1967 tax [3]	1969 tax with 5 percent surcharge [4]	1969 increase over 1967 tax [5]	For 1968, tax is $—— less than 1963 tax [6]
$1,000	$62	$46	$16	$16	--------	$16	--------	$46
1,900	224	77	147	158	$11	154	$7	66
2,000	242	79	163	175	12	171	8	67
3,000	427	94	333	358	25	350	17	69
5,000	818	147	671	721	50	705	34	97
7,500	1,405	237	1,168	1,256	88	1,226	58	149
10,000	2,096	354	1,742	1,873	131	1,829	87	223
12,500	2,887	489	2,398	2,578	180	2,518	120	309
15,000	3,787	633	3,154	3,391	237	3,312	158	396
20,000	5,900	982	4,918	5,287	369	5,164	246	613
25,000	8,324	1,342	6,982	7,506	524	7,331	349	818
35,000	13,778	2,151	11,627	12,499	872	12,208	581	1,279

[1] Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liability from optional tax table where income is under $5,000.
[2] 10-percent surcharge effective from Apr. 1, 1968, to Dec. 31, 1968 (three-fourths of year).
[3] 1968 tax minus 1967 tax.
[4] 10-percent surcharge effective from Jan. 1, 1969, to June 30, 1969 (one-half of year).
[5] 1959 tax minus 1967 tax.
[6] 1968 tax minus 1963 tax.

Note: There is no surcharge increase in 1968 or 1959 for a single person whose regular tax is $145 or less.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 2.—COMPARISON OF 1963–67 TAX LIABILITY AND 1968–69 TAX LIABILITY UNDER PROPOSED SURCHARGE INCREASE (MARRIED COUPLE, NO DEPENDENTS)

Wage income	1963 tax [1]	1964 Tax Act decrease	1967 tax as result of 1964 tax cut [1]	1968 tax with 7.5 percent surcharge [2]	1968 increase over 1967 tax [3]	1969 tax with 5 percent surcharge [4]	1969 increase over 1967 tax [5]	For 1968, tax is $—— less than 1963 tax [6]
$2,000	$122	$64	$58	$58	--------	$58	--------	$64
3,000	305	101	204	204	--------	204	--------	101
3,600	413	119	294	316	$22	309	$15	97
5,000	660	159	501	539	38	526	25	121
7,500	1,141	227	914	983	69	960	46	158
10,000	1,636	294	1,342	1,443	101	1,409	67	193
12,500	2,213	382	1,831	1,968	137	1,923	92	245
15,000	2,810	475	2,335	2,150	175	2,452	117	300
20,000	4,192	708	3,484	3,745	261	3,658	174	447
25,000	5,774	978	4,796	5,156	360	5,036	240	618
35,000	9,601	1,604	7,997	8,597	600	8,397	400	1,004

[1] Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liability from optional tax table where income is under $5,000.
[2] 10-percent surcharge effective from Apr. 1, 1968, to Dec. 31, 1968 (three-fourths of year).
[3] 1968 tax minus 1967 tax.
[4] 10-percent surcharge effective from Jan. 1, 1969, to June 30, 1969 (one-half of year).
[5] 1969 tax minus 1967 tax.
[6] 1968 tax minus 1963 tax.

Note: There is no increase in 1968 or 1969 for a married couple whose regular tax is $290 or less.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

TABLE 3.—COMPARISON OF 1963–67 TAX LIABILITY AND 1968–69 TAX LIABILITY UNDER PROPOSED SURCHARGE INCREASE (MARRIED COUPLE, 2 DEPENDENTS)

Wage income	1963 tax [1]	1964 Tax Act decrease	1967 tax as result of 1964 tax cut [1]	1968 tax with 7.5 percent surcharge [2]	1968 increase over 1967 tax [3]	1969 tax with 5 percent surcharge [4]	1969 increase over 1967 tax [5]	For 1968, tax is $—— less than 1963 tax [6]
$3,000	$65	$61	$4	$4	--------	$4	--------	$61
5,000	420	130	290	290	--------	290	--------	130
7,500	877	191	686	737	$51	720	$34	140
10,000	1,372	258	1,114	1,198	84	1,170	56	174
12,500	1,901	334	1,567	1,685	118	1,645	78	216
15,000	2,486	424	2,062	2,217	155	2,165	103	269
20,000	3,800	640	3,160	3,397	237	3,318	158	403
25,000	5,318	906	4,412	4,743	331	4,633	221	575
35,000	9,037	1,508	7,529	8,094	565	7,905	376	943

[1] Tax liability computations assume minimum standard deduction or deductions equal to 10 percent of income, whichever is greater. Tax liability from optional tax table where income is under $5,000.
[2] 10-percent surcharge effective from Apr. 1, 1968, to Dec. 31, 1968 (three-fourths of year).
[3] 1968 tax minus 1967 tax.
[4] 10-percent surcharge effective from Jan. 1, 1969, to June 30, 1969 (one-half of year).
[5] 1969 tax minus 1967 tax.
[6] 1968 tax minus 1963 tax.

Note: There is no increase in 1968 or 1969 for a married couple whose regular tax is $290 or less.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

The CHAIRMAN. We are pleased to have with us as our next witness the Honorable Charles L. Schultze, present Director of the Bureau of the Budget.

Mr. Schultze, we are glad to have you with us and you are recognized, sir.

STATEMENT OF HON. CHARLES L. SCHULTZE

Mr. SCHULTZE. Thank you, Mr. Chairman and members of the committee.

Secretary Fowler has outlined for you the major economic and financial developments which have occurred since we last appeared before you in November. Chairman Ackley will discuss these matters in more detail.

Nothing has occurred since November to change our strong view that the tax increase proposed by the President is essential for economic stability and growth, for the moderation of upward pressure on interest rates, and for the soundness of the dollar in international markets.

The economic situation has continued to develop as we foresaw it several months ago. The outlook for calendar 1968 is basically unchanged from our evaluation then. The economic case for the President's proposed tax increase is equally valid now as it was then—if not more so, because 2 additional months of inflationary pressure have been built into the economy.

THE BUDGET

Let me turn now, if I may, to the 1969 budget, and relate the proposed tax measures to that budget.

As you know, the President will be sending his budget message to the Congress a week from today. The full details of the 1969 budget will be disclosed in the budget documents at that time. I can lay out

for the committee, however, the basic outlines of the budget, indicate the overall priorities used in constructing it, and place the requested tax increase in the context of overall budgetary figures.

Last March the President appointed a bipartisan Commission on Budget Concepts. It included the chairman and ranking minority members of both the House and Senate Appropriations Committees. Its Chairman was Mr. David Kennedy, chairman of the board, Continental Illinois National Bank & Trust Co. of Chicago. That Commission completed its report in October, and unanimously recommended a major series of changes in budget presentation. Complying with those recommendations, the 1969 budget is presented in a completely new format. The detailed budget data for 1967 and 1968 have also been reformulated under the new concept, for comparability purposes. Budget totals have been recalculated on the new basis for all years back to 1958. In one area, the Secretary of the Treasury and I disagreed with the Commission's proposals—namely, the budgetary treatment of sales of participation certificates. Nevertheless, we recommended to the President, and he agreed, that the 1969 budget carry out the majority view of the Commission on this matter. As a consequence, in the new budget, participation certificates are no longer treated as an offset to expenditures, but are handled as a means of financing the deficit, similar to Treasury securities.

In addition to the treatment of participation certificates, the major recommendations of the Commission adopted in the 1969 budget presentation are the following:

1. A single unified budget format is used, rather than the three different concepts used in the past—"administrative," "cash," and "national income accounts." Budget data, presented in the national income accounts framework, will continue to be calculated and used for economic analysis purposes, since this information fits directly into the gross national product statistics. But these data are not part of the main budget presentation—they are given in a special budget analysis, near the end of the budget document, along with information on the traditional administrative and cash budgets.

2. The new unified budget covers all Federal Government receipts and expenditures, and therefore includes the social security, hospital insurance, highway, and other trust funds.

3. The new budget separately identifies "expenditures" and "net lending." When the Government makes a loan, an exchange of financial assets is involved; the loan recipient undertakes to repay the loan. Expenditures, on the other hand—for a missile, a dam, a grant-in-aid, or the like—involve an addition to the income of the recipient. The economic impact of the two types of transactions is quite different. The Commission on Budget Concepts therefore recommended, and the 1969 budget carries out, a separate identification of spending and lending. Moreover, following the recommendations of the Commission, the budget shows, in addition to the overall deficit, a deficit calculated on expenditure account—that is, a deficit which excludes the Federal Government's net lending.

I might point out that certain loans, like those of the Agency for International Development, are treated as expenditures, not as lending.

4. Where the Government carries out businesslike or market-oriented activities, revenues from those activities are offset against expenditures,

so that budget expenditures reflect the net cost of the activity to the taxpayer. The old administrative budget was somewhat haphazard in this respect, netting revenues from business-type activities where revolving funds were concerned and covering the rest into miscellaneous receipts. This change does not affect the deficit, but only a reclassification of transactions between receipts and expenditures.

The Commission made two other major recommendations which it realized could not be put into effect immediately, since they involved major changes in the Government's detailed accounting structure. These changes are: First, putting the budget on a more modern accounting basis by calculating revenues and expenditures on an accrual basis; second, separately identifying, and showing as an expenditure, the interest subsidy element in Federal loan programs.

We are undertaking the preparation necessary to adopt these recommendations, but it will be several years before they can be carried out.

I believe the new unified budget format will be a distinct improvement. It should substantially assist public understanding of budgetary matters because it replaces three separate budget presentations with a single framework of budgetary data. There are many purposes which a budget serves. And, as the Commission pointed out, no one number or set of numbers will suffice for all purposes. But under the new budget presentation, a unified internally consistent budget data system is available for analysis of fiscal matters.

There is, I might point out, one aspect of the new system which requires getting used to. There are a number of transactions between the Federal funds and the trust funds. The Treasury, for example, pays interest to the social security trust funds on the securities that those funds hold; payments are made out of general revenues to the supplementary medical insurance trust funds. Consequently, you cannot simply add the expenditures or receipts of the general funds to those of the trust funds to get budget totals. You must also deduct these payments among the various Government accounts.

THE 1969 BUDGET

Let me turn now to the 1969 budget and this new presentation. The table below gives estimated outlays and receipts for the Federal Government for the fiscal years 1967 through 1969, under the new budget concept. Receipts, outlays, and deficits are given here.

[Billions of dollars]

	1967	1968	1969
Receipts	149.6	155.8	178.1
Outlays	158.4	175.6	186.1
Deficit (−)	−8.8	−19.8	−8.0

The revenue estimates in 1968 and 1969 incorporate the expected yield from the tax measures the President is recommending.

Before going into the specifics of the 1969 budget, I would like to list briefly its main features, as they relate to the proposed tax measures:

1. In fiscal 1968, through a combination of congressional and administration actions, budget outlays for non-Vietnam defense programs are being reduced by $2 billion and for controllable civilian programs by more than $2 billion. In making these reductions we have done such things as the following:

Cutting back farm operating loans and sewer and water loans; reducing rural electrification loans; canceling some agricultural research projects; closing some agricultural research stations; cutting payments to the States for agricultural experiment stations; reducing the small watershed construction program; cutting agricultural conservation payments to farmers; spreading all of the Corps of Engineers' construction new starts voted for 1968 by the Congress, spreading them over the 2 years 1968 and 1969, and cutting back on the rate of construction in ongoing projects; sharply reducing the higher education facilities grant program; cutting back the Hill-Burton hospital construction grant program; cutting back the medical school and other medical facilities construction program; reducing the community mental health facilities program; reducing the National Institutes of Health regional medical program by more than a third; cutting back the impacted areas school program; cutting back two major reactor development programs in AEC; reducing the Plowshare nuclear expansion experiment; reducing the program on the control of thermonuclear fusion; deferring several schools to be constructed in the Bureau of Indian Affairs.

These are a sample of the kind of items we have cut back in reducing expenditures in the 1968 budget.

2. In fiscal 1969, the total rise in budget outlays—from the reduced 1968 base—is almost completely accounted for by increases required for national defense and for expenses mandatory under law. There are other increases—some of which are simply expenditures in payment of prior contracts. But virtually all of the increases are offset by decreases elsewhere. We are proposing budget decreases or basic modifications of programs in practically every major agency in the Federal Government.

3. Budget expenditures, however, defined, will rise at a lower rate in 1969 than in 1968 or 1967.

Total budget outlays, including trust funds under the new concept, rose $24 billion in 1967, $17 billion in 1968 and are scheduled to rise by $10½ billion in 1969.

Outlays, excluding national defense, rose $10½ billion in 1967, $11 billion in 1968, and are scheduled to increase by $7 billion in 1969.

Under the old administrative budget, adjusted to exclude the effect of participation sales, budget expenditures rose over $20 billion in 1967, $12½ billion in 1968, and $9 billion in 1969. Excluding national defense, these old administrative expenditures adjusted for 1966 rose $7½ billion in 1967, $6½ billion in 1968, and $5½ billion in 1969.

4. Between 1968 and 1969, on both the old and the new budget concepts, the normal growth in revenues—that is, the revenue growth associated with the rise in GNP before taking account of the yield from the surtax and corporate acceleration—exceeds the increase in budget outlays, including the increase associated with Vietnam. Expenditure increases, in other words, are more than covered by revenue growth before the tax increase. The yield of the surtax and corporate accelera-

tion will, therefore, go entirely toward reducing the deficit, not toward covering additional expenditures, even including the extra expenditures in Vietnam.

5. The 1969 budget is structured to assure that the need for a surtax is temporary. On the one hand, the temporary expenditures bulge on account of Vietnam is some $26 billion. On the other hand, the combined yield of all the proposed tax measures is $12.9 billion, and the remaining deficit is $8 billion. Since the temporary expenditure bulge is 25 percent larger than the combined total of the tax increase and the remaining deficit, the need for the additional taxes will disappear with peace in Vietnam.

In short, we will be presenting to the Congress a budget which does include substantial expenditure reductions in 1968, which does represent a tight holddown in expenditures in 1969, which does devote the requested tax increase to deficit reduction, not to rising expenditures, and which does assure that the tax increase is truly temporary, needed only so long as hostilities in Vietnam require it.

BUDGET OUTLAYS

You will notice from the table that budget outlays rise by $10.4 billion between 1968 and 1969. Since we distinguish between "expenditures" and "net lending," "budget outlays" is the term we have chosen for the sum of the two.

That $10.4 billion increase is composed of the following major elements—and I am using round numbers: $3¼ billion for national defense—including the added expenditures of the Atomic Energy Commission for nuclear weapons; $4¾ billion for the various statutory benefit programs, primarily social security, medicare, medicaid, cash public assistance, and veterans; $1½ billion for the civilian and military pay raise which automatically takes effect next July 1; and $1 billion for interest on the public debt.

These items—which represent the added cost of the national defense and mandatory payments fixed by law—account for virtually all of the total increase in budget outlays between 1968 and 1969.

As you can see, the overall growth in outlays—other than the defense and the mandatory expenses cited above—is very small indeed. But within this relatively stable total there are some important changes.

In the first place, there is a $1½ to $2 billion increase estimated for 1969 in payment of contracts and commitments made in prior years. We also had to provide additional funds relative to 1968, because last October's civilian pay raise will be in effect for the full fiscal year 1969 rather than three-quarters of the year as is the case in fiscal 1968. In order to arrive at the total budget outlays described above, most of these required increases had to be offset by reductions elsewhere.

In addition to the required increases described above, the 1969 budget also provides selected increases to meet very urgent needs. These increases are of two kinds:

First, funds had to be provided to handle the growing workload occasioned by a rising population and income. Increased outlays by the Internal Revenue Service to process tax returns and by the Federal Aviation Administration to handle an aircraft traffic growth in excess of 10 percent per year are cases in point.

Second, after a careful screening of priorities, a few programs were expanded to meet urgent needs which we believe are crucial for the well-being of the American people and cannot be postponed. The chief examples are the following:

An expansion in the Federal Government's manpower training programs, with particular emphasis on working with industry to place the very hard-core unemployed in on-the-job training. These programs include the work incentive and work training features of the public assistance amendments developed by this committee and passed by the Congress last year.

Full funding of the 1969 authorization, passed by the Congress last year, for the Office of Economic Opportunity. Sixty percent of this increase will be used for the manpower training program described above.

An expansion of the model cities program.

An expanded attack on infant mortality; despite its high standard of living, the United States ranks below 14 other countries in terms of infant mortality rates.

Given the $10½ billion increase in defense costs and mandatory outlays, the $1½ to $2 billion rise in expenditures pursuant to prior contracts, the growing workload requirements, and the limited expansion of certain vital programs, the total outlays were held to a rise of $10.4 billion by the application of expenditure cuts and program modifications in a large number of other programs.

There are three basic kinds of reductions, which will be spelled out in detail in a special section of the President's budget message:

First, we have reduced a number of lending programs. In particular, we are budgeting for a significant reduction in the outlays of the Federal National Mortgage Association's secondary market functions. This reduction will be achieved by several basic program reforms which the President will propose, to increase the private flow of funds into the FHA and VA mortgage markets.

Second, we have cut programs and expenditures in a whole range of other areas. In particular, we have reduced a wide range of construction grant programs and Federal building construction on grounds that, during a period of budget stringency, construction of new facilities can be deferred with less consequence than the provision of current services. With construction costs rising 5 percent in 1966 and 6 percent in 1967, such deferrals seem eminently reasonable. Moreover, it is easier to make do, for example, with older school buildings for an extra year or so than it is to do without the services of a teacher. In many cases, the expenditure consequences of these reductions are only partially reflected in the 1969 budget. The remainder will affect the 1970 and later budgets.

In the 1968 budget, as part of the cutback we discussed last November with this committee and I talked about briefly a few moments ago, the construction obligations of the major Federal construction agencies, including the construction grants of HEW, have been reduced by $450 million. In 1969 this reduction has been maintained and carried still further. As a result of these cuts in both years, expenditures for the affected programs will decline by over $250 million.

We further plan to work with State governments to hold obligations for Federal-aid highway construction in calendar 1968 slightly below the 1967 level. Although 1967 was the highest year in the history

of the program, highway obligations in the absence of this action would have risen by a further $600 million during calendar 1968.

Obligations and expenditures in the space program are reduced in 1969. Several nuclear reactors of the Atomic Energy Commission are being shut down, and a number of grant-in-aid programs are being curtailed.

Third, we are proposing certain basic program modifications or reforms which will, over the long run, reduce the costs to the taxpayer of a number of programs.

There are some programs, for example, such as the provision of air navigation and control facilities and the operations of the Nation's waterways, which have a steadily growing workload. Provision of these services is essential. Yet the taxpayer should not be saddled with a continually growing burden. We are proposing user charges to reduce the load on the taxpayer, and to increase progressively the percentage of costs covered by the beneficiaries.

In other cases, we are proposing to reduce, eliminate, or substantially modify programs which have gotten out of touch with the pace of events. The necessary changes will be painful, and will undoubtedly be sharply attacked. Nevertheless, we mean to pursue the reforms vigorously.

In yet other cases, we shall adopt changes in administrative criteria for evaluating programs, aimed at achieving a more rigorous and rational selection of projects.

These budget reductions and reforms will reduce 1969 obligations and contracts in the affected programs by almost $3 billion below the levels appropriated for 1968. The cuts will reduce 1969 expenditures in the affected programs by $2.2 billion below what they would have been had the cuts not occurred, and by $1.4 billion below the actual level of those programs in 1968—which, you will recall, has itself been reduced.

The reductions and reforms are a vital part of the 1969 budget. When they are presented in detail in the President's budget message, I urge you to study them carefully and lend us support in getting them accomplished.

In summary, Mr. Chairman and members of the committee, the 1969 budget is a responsible and tightly controlled budget. On all of the grounds I have cited above, it is a budget which is consistent with your firm conviction—which I fully share—that this be a temporary tax increase.

In combination with the tax measures the President has proposed, the 1969 budget will accomplish a major reduction in the Federal deficit. It will play the central role in helping us achieve our key economic and financial objectives in the year ahead responsibly financing the cost of Vietnam; sharply reducing the Federal Government's borrowing requirements, thereby easing the pressure in the money and capital markets; moderating the inflationary demand pressures which will surely build up strongly if the Federal deficit is not substantially reduced; underlining, for all the world to see, the fact that America can and will back up its status as a reserve currency country with a responsible fiscal policy.

These are vital objectives. The combination of expenditure control and tax increase is essential to achieving them. The President's 1969 budget proposes that combination.

The CHAIRMAN. We thank you, Mr. Schultze. Our next witness is the Honorable William McChesney Martin, Jr., Chairman of the Federal Reserve Board. Mr. Martin, we are always pleased to have you with us.

Mr. MARTIN. I have no objection to going next, but Mr. Ackley had been on the program next.

The CHAIRMAN. Not as I understood it, but if that is the way you want it we will certainly proceed that way.

Mr. MARTIN. It doesn't make a bit of difference.

The CHAIRMAN. Do you want to go next, Mr. Ackley?

Mr. ACKLEY. It makes no difference, Mr. Chairman.

The CHAIRMAN. Go ahead, Mr. Martin.

STATEMENT OF HON. WILLIAM McCHESNEY MARTIN, JR.

Mr. MARTIN. Mr. Chairman, it is less than 8 weeks since I last had the opportunity to discuss with this committee the economic and financial conditions of the country, but these have been eventful weeks indeed. Production, employment and incomes have all surged to new peaks, and unemployment has fallen sharply. With the retarding effects of major strikes largely behind us, the fundamental strength of expansionary forces in the economy has been more clearly revealed.

But, unfortunately, the surge in domestic activity has been accompanied by a further rapid advance in prices. And, unfortunately, these developments in domestic activity and prices have been accompanied by a serious deterioration in our international payments balance, necessitating the mounting of a new and more stringent program for temporary restriction of capital outflows and other expenditures abroad.

As the President stated in his balance-of-payments message, "The first line of defense of the dollar is the strength of the American economy." That strength is now being sapped by inflation. For the second quarter in a row, nearly half of the rise in our gross national product has reflected inflated prices rather than real growth. Prices have risen at wholesale and retail, for farm products as well as for industrial commodities. Moreover, the pace of the increase has been accelerating. The rise in the price component of the GNP, which had slowed to about a 2-percent rate last spring, was advancing at a rate of over 4 percent in the final quarter of the year.

It is clear from the experience of 1966 and 1967—and indeed, from many other periods in our history—that we cannot achieve sustained economic growth under conditions of inflation. The distortions that inflation induces in the structure of output and demands, and the pressures it generates in financial markets, inevitably result in economic dislocation. Inflation in 1966 was followed by a cessation of growth in early 1967; a more severe adjustment was averted only by the prompt and flexible use of monetary and fiscal policies. Nevertheless, there was a penalty to pay—in the form of lost production and employment—for the failure to act early enough the preceding year in containing the emergence of excessive demand pressures.

We are now seeing some of these distortions and pressures developing again. Businessmen have already begun to step up their accumulation of inventories, in part to "beat the price rise." Negotiators of new wage contracts have built last year's price rise into next year's wage costs. But consumers have reacted to swiftly rising prices by spending more cautiously.

The increase in business ordering and inventory accumulation has been reflected in a faster pace of business borrowing at banks, accompanied by a reduced flow of banking funds into securities. In financial markets, the high levels of yields on market securities has begun to curtail the availability of funds for the financing of home construction, both by reducing the inflows of consumer savings to institutions specializing in home finance, and by diverting funds from mortgages to other types of investment at institutions that normally do a substantial mortgage loan business. Repeating the by-now familiar cycle, growth in commitments for mortgage lending is being curtailed, and mortgage yields have already risen back to the peaks of 1966.

The pressures that developed in financial markets over the summer and fall of 1967 reflected not only the normal rise in private demands for funds that accompanies resurgence in economic activity, but also the extraordinary additional demands arising from the Federal Government's deficit. Borrowing by the Treasury in the second half of last year was more than double that of the preceding year; the Government accounted for more than a quarter of all the funds raised in credit and equity markets between June and December, compared with less than a tenth in the comparable period of 1966.

The reaction of other borrowers to this enormous volume of Treasury financing, and to the possibility of continued preemption of loanable funds by the Government, was a flood of corporate and municipal security issues last summer and fall. The combined pressures of Federal and private credit demands resulted in a rise in interest rates that, by December, brought most long-term borrowing costs to levels well above those reached at the height of the credit strain in 1966.

Pressures in financial markets have abated somewhat in recent weeks, partly as a result of seasonal factors, partly in response to peace rumors, and partly because of revived hopes for greater fiscal restraint. But in the absence of such restraint, the Government's financing needs will again press on financial markets. Without the added revenues from the proposed surcharge, the Treasury will have to borrow a substantial volume of funds this winter and spring, a period of the year when it usually has been a net supplier of funds to the market. Moreover, the prospects of continued large Treasury financing, and the attendant prospects of continued—and perhaps accelerating—inflation, would undoubtedly stimulate a renewal of large private financing demands.

If these developments result in renewed and stronger tensions in financial markets, housing finance would undoubtedly suffer again, better insulated though it may be from a repetition of the sharp contraction in 1966. As I commented to this committee last September, it is neither socially justifiable nor economically sound to put so much of the burden of financing a war on one sector of the economy.

Distortion in the domestic economy is only one of the risks we face if excessive demand pressures remain unchecked. We need to combat

inflation not only to prevent erosion of the value of the dollar domestically but also to maintain its value internationally.

Our merchandise trade balance has already been sharply reduced. In 1964 our trade balance was about $7 billion. It is now running at about $4 billion per annum. It would serve for naught for us to curb international outflows on capital account through temporary restrictions, but at the same time lose the battle to improve the longrun strength of our balance of payments stemming from the competitiveness of U.S. products in world markets. The ability of a country to compete energetically and successfully in international markets is widely recognized as one of the firmest indications of the strength of a currency. Correspondingly, a country whose international trade position is weak and seems to be deteriorating may find its currency subject to speculative attacks.

Changes in the competitive position in international trade of an industrial country occur gradually over time. But once lost, a strong competitive position is difficult to regain. It would be a poor bargain indeed to improve our overall payments position temporarily through stringent curbs on capital outflows, while neglecting to take the steps necessary to assure the longrun strength of that position. That strength depends in large measure on curbing the inflationary cost and price increases that would make it increasingly difficult for our exports to compete in world markets and for our domestically produced goods to compete with imports.

The surest way to surmount this threat is through restraint on public and private spending, the goals of the fiscal program that the President has put before you. By reducing to a minimum the risk of continued inflation, we would demonstrate to the world the high priority we give to maintenance of the competitive position of the U.S. dollar. Even more important, we would thereby lay the basis for a balanced and sustainable rate of real economic growth that is, in the end, the true source of confidence in our currency, at home and abroad.

The Chairman. Thank you, Mr. Martin. We are pleased also this morning to have with us the Chairman of the Council of Economic Advisers, the Honorable Gardner Ackley.

When I observed earlier the presence in the room of the designated successor to Mr. Schultze I overlooked at that point that we also had in the room, Mr. Ackley, your designated successor. We are pleased to have Mr. Arthur Okum with us. We are pleased to have you with us and you are recognized.

STATEMENT OF HON. GARDNER ACKLEY

Mr. Ackley. Thank you, Mr. Chairman. My statement this morning is essentially limited to the areas of domestic economic activity and prices, containing no mention of the balance of payments or the budget, and very little reference to financial markets. This does not imply that I think these aspects of the President's tax proposals are of any lesser importance for your consideration. It is only a matter of the division of labor.

In my appearance before this committee last August, I summarized the economic outlook as follows:

> All of this adds up to the verdict of a buoyant economy in which the pursuit of a highly stimulative fiscal policy would be inappropriate . . .

Although I said I had "far more confidence in this overall judgment than in any quantification I can offer on just how fast the economy is likely to advance," I did present some numerical projections. These estimated the increase in GNP between the second and fourth quarters of 1967 as lying in a range between $29 and $35 billion—in the absence of a tax increase or major strikes.

In fact, over that period, our gross national product rose by $32½ billion, in contrast with the rise of only $13 billion in the first half. I may say, Mr. Chairman, that I continue to be puzzled by reading and hearing of a boom predicted by the Council of Economic Advisers and the administration which never materialized. This was our forecast for the second half of 1967 and this was what happened.

As anticipated, the turnaround in inventory investment and the growing strength of homebuilding dominated the acceleration of the second half.

Back in August, we were not sure whether inventory investment had yet touched bottom, or just how rapidly it might recover. In fact, it rebounded more rapidly than we expected. On the other hand, consumer expenditures rose slightly less than $12 billion, substantially below our anticipation. Consumers continued to spend cautiously; furthermore, their outlays were held down by the limited availability of new automobiles, in the fourth quarter, reflecting the work stoppages in the autumn. The greater vigor of business demand and the more moderate advance of consumer buying essentially offset each other, leaving the actual gain in gross national product near the middle of the projected range.

The second half as a whole

On the whole, during the second half of 1967, and especially during the closing months of the year, economic activity advanced at an unsustainable pace. Real output grew at an annual rate of 4½ percent in the second half, somewhat faster than the growth of productive capacity. If not for major strikes, the growth rate would have been about 5½ percent, and the dollar increase in gross national product would have exceeded the upper end of the range outlined in August.

Manufacturing, the sector hardest hit by the inventory adjustment, rebounded most rapidly as inventory investment was resumed. From June to December, output in manufacturing advanced at an annual rate of 8½ percent. The average operating rate turned up, reaching 84.3 percent of capacity for the fourth quarter. And we estimate that in December, it was about 85¼ percent.

The same pattern is reflected in other data. Payroll employment in nonfarm industry rose 1.2 million in the last 6 months of 1967; this exceeded a sustainable pace of advance, which might be about 150,000 a month under present circumstances. In each of the 4 latest months, construction contracts topped any month in history prior to this

period. Personal income grew $25½ billion from June to December. The largest full-year increase ever registered was $46 billion between 1965 and 1966.

The November-December spurt

Economic activity in November and December had an almost feverish complexion. Manufacturing production scored the largest combined 2-month increase in 3 years. Similarly, the new orders and shipments of durable goods manufacturers registered spectacular 2-month advances of 12 percent and 13 percent, respectively, the alltime monthly records for both orders and shipments, set during 1966, were toppled. In these 2 months, payroll employment rose 900,000 and personal income increased $12 billion, each close to the largest 2-month gain in history. These advances in November and December were swollen in part by the recovery from the Ford strike, and, in part, by the Federal pay raise. They are fortunately not representative of the economy's basic trend. But they do show that the acceleration evident since last May is going strong.

Prices and wages

Once the slowdown of early 1967 came to an end, the advance of prices accelerated. The annual rate of increase of wholesale industrial prices, which had been less than 1 percent during the first half of 1967, stepped up to more than 2½ percent in the second half. At the retail level, the annual advance of consumer prices spurted from 2.3 percent in the first half to 3.8 percent in the second. The GNP deflator showed much the same pattern. Moreover, these overall increases occurred in the face of a decline of about 3½ percent in farm prices between June and December, which, in turn, held down wholesale and retail food prices.

Apart from food, consumer prices advanced at a rate exceeding 4 percent in the second half of the year. Wage rates continued to advance too rapidly all during 1967, and there were some very large settlements at year-end.

In part, the faster pace of price increases in the second half reflected the rebound in economic activity. In part, however, it may have been a one-time catchup. Some producers obviously absorbed cost increases during the first half of the year when business was slow. Then, in the second half, they reflected not only their current cost increases but some earlier ones.

The Federal budget

The strong economic performance in the second half did not reflect an increasing budgetary stimulus. On the contrary, Federal spending grew slowly from the second to the fourth quarters of 1967. Total outlays (national income basis) advanced less than $5 billion (annual rate) or about 3 percent. Receipts increased meanwhile by $8 billion, implying a modest decline in the deficit. But it remained unusually large and became increasingly inappropriate to the needs of the economy.

THE ECONOMIC OUTLOOK FOR 1968

When economic policy for a year ahead is being determined, sensible decisions, including any decision not to act, can only be made on the basis of some forecast—explicit or implicit—and of a careful

assessment of risks on all sides. There simply is no escape from having to make these difficult and necessarily imprecise judgments on the economic outlook. The experience of last fall surely indicates the perils of basing a forecast on the wiggles in monthly indicators, especially when they are known to be affected by strikes and other special forces. The professional economist cannot do a perfect job, but he can do better than that.

Yet no objective and experienced economist who attempts to peer through the uncertainties that lurk in any 12-month period ahead—including this particular period—can ever give a precise prescription for the ideal fiscal policy. What I can say as an economist—with deep conviction—is that inaction or delay on the President's tax proposals can today be justified only on the basis of a forecast of a substantial weakening of private demand. Such an outcome is not impossible. But, in my judgment, it is remote, and contrary to the overwhelming weight of the evidence.

It is my conclusion that with enactment of the President's tax proposals, we have minimal risks of either an overheated economy or excessive sluggishness; on the contrary, that its enactment will give us by far the best prospect for achieving a healthy pace of growth that will adequately use but not strain our resources or our financial markets. Without enactment of the President's tax proposals on the other hand, we would risk imbalances, overheating, financial distress, acceleration of the price-wage spiral, and deterioration in our balance of payments.

Special factors in the outlook

The present situation and the near-term outlook are influenced by a number of special factors of which we can be reasonably sure: the catchup of automobile and other durable goods production from earlier work stoppages; the beginning of a steel inventory buildup in anticipation of labor negotiations; the Federal pay increase which was implemented in the closing days of 1967 and should soon begin to affect retail spending; the increase in the minimum wage on February 1; and the prospective increase in social security benefits in March which will also augment consumer spending.

The combination of these factors leads to a remarkable consensus among forecasters that the advance in gross national product in the current quarter will exceed that in any quarter of our history, even topping the $18½ billion advance of the hectic fourth quarter of 1965. Under present circumstances, this is hardly a welcome prospect. But there is no action that can be taken now which will appreciably affect the first quarter's performance.

Along the lines of my earlier aside, Mr. Chairman, I was quite puzzled to read a headline in one of our principal financial papers about a week ago which said the "boom is a flop." The reason the boom was a flop was because it was apparent to this reporter that the gross national product would not advance in the first quarter by $37 billion, which some non-Government economist had forecast.

Although the influence of many of these same special factors extends beyond the first quarter, prospects, as always grow more uncertain as one looks further into the year. We know, for one thing, that Federal purchases will grow more rapidly in the second half of the

year than in the first, reflecting the pay increase already promised by the Congress and the projected pattern of defense needs. But if the tax increase is enacted, its influence too, will begin to be felt during the second quarter of the year.

The outlook with a tax increase

With a tax increase, this is how we see the outlook for 1968 as a whole.

Plant and equipment—The outlook for expenditures on plant equipment is reasonably buoyant. In the most recent Commerce-SEC survey, business firms in utilities, airlines, and a few manufacturing industries that need extra capacity were planning considerable increases in investment. With other sectors planning little change in outlays from 1967, the total points markedly upward. This evidence is reinforced by the record strength in machinery and equipment orders and construction contracts in the second half of 1967.

Plant and equipment.—The outlook for expenditures on plant equipmand is strong because of demographic factors and the low rate of new construction in 1966 and much of 1967. The recovery of homebuilding topped pre-1966 levels by the end of 1967, but it still did not fully match the strength of the market. To be sure, housing starts declined sharply in December, after having risen sharply in November. Permits moved in the opposite direction during these months, declining in November and rising sharply in December. These series have often shown erratic monthly fluctuations; it is likely that the basic position of housing today is somewhere between November and December rates on both permits and starts. Nevertheless, the decline in starts during December must be read as a possible warning at least that interest rates may be reaching levels that can impair the availability of mortgage credit.

Government.—State and local government outlays should rise steadily and rapidly in 1968, for an increase of about $8½ billion above 1967. This will be roughly matched by rising State and local revenues, including some stepup in Federal grants. Federal purchases should rise about $6 billion between the 2 calendar years, and total outlays should exceed receipts (on a national accounts basis) by about $5 billion—as compared with $12½ billion in 1967. This would be an appropriate—decisive but not abrupt—move toward restraint.

Consumption.—Consumer spending has continued to rise only moderately, as reflected in an unusually high and increasing saving rate. Patterns of the past would suggest a gradual return of saving toward more normal rates in the year ahead. However, we are assuming that the saving rate will continue to be very close to 7 percent in 1968; even with this conservative assumption, a marked growth of consumer spending is indicated for 1968.

Overall GNP.—When we add up this evidence, our best point estimate of total GNP for 1968 is $846 billion, a rise of $61 billion—about 7¾ percent—from 1967. The $61 billion increase may be composed of: a rise in total Government purchases of about $15 billion; an advance in total private investment—homebuilding, plant and equipment, net exports, and inventories—of $13 billion; and a gain of $33 billion in consumer expenditures. This advance represents a growth of more than 4 percent in real output and more than 3 percent in overall prices.

Price prospects

An advance of somewhat over 4 percent in real output should not impose any new strains on our productive resources. Capacity utilization will be somewhat higher than last year, but will remain well below that of 1966. Unemployment should remain close to its present rate, and surely below 4 percent for the third year in a row. On the whole, demands should be strong, but not excessive in relation to the economy's productive potential. Nevertheless, we must expect a continued rise in prices. The wage-price spiral which was set in motion in 1966 will continue to turn.

Wage-price spirals usually start when prices and wages are driven up by a surge of demand which strains the economy's productive capacity. We have, fortunately, only a limited experience with such spirals. But the evidence in this country and elsewhere indicates that wages and prices can continue to push each other up long after the original pressure on demand has subsided. Even so, these pressures are not completely immune to sharp changes in demand. The mid-fifties show that a wage-price spiral can be ended by a recession, and early 1967 shows that it can be temporarily slowed by sluggish demand. If demand is kept in balance with productive capacity, a wage-price spiral will lose its momentum, but only gradually.

Next year's wage contracts will undoubtedly be strongly influenced by the past increases in the cost of living and by settlements already made. These same factors, and others, will influence wage rates for unorganized workers. Strong demand for well-qualified professional, technical, and managerial personnel will continue to push up salary levels. At the other end of the scale, the scheduled 14-percent rise in the minimum wage will lift wages sharply for many workers at and near the bottom of the wage scale.

In 1967, average compensation per man-hour rose by about 6 percent, and an increase of similar magnitude is in prospect for this year. With steady or slightly rising capacity utilization, we can expect a more normal increase in productivity in 1968 than in 1967—when capacity utilization declined. Even so, the increase in unit labor costs for the economy as a whole will be about 3 percent, and will be reflected in prices. In addition, farm prices are expected to rise moderately next year instead of declining as they did in 1967. Taking all these factors into account, we must expect an increase in GNP deflator of somewhat over 3 percent for the year as a whole.

Retardation of price advances during 1968

Demand pressures will be particularly strong during the first half of the year. Nonetheless, since there was some bunching up of price increases in the second half of 1967, the rate of price increase in industrial goods is expected to slow down a little from its recent rate, even in the first half. With a somewhat more moderate growth of demand in the second half, price increases should be further retarded. Prediction of price movements is even more hazardous than other kinds of forecasting. But there is a good possibility—with the tax increase—of gradually moving the rate of price increase down from the 4-percent rate we have recently been experiencing, toward 3 percent by the end of this year. Such a movement would set the stage for a continuing progress back toward reasonable price stability in 1969 and 1970.

On the other hand, if price increases do not decelerate in 1968, we can expect wages and prices to continue pushing one another upward as we move into 1969. The longer the spiral maintains its momentum, the more difficult it becomes to reverse it, and the greater the danger of acceleration. The main effect of the tax increase on prices will only be seen in 1969.

Of course, wages and prices are significantly influenced by the decisions of a relatively small number of business firms and unions. Responsible price and wage making in an economic environment free of the pressures of excess demand can help to make it possible to slow down the wage-price spiral. The administration will continue to urge responsible restraint on both business and labor. But I think it fair to say that persuasion will be of little avail if we should face excessive pressures of demand.

THE OUTLOOK WITH NO NEW RESTRAINT

I have tried to outline the nature of the economic developments we can expect if this committee and the Congress accept the President's recommendation for an increase in taxes. It is the picture of an economy achieving healthy advances in production and incomes, but continuing to have trouble with prices.

I think it is a fair—and necessary—question to ask how much different this picture would be if the committee or the Congress failed to accept the President's recommendation. The qualifications I expressed earlier about our ability to forecast apply with even greater force in this case, for reasons I will indicate as I go along.

If there is no additional restraint imposed by higher taxes, nor—assume for the moment—by monetary policy either, we can be sure that demand will grow substantially faster than with the tax increase, that prices will rise considerably more, and that significant imbalances will develop in the economy, which could make it exceedingly difficult to avoid a recession at some later point.

The impact on demand

How can a $12 billion tax increase make all that difference in an $800 billion economy? I am reminded that a similar question was often asked me back in 1963 when I was arguing for the tax cut that was finally enacted in February 1964 under the leadership of this committee. The answer was then—and it is now—that the proposed tax change seems small relative to the size of the total economy. But it is not small relative to the annual expansion in our economy—which we forecast as around $60 billion next year with the tax increase.

If after-tax incomes of American consumers and businesses were $12 billion higher because there were no tax increase, consumers and businesses would have that much more to spend. As they spent most of that $12 billion, it would have a considerably multiplied effect on the growth of total demand, and on the money value (if not the real quantity) of our national output. In fact—as compared with the situation in which the tax increase is enacted—analysis of the no-tax case is precisely parallel to the analysis of effects of a $12 billion tax cut.

I think we are all reasonably agreed that the 1964 tax cut had exceedingly powerful effects. If we agree that the expansionary effects

of the tax cut were powerful, we must agree that the effects of not raising taxes will also be powerful.

Despite the fact that our predictions of the impact of the 1964 tax cut proved surprisingly accurate, I nevertheless will claim no great certainty as to the size of the total "multiplier" in the circumstances we now face. In particular, we simply don't know how soon or how powerfully a faster rise of consumer demand would touch off a new plant and equipment boom. Under present circumstances, this would probably be more of a danger for 1969 than for 1968. But it is a clear risk. If and when it occurred, it would add mightily to the expansion of total demand and the intensification of inflationary pressures.

Nevertheless we can be certain that total demand would be rising far more rapidly without the tax increase than with it. What would be the impact of that extra rise of demand?

The impact on prices

In 1964 we had vast unutilized productive capabilities to put to work, and production responded freely to rising demand. Now our unutilized resources are far more limited, especially those of manpower. To be sure, there are almost 3 million unemployed. But a good deal more than half of those are frictionally unemployed—people between jobs, or new entrants to the labor force looking for their first job. And most of the remainder will be fully employable only after they have received training and other remedial services—necessarily a slow process.

Thus the extra expansion of demand would soon begin to encounter limits on the expansion of output. They would not appear everywhere, nor all at once. But, increasingly, in one industry after another, one labor market after another, one occupation after another, labor shortages would begin to hamper the ability of particular employers to expand their output as fast as their markets were growing. This would set up three kinds of inflationary tensions: as buyers of particular goods which came into tight supply became willing to pay higher prices rather than to go without; as employers became willing to pay extra wage increases in order to hire or retain a full work force; and, more subtly, as buyers began to seek marginal sources—such as buying at greater distances, accepting poorer quality merchandise, and so on—and as producers began using less-skilled labor, expanding overtime operations at penalty rates, and pressing obsolete standby facilities into use.

All of these responses to shortage mean higher costs and prices, as well as some—but not a great deal—larger total output. As prices rose in response to actual or potential shortage, sellers—whether of goods or labor—would have higher money incomes to support their paying of higher prices. Buyers—whether businesses or consumers—who had to pay the higher prices would seek to recoup through raising their own selling prices—either of goods or of labor services.

It is exceedingly difficult to quantify the extra price rise that would occur in the no-restraint case. First, we know too little about how soon or in what areas the bottlenecks would develop. We would be exploring a territory which we have not visited for a long time—the area of overall unemployment rates below 3½ percent. And second, we know too little about how fast prices would be pulled up under conditions of ex-

cess demand. In part, this depends on how expectations develop. During the second half of 1950, for instance, rapidly increasing real demand touched off highly inflationary expectations which pulled up wholesale prices of industrial products at an annual rate of 25 percent, even though the overall unemployment rate was still 4.3 percent in December 1950.

The situation of 1955 and 1956 is more relevant. The unemployment rate in December 1954 was 5 percent, fell to 4.2 percent a year later, and was still 4.2 percent in December 1956. Over this period, industrial wholesale prices rose 8½ percent or about 4¼ percent a year.

Historical parallels can never be exact. On the one hand, the prospects for basic demand expansion in 1968 are clearly far less strong than in 1950, although not clearly less than in 1955 and 1956. On the other hand, it is clear that our employment situation is far tighter today than in either of the two earlier periods I have mentioned. That increases the danger. Perhaps an even more significant source of danger is the fact that we find ourselves this time in a situation of already rising prices. In both June 1950 and December 1954, prices had been stable or falling for at least 2 years. This time we must face the prospect that the extra price pressures would be piled on top of a basic price trend of 3 percent a year.

The second major risk we take if there is no restraint is that of new imbalances. With booming demand and spiraling prices there would be severe danger of setting off a new capital goods boom. In an atmosphere of existing and potential shortages and higher prices, businessmen are tempted to advance their expansion and modernization plans in order to meet the current high demand for their output, in order to reduce their need for high-priced labor services by further mechanization, and to build or buy in anticipation of further price rises later on. By building capacity ahead of long-term expansion and modernization needs, they are borrowing from future markets. There is a similar reaction with respect to inventories—to load up now before prices get any higher or further shortages develop.

Obviously, both the capital goods and the inventory reactions add to total demand and to inflationary pressures at the time—but simultaneously create potentially weaker total demand later. These are the classic processes by which recessions develop.

Once again, these risks are exceedingly hard to assess—but no less serious if they should develop. Prudent policy tries to avoid such dangers.

The picture I have sketched of economic developments with no restraint makes clear that the no-restraint model is an unrealistic one. For as things began to develop in the way described, in the absence of fiscal restraint, we know that there would be monetary restraint instead.

The commitment of the Federal Reserve System to reasonable price stability, to healthy economic growth, and to the protection of our international payments position means that it would not willingly supply all of the mounting credit needs that would accompany such developments. Indeed, the mere anticipation of such developments would create tensions in financial markets whatever the Fed might do.

It is impossible to forecast to what degree the system would restrain these developments and how financial markets would react. This is an-

other major reason why prediction in the no-tax case is precarious. We only know that there would be monetary restraint well beyond the current pressure of such restraint. Interest rates—already at peak levels for this century at long term—would rise further. The first—but not the only—sector to suffer would be homebuilding. Interest rates on short- and medium-term open market securities cannot go much higher than they now are without drying up the flow of savings into the thrift institutions and thus into mortgages. The housing slump of 1966 would be repeated. Whether, after a second such blow, the industry would again recover as quickly as it did in 1967 is highly questionable. If any prediction can be made with certainty, it is this: A vote against the tax increase is a vote for a new slump in housing.

Depending on how financial markets responded to monetary policy choices, we could envision the possible development of a severe financial pinch which would have other unpleasant consequences, including those on the ability of States and local governments to carry out planned capital projects.

My associates and I claim no superhuman powers of forecasting. Our forecasts are sure to be imperfect. My sober message is merely this. Economists—and legislators—understand enough about our economy to know that failure to pass the President's tax bill risks exposing the American economy to severe dangers. We cannot be certain that the tax increase will fully avert that risk, but we know it will reduce it. And it will begin to reduce it as soon as Congress makes clear its intentions.

In my view, the dangers are sufficiently serious that responsibility requires us on this issue to put aside opportunities for partisan advantage or the luxury of arguing that there really is some other way to do it—for example, by large budget cuts that we know in our hearts will not be made.

We need to pass this tax bill quickly.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Ackley, and again I thank all of you for these interesting points. Mr. Boggs will begin the interogation.

Mr. BOGGS. Thank you very much, Mr. Chairman and members of the panel. I have just one or two questions.

First, I had a series of questions in late November which I think were pertinent then—I think they are pertinent today—in which I generally supported the position taken by these gentlemen and have supported for quite some time.

I think that the alternatives do not exist. However, I would like to ask some questions about some opposite points of view which have been expressed.

For instance, in this morning's Washington Post there is an editorial entitled "A Sort of Boom." Have any of you read this editorial?

Mr. ACKLEY. Yes, sir.

Mr. BOGGS. Would you mind commenting on that editorial, Mr. Ackley, because it takes a position almost entirely contrary to the position you just took, and I would like to make the editorial a part of the record.

The CHAIRMAN. Without objection it will be made a part of the record at this point.

(The editorial referred to follows:)

[Editorial from the Washington Post, Jan. 22, 1968]

"A Sort of Boom"

The latest batch of economic statistics indicate that while the demand for goods and services continues to recover from last year's quasi recession, there are no signs of the excessive demand that the Administration would restrain by raising taxes.

A perusal of the Gross National Product estimates supports that verdict. The real GNP—the measure of the output of goods and services corrected for price inflation—increased at the annual rate of 4.5 per cent in the third quarter of 1967, but the rate of advance was slowed to 1.0 per cent in the last quarter. And nowhere among the GNP components in the last quarter does one find evidence of demand pressures. The growth of consumer expenditures, especially for durables, was quite moderate. Fixed investment outlays only recovered to the peak level attained in the first quarter of 1966. Federal Government purchases of goods and services declined for the first time since 1965, largely as result of the slowdown in defense outlays.

The one strong point in the GNP picture for the fourth quarter of 1967 was the behavior of nonfarm inventories. Real inventories increased by $6.9 billion, the largest quarterly gain of the year. But inventory accumulation is a double-edged sword. If the growth of inventories becomes excessive in relation to the growth of sales, new orders will be cut back. The economy has only now finished digesting the inventory pile-up of 1966–67, and while the inventory-to-sales ratio dipped in November, manufacturers and retailers are cautious on new orders.

The behavior of the Federal Reserve Board's industrial production index tends to reinforce the impressions gleaned from the GNP estimates. That index rose to 161.6 (1957–58 equals 100) in December to establish a new peak. But the December rise was smaller than that in November. The advanced report on new orders placed with durable goods manufacturers in December is, to be sure, quite encouraging. Yet if the very sour report on housing starts in December—a 20.9 per cent drop after seasonal adjustment—is indicative of genuine trend, the momentum that was forecast for the economy in the first half of this year may not be realized.

Albert T. Sommers, an economist with the National Industrial Conference Board, wrote a delightful piece last month entitled "A Sort of Boom." After contrasting observable developments with the alarming forecasts of excessive demand and inflation by the Treasury and the Council of Economic Advisers, he said:

"Yet now that the advance is here, now that the long-heralded and endlessly forecast expansion has begun, it does not look very much like the forecasts; in fact it is very unboomlike. No holocaust of demand has overtaken supply and driven the Nation to scarcity; in a host of industries, mystified businessmen are still awaiting the frantic days they were told lay ahead. What happened? Is the great boom just a mirage? Or is this just the deceptive calm before all Keynes breaks loose?"

What appears likely to break loose is hot air as some more of the more exuberant economic forecasts are punctured by the facts. The economy is recovering from last year's standstill, but the rapid pace of expansion, typical of the catching-up process, ought not be confused with an excessive demand for goods and services.

Mr. Ackley. Mr. Boggs, I did read the editorial, I must say hastily, and I don't have it before me.

Mr. Boggs. I will read you a paragraph.

Mr. Ackley. I have it now.

Mr. Boggs. Read the second paragraph.

Mr. Ackley (reading):

A perusal of the gross national product estimates supports that verdict.

Mr. Boggs. The verdict being that they don't want a tax measure.

Mr. ACKLEY. The verdict that there are no signs of excessive demand.

The real GNP—the measure of the output of goods and services corrected for price inflation—increased at the annual rate of 4.5 percent in the third quarter of 1967, but the rate of advance was slowed to 1.0 percent in the last quarter.

May I say that this is simply a factual error into which some Post editorial writer may have fallen. The increase in real gross national product in each of the last two quarters was slightly above an annual rate of 4 9/10 percent.

And nowhere among the GNP components in the last quarter does one find evidence of demand pressures.

And so on. The general impact of this Post editorial is that, while the economy is recovering healthily and as expected, there is no prospect of excessive demand in the months and the year ahead.

Mr. BOGGS. Read on there if you don't mind.

The growth of consumer expenditures, especially for durables, was quite moderate. Fixed investment outlays only recovered to the peak level attained in the first quarter of 1966.

Mr. ACKLEY (reading):

The growth of consumer expenditures, especially for durables, was quite moderate.

I suggested in my prepared statement that this was an important feature of the economic behavior all during 1967, the moderate growth of consumer expenditures. There is, however, a special factor in the fourth quarter with regard to expenditures on durable goods that I am surprised the Post editorialist was not aware of and that was the shortage of automobiles.

Mr. BOGGS. Speak up a little louder, Mr. Ackley.

Mr. ACKLEY. The editorialist apparently forgets that there was an automobile strike in the fourth quarter of 1967 which reduced seriously the availability of automobiles in the retail showrooms and had a significant effect in reducing the growth of consumer expenditures on durable goods in the fourth quarter.

Mr. BOGGS. Now, you are saying that the editorial is not factually correct, as I understand it.

Mr. ACKLEY. Certainly the statement about the growth of real gross national product in the fourth quarter is a factual error. I don't quarrel with the proposition that the growth of consumer expenditures for durables was moderate. It was, indeed. I am pointing out, however, that one special factor here is ignored; namely, the shortage of automobiles in the retail outlets.

Fixed investment outlays only recovered to the peak level attained in the first quarter of 1966.

That is surely an incorrect statement. Business fixed investment in the fourth quarter of 1967 exceeded the first quarter of 1966 by 7 percent. We have, moreover, the expectations of businessmen as registered in the Commerce-SEC survey which indicate that those expenditures will rise further in 1968 at what we hope will be a moderate and not an excessive rate.

Federal Government purchases of goods and services declined for the first time since 1965, largely as result of the slowdown in defense outlays.

Government purchases of goods and services in the fourth quarter were up from $90.9 billion in the third quarter to $92.0 billion in the fourth quarter. The total of Federal Government expenditures, including purchases, transfers, grants-in-aid, et cetera, rose from $165.9 billion in the third quarter to $167.5 billion in the fourth quarter. It may be that the editorialist is referring to Government outlays corrected for price increase.

It is possible that, on a price-corrected basis, Federal purchases of goods and services declined in the fourth quarter.

In dollar terms they surely rose.

Mr. BOGGS. Read the next two paragraphs, the rest of the editorial. Read paragraphs 4 and 5.

Mr. ACKLEY (reading):

The one strong point in the GNP picture for the fourth quarter of 1967 was the behavior of non-farm inventories. Real inventories increased by $6.9 billion, the largest quarterly gain of the year. But inventory accumulation is a double-edged sword. If the growth of inventories becomes excessive in relation to the growth of sales, new orders will be cut back. The economy has only now finished digesting the inventory pile-up of 1966–67, and while the inventory-to-sales ratio dipped in November, manufacturers and retailers are cautious on new orders.

That last sentence is clearly difficult to support by the facts which show that total new orders in November were at a peak rate and we now have durable goods orders for December which again are at an alltime peak rate.

Mr. BOGGS. You mean it is not true? You say it is difficult to support by the facts. That is very polite language.

Mr. ACKLEY. We don't have, Mr. Boggs, new orders for December by other than with durable goods manufacturers and so it is possible that the writer of the editorial has some vision of this number which leads him to this conclusion.

Mr. BOGGS. Well, is it accurate or inaccurate?

Mr. ACKLEY. I regard this as an essentially inaccurate picture, Mr. Boggs.

Mr. BOGGS. Well, read on.

Mr. ACKLEY (reading):

The behavior of the Federal Reserve Board's industrial production index tends to reinforce the impressions gleaned from the GNP estimates. That index rose to 161.6 (1957–58 equals 100) in December to establish a new peak. But the December rise was smaller than that in November.

Well, that is an interesting point, but hardly very significant. The rise in November was 2.7 percentage points. It was 2.3 points in December. That evidence of a slowdown is not one that will likely change very many people's opinion. The fact is that the 2-month rise combined was a mighty large one of five points in the index, which would be perhaps three and a quarter percent in those 2 months.

As I noted in my testimony, the recovery in November and December in large part and in significant part reflects the ending of the Ford strike. If we want to get away from this particular effect we can take a comparison with June. If one takes industrial production from June to December the annual rate of increase is 8 percent, which I would regard as a very high rate of advance.

Mr. BOGGS. So you wouldn't agree with that part of it, either?

Mr. ACKLEY. I certainly would not.

Mr. Boggs. Mr. Martin, they make reference especially to the Federal Reserve Board index. Would you mind commenting on that?

Mr. Martin. The Federal Reserve Board's index of industrial production rose in November and in December at approximately the same rate. It was a new high in December at 161.6.

Mr. Boggs. Do you agree then with this statement in this editorial?

Mr. Martin. No; I do not.

Mr. Boggs. Go right ahead. Read some more.

Mr. Ackley (reading):

> The advanced report on new orders placed with durable goods manufacturers in December is, to be sure, quite encouraging.

Mr. Boggs What does that mean?

Mr. Ackley. I guess it means it is very strong. Indeed, I would say if it is any evidence of the kind of advances we are in for in future months. I would say it was discouraging, because you can't have manufacturers' new orders going up by, as I recall——

Mr. Boggs. Well, read on.

Mr. Ackley. Manufacturers orders for durable goods increased by about $2.3 billion in December and that rate of advance, if sustained, would suggest we were in for very serious trouble.

> Yet if the very sour report on housing starts in December—a 20.9 percent drop after seasonal adjustment—is indicative of genuine trend, the momentum that was forecast for the economy in the first half of this year may not be realized.

Well, that is a very cautious statement, if it is indicative of a genuine trend, the momentum forecast for the economy in the first half of this year may not be realized.

Mr. Boggs. Read the last paragraph.

Mr. Ackley. That certainly would be a correct statement. However, as I tried to indicate in my testimony, I think that too much importance should not be attached to the November to December change in housing starts. If one looks at a graph of that series you will find that in the past it has fluctuated violently from one month to the next. We have had a series of about 6 or 8 months with practically all the fluctuation in one direction. We have been waiting for a fluctuation in the other direction and it came in December.

I think it does have significance, if any, in reminding us that there may be problems for housing if the availability of mortgage money tightens. That possible tightening is indeed related to what we are talking about today.

Mr. Boggs. Well, let me go ahead. I think we have dealt with that enough. I just wanted a general observation. The thrust of the editorial as I read it is that there are no really great inflationary pressures in the economy. I would gather that each one of you gentlemen disagreed with that.

Is that correct?

Mr. Schultze. Correct.

Mr. Boggs. Do you have a comment on that, Mr. Secretary?

Secretary Fowler. Very definitely. There are very clear evidences. Chairman Ackley's statement summarized them. I need not detail them any further. All of us feel that they present unacceptable risks that none of us would be prepared to take—risks that all of us recommend we try to avoid.

Mr. Boggs. Would you care to comment on it, Mr. Schultze?

Mr. Schultze. Yes. It is a little bit similar, I think, to the editorials we have seen all during the last 6 months when gross national product was rising at an annual rate of $65 billion and prices at an annual rate of 4 percent. All during that period the same editorials were indicating there were no inflationary pressures.

So, as far as I can see, this is simply a continuation of the same interpretation of events which I think in general would be recognized as marks of an economy moving up very rapidly with very sharp price increases.

Mr. Boggs. I have just one or two other questions along this line. There has been, has there not, a decline in interest rates since you were last before the committee?

Secretary Fowler. No. Since we were here before you I will have to give you an approximation of the changes from November 30 to date. My impression is that interest rates drifted down throughout December. The market improved sharply in the first 10 days in January, which was commented on in several of the statements, but I would like to submit it for the record.

The interest rates moved up last week in the markets. I would prefer to be exact and supply that for the record.

Mr. Boggs. I ask unanimous consent that he supply the exact figures.

The Chairman. Without objection, yes, sir.

(The information referred to follows:)

MAJOR INTEREST RATES SINCE NOVEMBER 1967, SELECTED DATES

[In percent]

	1967			1968			1967 peaks	
	Nov. 27	Nov. 30	Dec. 29	Jan. 12	Jan. 19	Jan. 24	Yield	Date
Treasury bills:								
3-months	4.90	4.95	5.04	5.08	5.07	5.01	5.07	Dec. 15.
6-months	5.46	5.53	5.54	5.24	5.35	5.20	5.60	Dec. 1.
12-months	5.55	5.60	5.71	5.23	5.31	5.30	5.71	Dec. 29.
Treasury coupons:								
1-year	5.63	5.65	5.76	5.37	5.40	5.36	5.76	Do.
5-years	5.78	5.77	5.78	5.42	5.59	5.58	5.91	Nov. 13.
10-years	5.76	5.74	5.70	5.43	5.59	5.56	5.87	Do.
20-years	5.67	5.65	5.56	5.29	5.48	5.42	5.81	Nov. 20.
Federal agency: 1-year	6.10	6.04	5.99	5.82	5.80	5.76	6.11	Do.
New Aa-rated corporate bonds (Treasury series) [1]	6.98	6.95	6.83	6.55	6.56	(2)	6.98	Dec. 15.
New municipal bonds (bond buyer service)	4.37	4.42	4.44	4.27	4.25	(2)	4.45	Dec. 7.
New home conventional mortgages (FHA service)	.....	6.66	[3] 6.70	(4)	.....	(2)	6.70	December.

[1] Series based on issues with no call protection, for 5-year call protected issues deduct (at present equal time) approximately 20 basis points.
[2] Not available.
[3] For month of November.
[4] For month of December.

Mr. Boggs. But maybe Mr. Martin will comment on that.

Mr. Martin. They have declined slightly, Mr. Boggs. The last time I was up here, the average yield on 3- to 5-year U.S. Government bonds was 5.7 and on January 12 it was 5.43. The average for bonds over 10 years was 5.45 and it is now, January 12, 5.08, so there is a slight decline, not a very dramatic one.

Mr. Boggs. Would that indicate some lessening of demand in the private sector? What do you attribute this to?

Mr. MARTIN. Well, I attribute this largely to the yearend adjustments that have gone on. Since the market has stabilized, it seems to me that this is really too early to indicate anything in the way of a trend one way or the other.

We always have a big ferment in the money market over the yearend and in the early part of the year. I wouldn't attach any importance to this either way.

Mr. BOGGS. I have noted in the press where the stock exchanges have taken certain measures to curtail speculators' activity. I think the American Stock Exchange is closing down at 2 p.m.

Mr. MARTIN. So is the Big Board.

Mr. BOGGS. What is the margin requirement now? Seventy percent?

Mr. MARTIN. Seventy percent; right.

Mr. BOGGS. Is this a matter of concern to the Board?

Mr. MARTIN. This is a matter of continuous concern to the Board.

Mr. BOGGS. What do you think accounts for this undue activity?

Mr. MARTIN. What is that?

Mr. BOGGS. What do you think accounts for this sudden speculative activity?

Mr. MARTIN. Well, I have commented for a long time that there has been an inordinate amount of speculative activity going on over the last 2 years. It has been, as I indicated last May in a talk to the stock exchange on its 175th anniversary, a result partly of mutual fund activity that has grown on a large scale and also of the fact that every elevator operator and every individual around the country has now gotten the idea again that the way to get rich is not to earn a salary, but to get into the stock market.

This is something that is very dangerous and I have commented on it repeatedly.

Mr. BOGGS. This too has an impact, doesn't it, on the problem of the thrift institutions and all that sort of business?

Mr. MARTIN. It certainly does.

Mr. BOGGS. Have you considered raising the margin requirement?

Mr. MARTIN. We have considered it and we consider it continuously.

Mr. BOGGS. Mr. Secretary, I presume that you will give us at sometime later a further statement of the impact of the failure to act in the field of tax responsibility or fiscal responsibility on the deficit and the balance of payments.

Secretary FOWLER. Yes.

(The following information was received by the committee:)

THE TAX SURCHARGE AND THE DOLLAR'S WORLD POSITION IN THE CONTEXT OF THE STERLING DEVALUATION

Since August the Administration has said on numerous occasions that tax and expenditure actions are vitally important to the protection of our balance-of-payments position and to the maintenance of confidence in the dollar. Now the devaluation of sterling—considering both its psychological effect already in focusing the eyes of the world upon us as keepers of the world's major currency and also its expected economic effects on world trade and our balance-of-payments accounts—makes responsible fiscal action in the United States doubly imperative.

WORLD ROLE OF THE U.S. DOLLAR

The dollar is the world's major reserve and trading currency. It is one of the key elements in the international monetary system. Billions of dollars are held and invested by foreigners because they have faith and confidence in the sound-

ness and strength of the U.S. economy and in the long-run stability of the dollar's purchasing power. This confidence in the dollar depends, basically, on the ability of the United States to act responsibly in maintaining cost and price stability and avoiding unbalanced, excessively rapid growth.

At the present time, there is a widespread feeling in financial circles abroad, as well as at home, that a tax increase and expenditure control are necessary to reduce substantially our budget deficit, to minimize the risk of mounting inflation, to prevent a further escalation of interest rates, and to avoid risks of renewed deterioration in our payments deficit.

The Joint Economic Committee Minority Statement of November 21 has stated the issue before us very well:

"The British example makes painfully clear to the United States that a power which plays the role of international banker has special responsibilities as well as special rights. It must maintain stability of costs and prices within its own borders. It must also maintain a reasonably healthy equilibrium in its balance of payments with the rest of the world."

U.S. TRADE AND PAYMENTS POSITION

Not only are the tax increase and expenditure control vital to foreign confidence in the sound management of the U.S. economy, they also have a direct bearing on our international trade and payments position. Let there be no doubt about it—the single most important and indispensable step we can take now to protect and improve our trade position is to enact a tax increase accompanied by expenditure control.

Our trade surplus is the bulwark of our balance-of-payments position, and it is to substantial further improvements in it that we must look for satisfactory balance in our foreign payments. By enacting a tax increase accompanied by expenditure control, we will help to insure that:

—Excess demand in the U.S. does not, again, lead to immediate and excessive increases in imports, or absorb capacity needed to maintain continued growth of our exports.

—Cost and price increases do not set the stage for a deterioration of our competitiveness abroad which, once suffered, could weaken our world trade position for a period of some years ahead.

The facts speak for themselves:

—During the 1961–64 period of substantial but clearly sound and well balanced domestic growth, and with high rates of economic advance in Europe, our trade surplus increased almost $2 billion—from $4.8 billion in 1960 to $6.7 billion in 1964.

—During the folowing two years, with accelerating domestic demand and increasing pressure on our productive capacity, and slower growth rates in Europe, the trade surplus fell again—back to $4.8 billion in 1965 and down to only $3.7 billion last year.

—With a slower rate of growth again and less capacity and inflationary pressure in our domestic economy so far this year, our trade surplus has, despite the continued slower pace of business activity in Europe, shown significant improvement—from a last-quarter 1966 low of $2.9 billion (annual rate) to an estimated $4 billion in 1967.

Mr. Boggs. I wish that you would give us in your usual summary fashion what you really think would happen to this deficit if we fail to enact some types of tax legislation.

Secretary Fowler. As in all of these situations, I don't think predicting a precise consequence is the right approach. What I can say is that I think a failure to enact a tax increase will invite the very grave risk that our trade surplus instead of increasing in the year ahead will decline.

We have already gotton some glimmer of this from developments in the calendar year 1967. Our trade surplus in the first quarter was $1,100 million, in the second quarter $1,220 million, in the third quarter $1,220 million, which represented about a half a billion dollar rate of improvement over the previous year, but in the fourth quarter our trade surplus declined in both October and November.

We don't have the December figures as yet. They will be out in a few days.

So that the trade surplus, which in the previous three quarters was moving up around $1,200 million, was only about $680 million in the fourth quarter when you project on a 3-month basis the figures for October and November.

Now, on the export side the fourth quarter worsening occurred in both agricultural and nonagricultural products. Agricultural exports seasonally adjusted fell from about $1,650 million in the second quarter to a slightly lower quarterly rate in October and November. Nonagricultural exports rose from $6.1 million in the second quarter to $6,150 million in the third quarter, but fell to a quarterly rate of $6 billion in October and November.

On the import side the fourth quarter showed a worsening in the field of nonagricultural imports from the standpoint of our balance of trade. While we think that there were some special factors at work in the fourth quarter we are bound to conclude that some basic factors, including the acceleration of U.S. economic activity relative to that abroad, is a contributing element to the determination we are already witnessing in our trade surplus in the fourth quarter.

Mr. Boggs. Now, are you saying that the enactment of a tax bill is essential if you are really going to attack this deficit. Am I quoting you properly?

Secretary Fowler. Correct, absolutely.

Mr. Boggs. One other question, Mr. Schultze. I was very much interested in your budget projections, particularly for fiscal 1969. Am I right from the way I read those projections that you propose a lesser increase in Federal expenditures than at any time in recent years?

Mr. Schultze. Any time in the last three; yes, sir.

Mr. Boggs. I wonder if you would repeat those figures.

Mr. Schultze. Yes, sir; if I may. I gave it four different ways. Let me start with the total. Total budget outlays, including trust funds, rose $24 billion in 1967. We estimate $17 billion in 1968 and $10½ billion in 1969.

If I exclude national defense, outlays rose $10½ billion in 1967, $11 billion in 1968, and are scheduled to rise about $7 billion in 1969. If I go back to the old administrative budget, excluding the effect of participation sales, expenditures rose about $20 billion, a little bit more than $20 billion in 1967, $12½ billion in 1968, and $9 billion in 1969.

Mr. Boggs. Can you translate it is terms of percentage of gross national product?

Mr. Schultze. Well, the $10½ billion of increase in 1969—do you want the increase or the——

Mr. Boggs. The total.

Mr. Schultze. Oh, the total; yes, sir.

Mr. Boggs. You can do both if you don't mind in all 3 years.

Mr. Schultze. For example, the $10½ billion of increase in 1969 would be about one-sixth of the growth in gross national product so one-sixth of the increase will go to increased Federal expenditures. Another way to look at it is the percentage of our gross national product——

Mr. Boggs. Total.

Mr. SCHULTZE (continuing). Which is taken by the Federal budget.

Mr. BOGGS. Right.

Mr. SCHULTZE. And I will have that in just a second. Let me do this if I may in three parts.

Mr. BOGGS. By all means.

Mr. SCHULTZE. On Vietnam, the social insurance trust funds, and all other expenditures of the Federal Government let me take the late 1950's, 1965, and 1969.

Mr. BOGGS. All right.

Mr. SCHULTZE. Both in the late 1950's and in 1969—excuse me. In the late 1950's Vietnam was, of course, zero. In 1969 it will be 3 percent of the GNP. The social insurance trust funds were 3 percent of the GNP in the late 1950's, 3½ percent in 1965, and will be 4½ percent in 1969.

All other budget outlays of the Federal Government were 16 percent in the late 1950's, 14½ percent in 1965, and 13.9 percent in 1969. Or to look at it another way, if I take all Federal outlays, including the largely self-financed social insurance trust fund, and put them together, the total is about the same percentage of the GNP in the late 1950's as in 1965 and slightly lower than in 1969; but within that total the social insurance trust funds have gone up as a percentage of our GNP and all others have come down.

Mr. BOGGS. Take the totals. They include the social trust funds and Vietnam?

Mr. SCHULTZE. And Vietnam. It is about 21.3 percent in 1969.

Mr. BOGGS. Compared to 16 percent in the late 1950's?

Mr. SCHULTZE. Nineteen percent in the late 1950's, including the trust funds.

Mr. BOGGS. And of course you had no Vietnam.

Mr. SCHULTZE. No Vietnam, that is correct.

Mr. BOGGS. Just one other figure. Give me the figure for Korea, maximum expenditures per year.

Mr. SCHULTZE. We don't have this new budget calculated back that far. It reached approximately 21 percent in the Korean period if I do the arithmetic correctly.

Mr. BOGGS. Does your arithmetic go back to World War II?

Mr. SCHULTZE. In World War II I would have to give it to you on the old administrative budget basis. It wouldn't make that much difference, anyway. The percentage is going to be in the 40 to 50 percent neighborhood.

Yes, it ran between 44 and 47 percent of GNP in World War II, 21½ percent at the peak of Korea, and 21.3 percent now.

Mr. BOGGS. Mr. Secretary, the proposed increase is about how much of what we increased taxes at the time of Korea percentagewise?

Secretary FOWLER. I don't have that in terms of Korea readily available. I will supply it for the record. Let me just say, to give you a general answer, the tax increase being proposed now is only a small proportion of the total tax increases that were enacted during Korea.

(The following information was received by the committee:)

PERCENTAGE FIGURES RE KOREAN WAR AND PRESENT PROPOSED TAX INCREASE

The Revenue Acts of 1950 and 1951 and the Excess Profits Tax Act of 1950 increased individuals and corporation income tax liabilities by 28.4 percent and 54.5 percent respectively. The proposed increases in individual income tax liabili-

ties would be 7.5 percent of the calendar year 1968 and 5.0 percent in 1969. The increase in corporation income tax liabilities would be 10.0 percent in calendar 1968 and 5.0 percent in 1969.

Mr. Boggs. Translate it in terms of the average taxpayer in the United States, if there be such a person. What does this mean in dollars and cents, say, to a man with a wife and three children?

Secretary Fowler. The easiest way to answer is to say that for the average taxpayer it is about 1 percent of income during the 15 months the surcharge is in effect.

Mr. Boggs. Of your income?

Secretary Fowler. Your adjusted gross income.

Mr. Boggs. How would that compare with the type of price increase that some of you have envisaged to the average family?

Secretary Fowler. We calculated that out and if we had the type of price increase that we encountered in the midfifties or during Korea, if that would the kind of price increase that is ahead of us, most everybody would be a big loser to take the price increase as compared to the tax increase.

Mr. Boggs. I wonder if you and your associates would make some projection on that for the record.

Secretary Fowler. Yes, we will be glad to. We have those and will present those.

Mr. Boggs. Thank you very much, Mr. Chairman.

The Chairman. Without objection that material will appear at this point in the record.

(The following table was received by the committee:)

ILLUSTRATION OF THE EFFECT ON REAL INCOME OF THE PROPOSED SURCHARGE COMPARED TO AN ADDITIONAL RISE OF 3 PERCENTAGE POINTS IN THE CONSUMER PRICE INDEX WHICH MIGHT OCCUR IN THE ABSENCE OF THE SURCHARGE [1]

MARRIED COUPLE, 2 DEPENDENTS

Wage income	1967 tax	Decrease in income from the 10-percent surcharge [2]	Decrease as a percent of wage income	Decrease in real income from a 3-percentage-point increase in consumer prices [3]	Decrease as a percent of wage income
$2,500	0	0	0	$82	[4] 3.3
3,000	$4	0	0	94	[4] 3.1
5,000	290	0	0	138	2.8
7,500	686	$69	0.9	198	2.6
10,000	1,114	111	1.1	253	2.5
15,000	2,062	206	1.4	388	2.6
20,000	3,160	316	1.6	455	2.3

[1] During the first 2 years of the Korean war prices rose by an annual rate of 5.5 percent. Using the Korean experience as a benchmark, prices might rise by 3 percentage points more without the surcharge than with the surcharge.

[2] The surcharge is shown as 10 percent because that is the annual rate. The actual rate for 1968 would be 7.5 percent and the 1969 rate would be 5 percent as a result of a beginning date of Apr. 1, 1968 and an expiration date of June 30 1969.

[3] Based on representative consumption amounts.

[4] Families with incomes under $3,000 frequently spend more than their incomes by going into debt or drawing down savings. Consequently a 3-percent increase in prices applied to the amount they spend is more than 3 percent of their income.

Mr. Boggs. I have concluded.

The Chairman. All right. Mr. Byrnes.

Mr. Byrnes. Mr. Chairman, I may not have many questions.

The Chairman. Before you begin let me ask this. Will it be convenient for the four of you to return to this room at 2:30 this afternoon when we adjourn?

Secretary Fowler. Yes, sir.

Mr. BYRNES. Frankly I am beginning to get a feeling that this is becoming an exercise in frustration. We specifically considered this matter three times last year and the committee went into it a number of other times. It was an extraneous matter when we dealt with the debt ceiling.

I am searching but I have not been able to find any change in either the attitude or the atmosphere in which this matter is being presented.

Neither the tenor of the President's state of the Union message nor the figures in your budget show much change in attitude that I can find. They give no real sense of urgency nor certainly any sense of real restraint. They reflect an attitude of spend and spend and tax and tax and elect and elect.

In fact I searched the President's state of the Union message in vain for indications of a grave concern over our fiscal situation, but all I could find was the President's suggestion that there were some clouds on the horizon. I am not a meteorologist, but there are all kinds of clouds.

Fundamentally, I get the feeling of a business as usual atmosphere and I just don't have the understanding that business as usual supports a tax increase. I think it is this atmosphere that has given rise to some people, following the state of the Union message, inquiring as to whether the President was really sincere in wanting a tax increase.

Maybe I should be somewhat heartened by the calmness and restraint of the President. We have this picture presented to us by you gentlemen and some others of the seriousness of the situation, but I don't know where the real judgment comes from as to how serious our situation really is.

In fact, Mr. Secretary, I get the feeling that our situation isn't as serious now as it was when you addressed the National Press Club last September 21 because you speak now that we have the risk of these problems occurring if we don't have a tax increase, but at that time you advised your audience and I would quote—

> This Secretary of the Treasury recommended to the President this tax increase for only one reason and with great reluctance, and the President recommended it to the Congress for only one reason and with great reluctance. It was because the alternative, an economy in shambles, with incalculable damage to the individuals and efforts that depend on it, was far more unhappy.

What is the situation that we face currently in this picture? Are there just some clouds on the horizon? Do we have just some possibly very real risks, or will the economy actually be in shambles if we don't face up to our domestic fiscal problems and the pressure on the value of the dollar created by continuing international attacks?

Secretary FOWLER. Mr. Byrnes, I stand fully by what I said last September. I think that we may be playing a little bit on words here. On the seriousness with which we view this situation, you referred to the President's message referring to clouds on the horizon, but as I read on in that particular paragraph he says clearly and unqualifiedly that—

> I warn the Congress and the nation tonight that this failure to act on a tax bill will sweep us into an accelerating spiral of price increases, a slump in home building, and continued erosion of the American dollar, and this would be a tragedy for every American family.

I don't see how the matter could be put in any stronger terms, and I think that is our common conviction, those of us that appear before you here, as we see these prospects. We see the current situation in which we are in as having really only one concrete answer.

I think that the action taken by the President, which we will be discussing in much more detail later on, I understand, in the hearings the week after next in dealing with the entire range of the balance-of-payments program, is one expression of our concern that this action be taken. There were at the time we appeared before you last time none of the direct measures being proposed to deal with the balance-of-payments problem.

In the interim the President has announced on New Year's Day a series of direct measures which are drastic and unwelcome and unrepresentative of any business-as-usual attitude because they surely include meaures that all of us view as undesirable as permanent measures as a part of our long-term picture. They are justifiable only as temporary measures to deal with a pressing emergent problem, and in that setting the President made very clear that these were being added to his previous proposals on the tax bill, the previous actions taken on expenditures, to round out a full grip at this particular problem, the balance of payments.

Now, today we have not confined ourselves to that area, but also tried to address ourselves to the consequences of action on this bill for the domestic economy as well as the international financial setting. If there seems to be, in the words we use, any note of a lack of urgency let me hasten to correct it because the President in his statement used the word "urgent" in only two cases. I am speaking now of his January 1 statement.

No business before the returning Congress will be more urgent than this, to enact the anti-inflation tax which I have sought.

Now, I just know how we can be more serious in the expression of our concern than we have been today. I believe that the actions and conduct on this side of the table—as reflected in the various propsoals which have been made to deal with one of the fundamental problems—as reflected in the outline of the budget actions that will be presented in detail in the President's budget—are all completely in support of that thesis.

Mr. Byrnes. Well, you know as well as anybody here that our concern has not always been with the words that have been used. It is also with the action that results.

I think the majority of this committee has felt that the tool we had to work with in coping with the fiscal problem was a double-edged sword. While the executive has put the emphasis, and you do again here, on the urgency of using that side of the sword that is the tax increase, we wondered why the other side of the sword—expenditure reduction—hasn't been sharpened up. If there is really the urgency that has been portrayed in some quarters, and by some words at least, for action on a tax increase, why isn't there a comparable urgency for restraint, on the expenditure side.

Secretary Fowler. Mr. Byrnes, I guess it is all in which side of the spectrum you look at it, but looked at from my side of the table it seems to me that in the action that has been taken, that is concrete, that you

can put your finger on in the field of fiscal restraint, the knife has come down. The cut has been made. The action is on the books.

The reductions that were reflected in the closing months of the last session in the expenditure program as it existed in August are there, concrete, specific, and being realized.

The part of the fiscal restraint program on which we have had no action is the part we are concerned with here today. The prospective budget deficit to the degree it has been reduced has been reduced by expenditure cuts, expenditure holdbacks, and deferrals. The passage of time and the delay in acting on this bill has now foreclosed to us the possibility of reducing that deficit in 1968 by anything like the initial target that was set.

As our revenue figures will indicate, passage of this bill would assure us about $3 billion of additional revenues in fiscal 1968. This is a far cry from the amounts that would have gone to reducing this deficit had there been action earlier on the dates requested.

Yet, on the other hand, there has been expenditure action taken since August by the Congress and by the administration which in total amount to a reduction of $4.3 billion from expenditures then contemplated.

Mr. Byrnes. Maybe we will get some hope as we move into this budget that there has been some restraint, real restraint, comparable to what you talk about as the urgency of a tax increase, because it seems to me that our biggest problem, is whether there is an equal concern with the fiscal situation when you are working on the budget as you express when you come before this committee and ask for a tax increase.

It seems to me that you take the attitude that it is easier to get a tax increase than it is to accept the burdens of cutting back expenditures.

Let me suggest to you that I think the experience of the last year ought to demonstrate that that is not a sound conclusion.

Secretary Fowler. Well, let me say that the shrill voice that you hear pleading for a tax increase on the part of the Director of the Budget and the Secretary of the Treasury has been equally shrill uptown in effecting the expenditure side of this program.

Mr. Byrnes. I worry whether that shrill voice pleading for the tax increase isn't here just to relieve the pressure on the Bureau of the Budget and the executive in restraining expenditures. I don't put this on Mr. Schultze's shoulders or those of his successor as the Director of the Budget. They are responding to executive policy and various departments of Government.

Mr. Schultze. Mr. Byrnes, I think I laid out to you the restraint that has been used in preparing this budget. It has been a very tough degree of restraint. Measured by any number of ways it is part and parcel of a fiscal policy combining both expenditure control and tax increase. Measured in terms of reducing the rate of increase in expenditures, measured in terms of holding expenditures to last year's level, measured in terms of budget cuts on each and every agency, measured in terms of devoting the entire tax increase to a reduction in the deficit and not to an increase in expenditures, measured all those ways it seems to me that stringent expenditure control has been a complementary partner to the proposed tax increase.

Mr. BYRNES. I am not going to quarrel with whether you think it is or not. That is your judgment. I am suggesting to you that I don't think the country gets that feeling. I don't get that feeling. The atmosphere is the same atmosphere we were in last year.

You told us last January when you first presented the tax increase that you had a tight budget. You told us it was a tight budget, that you couldn't do anything more with it, and that it was just impossible to make any cuts because of all of these factors that you are just now mentioning.

Yet with the Executive finally acceding to a legislative directive, there was success in the later days of the Congress in making some cuts.

I understand that was about $4 billion, was it, in cuts?

Mr. SCHULTZE. That's right; $10 billion in obligations, $4 billion in expenditures.

Mr. BYRNES. Go ahead.

Mr. SCHULTZE. Just a minor correction of the record. You may recall on the specific techniques used for that cut, the resolution itself was a joint enterprise. It was not the administration acceding reluctantly to some pressure from the Congress. It was a combined effort.

Mr. BYRNES. Well, we will let the historians record that because we certainly went through plenty of agony——

Mr. SCHULTZE. Agony a plenty there was.

Mr. BYRNES (continuing). Of childbirth or something in connection with trying to get some kind of legislative restraint. We finally got it and apparently with the accession of the Executive. I am not going to quarrel over that aspect of it.

Mr. Secretary, just so that I get an understanding, on page 4 of your testimony—and Mr. Schultze you refer to it also—I am confused by the reference to 1968 where you talk about a budget deficit of $22.8 billion that would be reduced to $19.8 billion by the tax program.

In November—and you will find it at page 54 of the hearings—in my discussion with you and Mr. Schultze, we came down to a $22.4 billion deficit. You also pointed out that some additional cuts would be made.

Some would be made by the Congress. Well, let me read it.

> Mr. SCHULTZE. The total plan as specified in the bill reduces expenditures by $4.1 billion. Of that $4.1 billion, $1½ billion has already been taken by the Congress, so the difference is $2.6 billion which you can subtract from the $22.4 billion.

Now in the plan you are talking about there was this plan of putting a ceiling on the budget, on expenditures, and really on appropriations, and the resulting expenditure reduction.

Mr. SCHULTZE. Yes.

Mr. BYRNES. So then we come down and I said—

> So that would get us to $19.8 billion.

I am talking about the deficit. This hasn't anything to do with the tax increase. And Mr. Schultze you responded—

> That is correct.

Now you are talking about a $19.8 billion deficit as being the effect if we added a tax increase for fiscal 1968.

Now where are we?

Mr. SCHULTZE. In the first place, Mr. Byrnes, the $19.8 billion that we are now talking about is on the new budget. If it was on the old budget it would be $18.6 billion.

Mr. BYRNES. You just happened to come out at the same figure?

Mr. SCHULTZE. It happened to be a coincidence; yes, sir. It is $18.6 billion on the old budget. That $19.8 billion would be $18.6 billion on the old administrative budget. The fact of this $19.8 billion and that $19.8 billion is literally coincidence.

Mr. BYRNES. I see. OK.

Mr. SCHULTZE. There are several points.

Mr. BYRNES. You can understand my wonderment as long as you come out with the same result. I though we had reached that result already with the expenditure reductions that were supposed to take place.

Mr. SCHULTZE. No, sir; there are several things involved. One is, you will recall, that with the cuts that we were talking about, we would have on the old budget basis an expenditure of $136.2 billion.

I don't know whether you remember that number or not but this is the number we used. The number that would now be our latest projections for 1968 is $137.2 billion, not $136.2 billion, for essentially three reasons.

Vietnam is up a half billion from the numbers I gave you then, and the combination of interest and public assistance, plus price supports are up another half a billion, so that we have $137.2 billion in the latest projection of the old budget concept.

Mr. BYRNES. Well, this is not said in criticism of moving to the new budget concept. I think it is a real step forward and as I understand it you have carried out everything that was recommended by the study commission except in those areas which require a transitional period for implementation.

Mr. SCHULTZE. Accruals.

Mr. BYRNES. Yes. Accruals.

Mr. SCHULTZE. And the interest subsidy presentation; that is right.

Mr. BYRNES. All right. But I think in this transitionary period that we have to have comparable tables.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. And I would suggest that the committee be furnished with the comparable figures under the conventional administrative budget using of course both 1968 and 1967.

Mr. SCHULTZE. 1967, 1968, and 1969. For your convenience Mr. Byrnes, I am prepared to read you now the receipts, expenditures, and deficit on the old basis for 1967, 1968, and 1969 and I will get this in the record.

Mr. BYRNES. Maybe instead of stating them at this time, since we will be meeting this afternoon, you could reproduce enough of these so that the committee could have copies of them and then we could also put them in the record; also the conventional cash budget. Do you have that?

Mr. SCHULTZE. Net yet. We will have it in the budget document. I don't yet have it prepared, Mr. Byrnes.

Mr. BYRNES. But you will do that.

Mr. SCHULTZE. We will in the budget document have the old numbers and the new numbers, yes, sir; and I can give you this afternoon the old administrative budget. The cash has not yet been fully worked up and reconciled.

Mr. BYRNES. But we will be able to compare the various budgets that we have used in the past.

Mr. SCHULTZE. Correct, sir.

Mr. BYRNES. Also brought up to date in the new form.

Mr. SCHULTZE. Correct. Put another way, what we will have is the new budget going back for prior years to 1958. That is point No. 1. So you can compare the new budget back over time.

Secondly, we will bring the old budget up through 1969. What I cannot give you is all the detail on the old budget. In other words, I don't have the reams of normal budgetary detail on the old budget basis. Obviously we couldn't prepare in detail double budgets, but the totals and the major components on the old basis I do have.

Mr. BYRNES. Well, I hope it is in a way that we can understand it so that we don't get all confused in a lot of figures, which I am afraid has been too much of our trouble in the past.

You talk, for instance, in your budget about a budget increase of $10.4 billion.

Mr. SCHULTZE. That is correct.

Mr. BYRNES. That is the increase. You use the term "outlay" in some places and expenditures in others.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. What are we talking about when we get to the $10.4 billion?

Mr. SCHULTZE. Outlays, total. Lending plus spending.

Mr. BYRNES. How does that relate to the old administrative budget?

Mr. SCHULTZE. The old administrative budget also included both lending and spending.

Mr. BYRNES. So that really is rather comparable.

Mr. SCHULTZE. In that sense; yes, sir.

Mr. BYRNES. When we talked last year of, well, whatever the expenditure increase we talked about of 1968 over 1967, this would be comparable to the figure we used.

Mr. SCHULTZE. Yes, sir; that is correct. Mr. Ackley just pointed out when I said "comparable" they are not the same amounts because the new budget includes the trust funds and the old didn't, but they both include spending and lending. The word "outlays" is equivalent to the word "expenditures" in the old budget; comparable in that sense; yes, sir.

Mr. BYRNES. Maybe you have me confused already, but I will study it out over the lunch hour.

Mr. SCHULTZE. May I try to clarify it?

Mr. BYRNES. Yes.

Mr. SCHULTZE. One of the major recommendations of the Budget Commission was to distinguish between expenditures and lending. We did that. Therefore, what term do you use for the total? You don't want to say expenditures plus net lending every time you open your mouth, so we coined the term "outlays" to cover the two.

That distinction was never made in the old budget. I think that is the only point. So when I say outlays in the new budget I mean all spending and lending.

Mr. BYRNES. There is one figure I want to get at. You talk about this increase of $10.4 billion. That is an aggregate increase, isn't it?

Mr. SCHULTZE. That is correct.

Mr. BYRNES. And you say that you made substantial reductions someplace in this budget. You listed some items but you didn't give us any figures, places where you have cut back in programs from fiscal 1968.

Mr. SCHULTZE. That is correct.

Mr. BYRNES. I would like to know what your figure would be if you had no reductions, if all the Congress enacted were the increases, and then we could see not just the net increases but the total increases. Do you understand what I am asking for?

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. Have you any idea what the total amount is for all the increases? Every place you have in the budget an increase, what would those total up to? In other words, don't subtract any of the other savings that show down here when you are figuring an aggregate.

Mr. SCHULTZE. I don't have such a number. I know the rough proportions of it and including, Mr. Byrnes, as I indicated in my testimony, about $1½ to $2 billion on payments in prior contracts which increased, including that, it would probably be somewhere in the neighborhood of $2½ billion, $2½ to $3 billion, remembering that that $2½ to $3 billion includes——

Mr. BYRNES. In other words, your cuts represent about $2½ billion from 1968?

Mr. SCHULTZE. That is right; yes, sir.

Mr. BYRNES. Are those cuts from what the final figure was? Is it projected for fiscal 1968, or is it a reduction from the budget as presented to the Congress last year for 1968?

Mr. SCHULTZE. That figure would be from the final amount.

Mr. BYRNES. Does it contemplate spending in fiscal 1968?

Mr. SCHULTZE. That is correct, after the cuts.

Mr. BYRNES. What you will contemplate spending in fiscal 1969.

Mr. SCHULTZE. It is about $2½ to $3 billion on either side.

Mr. BYRNES. In some areas.

Mr. SCHULTZE. That is right. In other words, Mr. Byrnes, you will recall, we listed four items which accounted for the $10.4 billion increase. Now, in addition to that, you have in the neighborhood of $2½ to $3 billion up in outlays and $2½ to $3 billion down, so it balances out and there is nothing in all the rest, or practically nothing.

Mr. BYRNES. In other words, you have increased on specific programs or new programs expenditures to the tune of $13 billion?

Mr. SCHULTZE. Yes, sir; but you have to net out of that, remember I said on top of the $10.4 billion of items that are built in, $2½ to $3 billion. And of that $2½ to $3 billion, $1½ to $2 billion is simply payments on prior contracts.

You can say we increased it, but it is paying out on prior contracts.

Mr. BYRNES. Well, there is an increase.

Mr. SCHULTZE. Oh, yes.

Mr. BYRNES. I don't care at this stage particularly and we will get into why we have these increases more specifically, but really you end up with the fact that various programs have been increased by $13 billion.

Mr. SCHULTZE. Go up by $13 billion, in that neighborhood, yes, sir; and others go down by $2½ to $3 billion.

Mr. BYRNES. You did find some areas in which you were going to save about $2½ billion.

Mr. SCHULTZE. $2½ to $3 billion.

Mr. BYRNES. OK. When will we have a breakdown on that in terms of dollars?

Mr. SCHULTZE. A completely detailed breakdown when the budget comes up.

Mr. BYRNES. We can't have it for this discussion?

Mr. SCHULTZE. No, sir. I can give you some of the elements, but basically the detailed breakdown when the budget comes up.

Mr. BYRNES. To me this is the aspect that is important. It is not so much the dollar side or the actual figures that is involved, but the attitude which those figures reflect.

Mr. SCHULTZE. Mr. Byrnes, there will be in the budget a separate section where the table of reductions that you can look at item-by-item runs two and a half pages and amounts to somewhere between 45 and 55 items. You can take a look at it specifically. There are some actions we are taking, very painful actions, which will have no effect on 1968 expenditures but will importantly affect the budget in 1970, 1971, and 1972.

Mr. BYRNES. I also want to find out what ones are just delayed so we get the explosion of these expenditures that you will accumulate, but I think we can go into those as items of detail.

One thing that intrigued me, because we find this very often develops as we get into the details of the budget, is the user charges that have been thrown in as though they are not taxes or they are not additional burdens on the people. What is the total of new user charges that you request?

Mr. SCHULTZE. About $300 million. That is round numbers. It is a little less than $300 million but that is the round number, and I quarrel with you vigorously, Mr. Byrnes, that this is in the same context as taxes.

Mr. BYRNES. Is that part of the $2½ billion of reduction in expenditures?

Mr. SCHULTZE. Yes, sir; it certainly is. Mr. Byrnes, I will sit here as long as you want and argue that case. This committee has been most interested in how one handles the problem of so-called open-ended Federal programs. Now, by God, here is the way to do it. These are workload items that you cannot avoid. We are not about to let planes crash. But we can find a way to do it reasonably, putting the charge on those who benefit and taking it off the general taxpayer.

Mr. BYRNES. All I am trying to get at here is an understanding so that both the public and I can understand what we are doing.

Now, in my book, we haven't cut back expenditures by simply continuing to have the outlay and collecting a user charge.

Mr. SCHULTZE. But that puts the general burden on the taxpayer.

Mr. BYRNES. Well, it changes the deficit but there is still a burden on the public.

Mr. SCHULTZE. No, sir. It is not a burden on the public to fly safely any more than it is a burden on the public because someone has to pay for a new suit. If paying for a new suit is a public burden, then air safety is a public burden.

Mr. BYRNES. All right. I think we understand. As long as it is in the record and as long as people can use it I am not going to get into all the semantics and worry about some of these things that you worry about.

Mr. SCHULTZE. I would hope the committee might worry about this.

Mr. BYRNES. You are still going to be spending. Let's not get smart about it. You know I am concerned about all of it.

Mr. SCHULTZE. I understand that, Mr. Byrnes, but I must say we have worked hard at trying to find the means to handle these kinds of problems.

Mr. BYRNES. I am not questioning that at all, but I am saying that at least if $300 million shows as a reduction and yet the Government is still going to engage in that activity, I think we ought to know it.

Mr. SCHULTZE. I agree.

Mr. BYRNES. And not make it appear that, well, we have cut out this activity. Sure, it doesn't show in the deficit because you are going to impose, if the Congress votes it, a user charge.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. That is all I want the record to show.

Mr. SCHULTZE. Fine.

The CHAIRMAN. Without objection the committee will adjourn until 2:30 this afternoon.

(Whereupon, at 1:07 p.m., the committee recessed to reconvene at 2:30 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2:30 p.m., Hon. A. S. Herlong, Jr., presiding.)

Mr. HERLONG. The committee will be in order.

When the committee recessed at noon I believe the gentleman from Wisconsin, Mr. Byrnes, was inquiring. Do you have any more questions, Mr. Byrnes?

Mr. BYRNES. Mr. Chairman, I think we have now some tables from Mr. Schultze and we have had copies made for the committee during the lunch hour. One table shows the administrative budget versus the new budget concept in terms of receipts, expenditures, and deficit aggregate.

Maybe you will put that in the record at this point.

Mr. SCHULTZE. Yes, sir.

Mr. HERLONG. Without objection it will be done.

(The information referred to follows.)

ADMINISTRATIVE BUDGET

[In billions of dollars]

	1967 actual	1968 estimate	1969 estimate
Receipts	115.8	118.6	135.6
Expenditures	125.7	137.2	147.4
Deficit	−9.9	−18.6	−11.8

NEW BUDGET CONCEPT

[In billions of dollars]

	1967 actual	1968 estimate	1969 estimate
Receipts	149.6	155.8	178.1
Outlays	158.4	175.6	186.1
Deficit	−8.8	−19.8	−8.0

Mr. HERLONG. Why don't you read it so that everyone will know?

Mr. SCHULTZE. Going first to the administrative budget, receipts in fiscal years 1967, 1968, and 1969 run $115.8, $118.6, and $135.6 billion, respectively. Expenditures for those same years, 1967 through 1969, $125.7, $137.2, and $147.4 billion, giving the following deficits to the 3 years, $9.9, $18.6, and $11.8 billion.

Mr. BYRNES. Will you pause there and add another line on that for me, Mr. Schultze, and show what the deficit would be if you did not have the tax increase.

Mr. SCHULTZE. Yes, sir. To the 1968 figure in terms of using just gross yield of the tax increase you would add $3 billion, thereby giving you a deficit of $21.6 billion in fiscal 1968.

Mr. BYRNES. What do you mean—you always bother me when you qualify a little bit. You only use the gross?

Mr. SCHULTZE. All I meant was to make sure you understood this would not allow for any economic feedback or any other impact on revenues. It is just yield of the tax increase which is added to this.

Now if you did not have the tax increase——

Mr. BYRNES. Well, isn't there a reduction in economic activity rather than a stimulation as a result of a tax reduction? Don't you have to really reduce your revenue from that figure that you used?

Mr. SCHULTZE. You are saying the same thing I am.

Mr. BYRNES. It is an adverse feedback; isn't it?

Mr. SCHULTZE. Therefore you would not put the whole $3 billion in, but by what amount I have not calculated. The $11.6 billion deficit with the tax increase and the $11.8 billion—excuse me, let me back up.

The $18.6 billion deficit and the $11.8 billion deficit take into account the impact of the tax increase on the economy.

Mr. BYRNES. I see. There is a feedback of revenue resulting from just economic impact?

Mr. SCHULTZE. That is right. I am giving you simply the gross, if you add back the revenues.

Mr. BYRNES. There would be possibly another factor that you would add, and your deficit might be a little less than $21.6 billion for fiscal 1968.

Mr. SCHULTZE. That is correct. You would add $12.9 billion with that same qualification to 1969, giving you $24.7 billion; if I am correct.

You can add the same numbers to the new budget concepts because in terms of the new tax it is the same in either case.

Mr. BYRNES. I interrupted you before you got into the new budget but we already have that.

Mr. SCHULTZE. You already have that for the record; yes, sir.

Mr. BYRNES. That would mean, then, that as far as 1968 is concerned, the deficit without tax increase and without adjustments for feedback as a result of effect on the economy would be $22.8 billion.

Mr. SCHULTZE. On the new budget concept, that is correct, sir.

Mr. BYRNES. And $20.9 billion for fiscal 1969.

Mrs. SCHULTZE. That is correct, sir.

Mr. BYRNES. Let me just get clear how we handle this participation certificate matter.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. I will try not to get into the hassle that we have always had——

Mr. SCHULTZE. We will do it mutually.

Mr. BYRNES. Maybe we have it resolved now so that there doesn't have to be a continuing argument between us and, if so, we will please everybody.

Mr. SCHULTZE. Okay, sir.

Mr. BYRNES. Explain how this is handled now. As I understand it, you take all lending out of expenditures, but put lending back in when you talk about outlays. But go ahead, you do it so that I can get a picture.

Mr. SCHULTZE. They are two completely different things. In the first place, the new budget, insofar as total outlays and revenues are concerned, in effect, treats those outlays and revenues as if there were no participation certificate sales, or to put it another way, participation certificate sales are treated as if they were an issue of securities for the purpose of coming to your total of Treasury financing in the new budget. They are part of the deficit. So that is clean, you know, there is no one way or the other about it, that is the way it is.

In the old budget, on the other hand, the proceeds from participation certificates were subtracted from the expenditures of the agency concerned, therefore, when you add up the total expenditures the deficit was reduced by the amount of participation sales.

Now in order then to be four-square in all your accounts we then did the following: The participation certificates in the old budget are backed up by particular loans or mortgages. Proceeds from those loans or mortgages, since they were used to pay off participation certificates, came into a trust fund and never appeared to reduce the budget deficit; that is, you could not double count. You could not sell the participation certificates and also take credit for the receipts coming in which back them up.

In the new budget in effect, sir, the budget itself treats the totals as if the PC's were never there.

Mr. BYRNES. And in your lending transaction, because they come in here to a degree; what you do is show your receipts from liquidation of loans outstanding as a reduction of the loan transactions of that year.

Mr. SCHULTZE. That is correct. Just as we did before we ever had PC's.

Mr. BYRNES. Yes.

Mr. SCHULTZE. So now in the new budget you make a loan, let us say a thousand-dollar loan, that is a thousand-dollar budget outlay. Then over a period of 10 years you get a hundred dollars back each year, that reduces the net loan outlays in the new budget just as it did in the old. The PC's are a separate transaction which do not affect the budget deficit or the expenditures or receipts.

Mr. BYRNES. Well, at some point, I don't know that I want to take the time right now necessarily, but sometime I think we certainly have to get into both sides of the items of increase that are contained in this new budget, but you say fundamentally you don't have available the individual items yet, you are waiting for the budget message, itself, before you can give us that. Is that right?

Mr. SCHULTZE. Yes, sir. May I explain?

Mr. BYRNES. Go ahead.

Mr. SCHULTZE. I did attempt to give some indication in my testimony——

Mr. BYRNES. Of the areas——

Mr. SCHULTZE (continuing). Of the areas and the kinds of things. The specific full list will be available when the budget comes up.

Mr. BYRNES. The amounts.

Mr. SCHULTZE. Yes; the amounts and the areas and specific discussion of what actions are needed, you know, in all the different cases.

Mr. BYRNES. Right now we are not in a position other than to have an overall idea of the areas involved, the specifics in terms of the amounts either of the increases or of the reductions.

Mr. SCHULTZE. No, sir. I guess that is a fair way to put it. As I say, I did give some indications, for example, in the construction area I did give the specific amount.

Mr. BYRNES. In the construction area; let me ask you about that.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. It seems to me that in these cases postponements can very readily have the effect of just building up a pool of expenditures that will eventually explode because the pressure to spend will be constantly increasing. We have seen it happen before. As you postpone construction, and so forth, the pressure to spend builds up both because the construction needs still stay there, and because the pool of funds keeps growing. The result is a big expenditure increase when the dam bursts.

Mr. SCHULTZE. May I respond to that?

Mr. BYRNES. Yes.

Mr. SCHULTZE. I think really there are three kinds of construction reductions that are involved. You can make your own judgment as to what kind of pressures are or are not being built up as I indicate those kinds of reductions.

Mr. BYRNES. Take highways. Was that announced today?

Mr. SCHULTZE. I announced it today.

Mr. BYRNES. It was going to be announced today.

Mr. SCHULTZE. That is right. I had it in my testimony.

Mr. BYRNES. The amount?

Mr. SCHULTZE. $600 million.

Mr. BYRNES. Take that as an example. You know the pressures to spend, certainly as time goes on, and the completion date——

Mr. SCHULTZE. Extended.

Mr. BYRNES. You don't normally extend.

Mr. SCHULTZE. Yes, sir. Even if we don't take this $600 million, we would clearly have to extend the expiration date unless we wanted to throw in substantial additional taxes to complete the system by—I think it was October 1972. Even without this reduction, completion of the system could not have been achieved given the present contemplated pattern of taxes that are coming in. In any event, the completion date would have to be extended.

Mr. BYRNES. The sum of it is that you are going to be collecting segregated taxes.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. In excess of what you are spending?

Mr. SCHULTZE. That is correct, sir.

Mr. BYRNES. So that immediately if you have any kind of an opening, the pressure will be to spend not only what the current rate would have otherwise been, but the accumulated deferral, because everybody says the money is there and it has been there. You have collected these moneys to build highways and now you had better let us build them.

Mr. SCHULTZE. Yes, sir. Clearly there will be pressure to do that.

Mr. BYRNES. It would only be reasonable, would it not, on the basis that you collected these taxes specifically for that purpose?

Mr. SCHULTZE. No, sir. I think it is true and ironclad that these taxes will be available for building highways. The precise date at which the highways are built is another matter and subject to some limitations, budget stringencies, economic conditions, and everything else. I would be less than honest if I did not indicate that, clearly, reductions of this sort will be difficult to make, and in later years people will want to accelerate to make up for any delay.

As I say, that is a decision that can be made from year to year depending on the nature of budgetary and economic conditions.

Mr. BYRNES. That is where we get into a conflict in a sense, as we set up specialized funds, trust funds with specialized objectives and specialized taxes.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. And then we use that for economic purposes and say we will use that as a source for the Government to borrow money and thus it makes the cash situation, as far as going to market, better.

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. But you have really wiped out the whole fundamental objective in a sense of the trust fund; have you not?

Mr. SCHULTZE. Not quite, Mr. Byrnes. I would agree with you that having these funds earmarked does make it more difficult to vary the rate of expenditures. It seems to me that so long as the total amount of expenditures over the life of the program matched the revenues, you

haven't diverted the revenues. There is, however, a legitimate case, in view of monetary conditions or economic problems, for varying within reason the rate of expenditures from year to year. I would agree with you, having the earmarked tax does make the problem more difficult; no question.

Mr. BYRNES. There is some breaking of faith with the fundamental concept upon which you levied the special taxes and told the people, fundamentally, you are paying these particular taxes, almost on a user-charge basis.

Mr. SCHULTZE. Yes, sir; I agree.

Mr. BYRNES. It would be like putting the user charge on the users and then not giving them the services you are talking about.

Mr. SCHULTZE. Well, except when you are building——

Mr. BYRNES. Understand, I am not arguing as to whether this is appropriate action to be taking at this time, but what I am worried about is the degree to which some of these reductions that you now talk about having projected for this year and next year will then all of a sudden simply be constituting a pool that, bingo, breaks over onto us in 1971.

Mr. SCHULTZE. No, sir. I am not exactly sure how to respond to that.

Mr. BYRNES. And as a result, the temporary nature of the tax increase has been wiped out, because then we will say, we have to keep these additional taxes to pay back what we borrowed from these trust funds.

Mr. SCHULTZE. On the other side of that, Mr. Byrnes, are several points. As I say, it seems to me the key thing in terms of keeping faith is that you build the highway system you said you were going to build and use the taxes for that purpose. Though it is a relatively minor point, to the extent you don't use those taxes in the year, one, you earn interest on the surplus so that in that sense you haven't lost anything over the life of the program. The point is not only that you are not building highways now but that you earn interest on the surplus.

Mr. BYRNES. The costs are going up at the same time. I don't think you get very far by saying you will be ahead in the process.

Mr. SCHULTZE. That is my second point. In the 18 months, and my figures are approximately correct, in the 18 months before fall a year ago when we first put the clamps on the highway program, highway construction cost indexes rose, I think it was something like 12 percent, after a long period of stability. Once having put those clamps on, highway construction costs fell slightly and stayed fairly stable. They have crept up a bit lately. As a matter of fact, by stretching it out we probably saved the highway fund a significant amount over a period of time. That rise in costs was a fantastic rate of increase for about 18 months before we put the clamps on.

I can't predict costs would have continued at that rate, but they had accelerated.

There are other cases where we are reducing construction outlays. Let me give you an example. The grant program for academic facility construction provides that the Federal Government make grants to assist universities—matching grants to assist universities in constructing academic buildings, laboratories, classrooms, and the like. We have reduced that program substantially in the 1968 cutback, and held to

that level in 1969. As a matter of fact, I think we reduce it a little further.

You say what kind of pressures do you build up? There are no earmarked tax pressures in this instance. It is true that those who are interested in building college facilities, finding that the program has been substantially reduced, will not be happy and will be looking for increases later on; but there is no automatic, inherent pressure built up and one can make decisions depending on the balancing off of budgetary considerations on the one hand, with public needs considerations, on the other. So, I don't think this decision builds up any particular pressure.

Mr. BYRNES. I would like to have you examine these various items, so that when we do get into them you can advise me as to which of these programs have a carryover authority under the law, so that if you don't fund the full authorization, that authorization then is accumulated authorization for the next year and so on, and as to whether or not you are going to come in in those particular cases and recommend a rescission of that authorization which otherwise would be cumulative.

Mr. SCHULTZE. I can respond to that right now.

Mr. BYRNES. All right.

Mr. SCHULTZE. Subject to a check for a few small items that I may not recall, the only one where the authorization carries over in that sense is the highway program.

Let me explain to you precisely what we did just on that point with the other programs. If I may construct a hypothetical example, take a program which was a $400 million program in 1968 before the cutback. Obligations in that program were $400 million planned in the budget. We cut it back to $300 million in the cutback, the 2- to 10-percent cutback. That left a hundred million dollars of obligational authority remaining—as you say, hanging over your head.

Now, what we have done in that case is to look at the 1969 budget amount for that program. Let us say we were going to cut that program back another $50 million to $250 million. We have taken the $100 million of obligational authority not used in 1968 because of the cutback, applied it against the $250 million needed in 1969, and only asked for $150 million in new authority. This action, in effect, wipes out the carryover obligational authority by telling the agency, you are only going to get $150 million in new authority and in order to carry out the $250 million program in 1969, you have to use up those balances that we saved in 1968. We have done this in every case. We tried to do it in every case we could get our hands on, precisely for the reason you indicated. In the case of highways, we have not done it.

Mr. BYRNES. Mr. Chairman, I think sometime, after the budget message, when we have a chance, I would like to get into the details.

But, Mr. Secretary, the Chairman of the Federal Reserve Board, Mr. Martin, mentioned the amount of borrowing that the Government will have to make by going to the marketplace. On page 3 he pointed out that in the second half of last year the Treasury was borrowing almost double that of the preceding year, and the Government accounted for more than one-quarter of all the funds raised in the credit and equity markets between June and December, compared with less than a tenth for the comparable period of 1966.

Also, the Treasury will have to borrow a substantial volume of funds this winter and spring, a period of the year when it usually has been a net supplier of funds to the market.

Do you have an idea as to what those figures are?

Secretary FOWLER. In a general way.

Mr. BYRNES. Is it appropriate to have that public information?

Secretary FOWLER. Yes, in a general way, let me see if I can give them to you. They may be a little shady here and there.

In the fiscal year that ended last June 30, fiscal year 1967, the Federal sector was actually able to repay nearly $6 billion of credit to the private sector. Now that is the last fiscal year. This fiscal year in the July-December half of the year, which has just ended, there has been a Federal credit demand—this is Treasury securities, agencies, the whole range—of around $16 billion, against only a $5 billion demand in the equivalent period in fiscal 1967. In the current half year, the one we are just getting into, as Chairman Martin indicated, it would be normal for the Federal sector to make some seasonal repayment of credit.

Last year, for example, in the January–June half, we repaid $11 billion, and other recent years haven't been that high, the net repayments have ranged about $2 to $5 billion; but last year, January to June 1967, a net repayment of $11 billion.

This year, without the tax surcharge, there would be a contraseasonal net credit demand of at least $3 billion, maybe somewhat more, which is in contrast to the net repayment of $11 billion last year.

Mr. BYRNES. Why did we have last year the $11 billion repayment as compared to a normal $3 or $4 or $5 billion? Didn't you just say that you normally during the first 6 months the Government was in a situation that it could release really in a sense that amount of obligation?

Secretary FOWLER. Last year, Mr. Byrnes, the principal factor one would point, to explain the $11 billion as compared to the normal $5 billion, is the speedup of corporate tax payments, an element not present this time.

Mr. BYRNES. So that really what you are talking about, is that whereas normally you have a plus $5 billion—rather than the $11 billion—this year you will have minus $3 billion. Isn't that a more accurate way of portraying it?

Secretary FOWLER. That is correct.

Mr. BYRNES. I think that is all I have at this time.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. Thank you, Mr. Chairman.

Mr. Shultze, I was rather confused by your statement on the treatment of PC's and I am not going to go into it at any length. Tell me very quickly, supposing you sell a billion dollars in PC's to pay off a billion dollars in expenditures. In the budget, what is the impact of the PC's?

Mr. SCHULTZE. In the new budget?

Mr. ULLMAN. Yes.

Mr. SCHULTZE. None. It has no impact on expenditures.

Mr. ULLMAN. In other words, it does not show up?

Mr. SCHULTZE. It does not show up; yes, sir.

Mr. ULLMAN. The billion dollars that you borrowed——

Mr. SCHULTZE. For purpose of budget accounting it is just as if you borrowed a billion dollars from the Treasury.

Secretary FOWLER. It is treated under a means of financing rather than a net against——

Mr. ULLMAN. It is treated as though you issued regular Treasury certificates?

Mr. SCHULTZE. Yes, sir.

Mr. ULLMAN. Which would have the same impact on the overall Government debt?

Mr. SCHULTZE. That is correct.

Mr. ULLMAN. Mr. Ackley, I would like to get clear in my mind with respect to the state of the economy now, the relationship in different categories between now and the peak in 1966.

Essentially, what we had then was an investment boom which put great pressure on the economy. Tell me first, with respect to the rate of capital investment, what is the comparison today as against the peak in August-September of 1966.

Mr. ACKLEY. Mr. Ullman, the peak in nonresidential fixed investment was reached in the fourth quarter of 1966 at an annual rate of $82.8 billion. It declined slightly in the first quarter and again slightly in the second quarter and presently we are carrying a figure of $82.8 billion again for the third quarter and $83.8 billion for the fourth quarter. So it has passed that earlier peak.

Mr. ULLMAN. $83.8 billion in the fourth quarter.

Mr. ACKLEY. As compared with $82.8 billion in the fourth quarter of 1966.

Mr. ULLMAN. You are assuming that is about the present rate?

Mr. ACKLEY. The projections which were made by business firms in the Commerce-SEC survey called for that figure to be stepped up fairly substantially in the first quarter of 1968 to about $85.6 billion.

Mr. ULLMAN. Now let us turn to plant capacity. What was the percentage of plant capacity being utilized then as against now?

Mr. ACKLEY. I will have to dig for that, Mr. Ullman.

Mr. ULLMAN. Before you get to that, going back to capital investment, this is completely private investment we are talking about, and not Government.

Mr. ACKLEY. Yes; this is private investment. It is a somewhat broader concept than plant and equipment which is covered by the Commerce-SEC survey of investment expenditures and intentions. That survey does not include all private investment. This larger figure includes plant and equipment, plus farm construction and some other kinds, for example, churches, nonprofit institutions, and so on.

Mr. ULLMAN. All right.

Mr. ACKLEY. The operating rate in manufacturing, and I emphasize manufacturing, because that is the only area for which we have very reliable figures, reached a peak of slightly below 91 percent in the second quarter of 1966. It declined thereafter to a low of about 84 percent in the third quarter of 1967, picked up a little bit to 84.3 in the fourth quarter and, as indicated in my testimony, we would guess that at an annual rate in December it was about eighty-five and a quarter.

Mr. ULLMAN. To what do you attribute the failure to reach the previous peak?

Mr. ACKLEY. In the first place, manufacturing of course has borne this year the brunt of the inventory adjustment. It was only in December that manufacturing production got back to the level of a year earlier, indeed, surpassed it by an appreciable amount. Manufacturing activity this year declined and has returned to the level of last year.

Meanwhile, of course, the effects of the high rate of investment of last year and into this year have continued to add to capacity. So we have had, as we expected, a substantial decline in the rate of utilization of capacity in manufacturing.

As I say, we don't have good figures on utilization of capacity outside of manufacturing. The only data are some put together by the Wharton School of the University of Pennsylvania covering the nonmanufacturing sectors. Their figures seem to indicate no decline at all in the rate of utilization of capacity outside of manufacturing. They are of course fragmentary, based on certain of the service industries, transportation, utilities, and so on.

Mr. ULLMAN. Isn't that a rather small plant capacity for the kind of boom times we are supposedly having right now?

Mr. ACKLEY. I think in a way it is a fortunately low figure because it has helped to reduce the pressures on prices that excessively high rates of utilization can produce. We certainly would not want a return to the utilization rate of 91 percent that we had in the second quarter of 1966. That was associated with, on the one hand, very rapid price increases, pressures on costs, labor shortages, and so on, and it was associated on the other with very strong incentives to invest further in plant and equipment, generating the kind of nonsustainable boom in plant and equipment which does no one any good.

We obviously could return part of the way to that 91 percent without a problem. We do see the manufacturing utilization rate increasing in the year ahead, fortunately not back to the very high rate of 1966.

Mr. ULLMAN. In 1966, Mr. Ackley, we saw real pressure in the machine tool industry. How does the situation compare now? Do you have the statistics on that?

Mr. ACKLEY. The pressures certainly have eased appreciably in the machinery industry generally. With the leveling off of plant and equipment investment there has been little further growth of demand and output in those industries and of course their own capacity has increased. They have had a little more time to adjust to their labor shortages by training workers and recruiting them, plus the normal growth of the labor force, so that their situation has substantially improved over a year ago.

Mr. ULLMAN. Do you have figures that pin this down?

Mr. ACKLEY. I think we might be able to put together some figures. For the record I would be glad to do it.

Mr. ULLMAN. Would you do that for me?

Mr. ACKLEY. Yes, indeed.

(The following information was received by the committee:)

ADDITIONAL INFORMATION ON MACHINERY AND EQUIPMENT INDUSTRIES

Pressures on machinery and equipment producers definitely eased in 1967, as employment and production were roughly unchanged, while productive capacity increased substantially as a result of the high rate of investment in these industries. As a result, capacity utilization fell sharply. At the end of 1967, however, activity had begun to accelerate, and the orders situation promised further rises

to come. Machinery prices continued to rise in 1967, although the rate of increase eased off considerably.

1. *Manufacturers' shipments.*—The value of shipments of "machinery and equipment" rose rather steadily throughout 1967, from $4.6 billion in December 1966 to a new record $5 billion in December 1967, a rise of 9 percent.

2. *Production.*—Production of most kinds of machinery and equipment fell during the first half of 1967 and rose in the second. The Federal Reserve index of industrial production for the principal groups of machinery and equipment behaved as follows during 1967:

	Percent change	
	December 1966 to June 1967	June to December 1967
Nonelectrical machinery	−5	−1
Electrical machinery [1]	−9	+8
Transportation equipment other than motor vehicles	+5	+3
Instruments and related products	−3	+1

[1] Includes consumer appliances.

3. *Employment.*—Payroll employment in the machinery and equipment industries (including home appliances and motor vehicles), was almost unchanged during 1967, at about 6⅓ million workers both in December of 1966 and December of 1967.

4. *Capacity utilization.*—With production essentially unchanged over the year and capacity rising, capacity utilization in these industries declined until close to the end of the year when it began to pick up slightly. Only in the sector of transportation equipment other than motor vehicles did capacity utilization remain at an extremely high level (about 103 percent of capacity) throughout the year.

5. *New orders.*—Manufacturers' orders for machinery and equipment fell irregularly from their peak in July 1966 to a low in February 1967, then rose irregularly to a new all-time record in December 1967. Gains in both November and December were strong.

6. *Unfilled orders.*—With shipments generally exceeding orders, order backlogs for machinery and equipment declined from December 1966 to April 1967, then recovered somewhat, and ended the year only about 2 percent below their all-time peak of December 1966.

7. *Machine tools.*—Machine tools are a small component of the machinery industry and there are no Government statistics relating to this category separately. Industry reports show a 32-percent decline in orders for machine tools in 1967, although by December they were down only 15 percent from a year earlier. Shipments were down 7 percent for the year as a whole, and by December were slightly above December of 1966.

8. *Prices.*—Wholesale prices for machinery rose somewhat less in 1967 than in 1966. Below are BLS wholesale price data for some of the principal categories of machinery:

	Percent rise	
	December 1965 to December 1966	December 1966 to December 1967
Machinery and equipment	4.7	2.3
Agriculture machinery and equipment	3.2	3.4
Construction machinery and equipment	3.9	4.4
Metalworking machinery and equipment	5.8	3.3
General purpose machinery and equipment	5.5	2.5
Special industry machinery and equipment	4.9	3.5
Electrical machinery and equipment	5.1	.8
Miscellaneous machinery	2.6	2.5

Mr. Ullman. Now, as to unemployment, what are the figures on unemployment?

Mr. ACKLEY. The unemployment rate for 1966 averaged 3.8 percent, fluctuating a bit around that. In November it actually dipped to 3.5 percent.

Mr. ULLMAN. 3.5 percent?

Mr. ACKLEY. It was rather erratic dip because it was 3.8 in October and 3.7 in September, and it dipped to 3.5 in November, returning to 3.7 percent in December.

Throughout 1967 the rate again has averaged precisely the same as in 1966, again 3.8 percent. During the first half of the year it averaged about 3.8 percent, the second half around 3.9, slightly higher in the second half than in the first. But over the years as a whole the average rate of 3.8 is the same as it was for the average in 1966.

Mr. ULLMAN. What was the highest?

Mr. ACKLEY. It broke rather surprisingly upward in September and October, and reached 4.3 percent in October. It then fell to 3.9 in November and 3.7 in December.

Mr. ULLMAN. What is the percentage today? Is it 3.7?

Mr. ACKLEY. The best figure we have is the latest figure, which is for December, 3.7.

Mr. ULLMAN. In other words, slightly higher than it was at the low point.

Mr. ACKLEY. Higher than the low but actually the same as a year ago in December.

Mr. ULLMAN. Give me the figures on inventory.

Mr. ACKLEY. Do you want the total inventory, Mr. Ullman, or the rate of addition to recovery?

Mr. ULLMAN. What do you think would be the most meaningful?

Mr. ACKLEY. I think, perhaps, the more meaningful figure is the change in inventories.

Mr. ULLMAN. Give me both.

Mr. ACKLEY. Let me give you the quarterly figures on the change in inventories. The peak, of course, was reached in the fourth quarter of 1966 with an inventory accumulation of $18.5 billion. That is a fantastically large figure. The normal figure one would expect in a balanced expansion of the economy at about this level of output would be perhaps $7 billion or $8 billion. We did have, you will recall, in the fourth quarter of 1966, a massive inventory accumulation. That fell in the first quarter to $7.1 billion, in the second quarter to only $\frac{1}{2}$ billion, and since then has been recovering somewhat more rapidly than we might have expected.

In the third quarter it recovered to $3.8 billion and in the fourth quarter to $9 billion. For the year as a whole, the change in total business inventories last year was $13.4 billion, this year $5.1 billion.

Mr. ULLMAN. Then you would say the figure today is higher than normal? You said $7 or $8 billion was normal.

Mr. ACKLEY. I would prefer to use the figure for a year as representing what the current situation might be. The fact that it was so low two quarters ago influences what might be appropriate today. But it is a high figure. In the first half of 1968 it is undoubtedly going to be high again, because of steel stock building and the restoring of automobiles after the strikes of last fall.

Mr. ULLMAN. If it gets much higher, aren't you going to be getting concerned about accumulated inventory?

Mr. ACKLEY. I think one should be concerned about a high rate of inventory accumulation if it occurs in a situation in which business sales are stagnant and in which the inventory accumulation appears to be unintended, the result of sales not having lived up to expectations.

Under the present circumstances we do not seem to have that kind of picture. The ratio of inventories to sales has been declining in manufacturing from a peak of 1.58 months of inventory of sales reached in February and again in April down to 1.54 in November. We don't have the figure for December. But we know there was a very large increase in manufacturing shipments in December. It would be very surprising if there was not a further reduction in the ratio of inventories to sales. Apparently businessmen want and desire inventories of a somewhat larger size than we were estimating last summer when we appeared before this committee.

Mr. ULLMAN. Would there be an adverse impact on top of that because of the automobile strike?

Mr. ACKLEY. There was, indeed. One of the worst things that strikes do to the economy is to introduce irregularities into inventory building which can cause serious trouble. But there was an absence of the normal building up of inventories in the automobile industry in the fourth quarter that ordinarily occurs when the new models are introduced. We only began to get it in December and we will get more of it in the first quarter and perhaps a little bit in the second.

Mr. ULLMAN. It might indicate a rather rapid increase in accumulation.

Mr. ACKLEY. Yes; we expect inventory building will be abnormally high in the first half of the year because of steel and automobiles.

Mr. ULLMAN. Turning to another area in which there is a rather confused picture, will you give me the comparative figures on consumer spending?

Mr. ACKLEY. I think there are several ways in which to try to make clear what the story is there. Of course, the absolute level of consumer spending is continuing to grow and to grow rapidly. What has been surprising about 1967 is that it has not grown quite as rapidly as one might have expected, given the growth of consumer income.

This is best reflected in what has happened to the consumer saving rate. The percentage of consumer income after taxes that is not spent had averaged about 5½ percent during the years 1960 through 1966. It began to rise at the end of 1966 and in 1967 has averaged 7.1 percent of consumer income after taxes.

Now that 7.1 percent includes a very high figure of 7.5 percent in the fourth quarter. The fourth quarter probably will be explained by two things: one, the inability of consumers to buy all the autos they wanted because of shortage resulting from the strike; and, second, the fact that there was a retroactive Federal pay increase paid out just before the end of the year, and the recipients had not had a chance to spend on the basis of it. It was reflected in income and not in consumption.

Mr. ULLMAN. How do you translate that in terms of the dollar?

Mr. ACKLEY. The pay raise?

Mr. ULLMAN. No, I mean the total amount of savings.

Mr. ACKLEY. The pay raise was, I think, at an annual rate of about a billion dollars for the fourth quarter, since it was retroactive to

the first of October. So this would have added a billion dollars to income and very little to consumer spending. The shortage of automobiles might have reduced consumer spending by a couple of billion dollars, perhaps in the fourth quarter.

Mr. ULLMAN. I am trying to figure out what the potential for spend-7.5.

Secretary FOWLER. I think, Mr. Ullman, one measure is that, if the savings rate was 6.5 instead of 7.5, there would be $5 billion more of consumer expenditures. One percent, I think, runs about $5 billion.

Mr. ULLMAN. I am trying to figure out what the potential for spending was in the 7.5 percentage points.

Mr. ACKLEY. I think a half percent is $2.5 billion, roughly $2 or $3 billion—extra saving, reduced consumption.

Now, when one tries to understand the significance of it, I think there are two questions you might want to ask, and they are related questions. One, why was the saving rate so high in 1967 and, having understood this, if you can, what does this mean about the future?

We have tried to be very cautious in our projections. Earlier, when the bulge in the saving rate occurred, I think we were inclined to say it would be temporary, it is one of those erratic fluctuations, it will come back to normal. The longer it was maintained, the less certain we were that we ought to count on return to a normal saving rate. Our projections for this year count on a saving rate very little below the 7 percent that we had last year. There obviously is the real danger that the saving rate might now return to normal and if it did it could add very appreciably to the strength of consumer demand and to the inflationary pressures on the economy.

Mr. ULLMAN. Do these savings have to be in institutions? What is included in savings?

Mr. ACKLEY. It is really the difference between consumer expenditures and consumer income.

Mr. ULLMAN. Could the savings be invested in stocks and bonds?

Mr. ACKLEY. It could be all kinds of forms, various forms of liquid assets, debt repayment, increased equity in homes, contributions to private pension and welfare funds.

Mr. ULLMAN. The fact that more people are investing in the stock market might keep them from spending their money?

Mr. ACKLEY. Obviously, when they save they have to do something with it. Most people don't put it under their mattresses, they do something else with it. Undoubtedly the high saving rate this year had something to do with the fact that personal saving in the form of increased saving and loan association shares, deposits in mutual savings banks, and in savings accounts in commercial banks, all have grown very rapidly this year.

Mr. ULLMAN. Turning to housing, can you give me the figures on housing starts?

Mr. ACKLEY. Yes, sir. Let me give them to you first in terms of starts and I think the figure that most of us use here is the total private nonfarm housing starts expressed as an annual rate.

Mr. ULLMAN. Yes.

Mr. ACKLEY. That figure had been about 1.5 million in 1963, 1964, 1965, very steady at that million and a half level. Of course it plummeted all during 1966, reaching a low of about 840 thousand in Octo-

ber. Since then it has risen steadily, almost without interruption, to a high of 1.6 million annual rate in November; and then there was this very peculiar drop to 1¼ million in December.

Construction expenditures on new housing have of course, as they always do, lagged a little behind housing starts; but it has shown the same pattern and, in the late months of 1967, had recovered to its preslump level.

Mr. ULLMAN. Would you say the housing industry is still in a slump?

Mr. ACKLEY. No, I think it would be difficult to describe it that way since they are back to the 1963–65 level, or in terms of starts, if one takes November as a guide, somewhat above that. I think the housing industry has accumulated something of a backlog because of the loss of an estimated half million housing starts during the housing slump.

Furthermore, the population and particularly the population in the age groups where families are being formed has been growing and growing fairly rapidly so the housing situation is tighter than it was before the slump occurred.

Mr. ULLMAN. If we were building to a normal need, a normal requirement, what would the level of housing starts be this year?

Mr. ACKLEY. One can get a lot of argument about that. Certainly above a million and a half—perhaps 1.7 million, 1.8 million. If there were no limitations on supply of mortgage funds, and I suppose, if there were no limitations on supplies and materials, and particularly on construction labor, one might go even higher.

Mr. ULLMAN. An interesting thing is that the housing industry has been in a sort of recession and yet the cost of housing itself has gone up very decidedly during the same period, has it not?

Mr. ACKLEY. It has indeed. Unfortunately this is one of the sectors of the economy where inflationary pressures have been strongest for a long time. It is quite interesting that the rate of unemployment in construction has declined this year in spite of the slump in housing activity. This may reflect the fact that some workers normally attached to the construction industry have found jobs elsewhere. It may reflect the fact that the workers in this industry tend to be older than the average, and retirements have exceeded the new entrants. In any case, judged in terms of labor supply the housing industry is not in a particularly good situation to expand rapidly to meet the housing needs of the country.

Mr. ULLMAN. Do you hold any hope whatsoever in the next few years that the housing industry will get back to a level to sustain the need?

Mr. ACKLEY. Clearly we need over the next 10 years a lot more houses than we would build if we just let nature take its course. There are a number of things we need to do. We have been thinking pretty hard and the administration will make proposals on some of them before the year is out.

The first problem is that of adequate mortgage finance, which has been a severe limitation on housing this year. Housing finance is highly sensitive to tight money. So the housing industry gets the props knocked out from under it every time we have a period of tight money. We need to provide a better flow of mortgage finance into the housing industry and one which is not quite so sensitive to tight money. Clearly we also need to do something about labor supply.

Third, we need to find ways of getting housing to the low income segments of the population who simply can't afford standard new housing at present prices. It is partly technology, partly it is a matter of Government programs which help low-income people pay a rent which makes it attractive to build that kind of housing.

Mr. ULLMAN. I would hope that there are some programs in the mill in the field of housing. I am rather disturbed, and I know a lot of people are about the cuts in FNMA just at the time that the housing industry is trying to get back on its feet. You indicated there might be some program coming. Is that right?

Mr. SCHULTZE. I did. I might point out that some of our reductions do come in the Fannie Mae (Federal National Mortgage Association) programs but they will be accompanied by specific program reforms which the President will propose designed to speed up the flow of private mortgage money. So, on balance, it is not a reduction. At the same time, as the President indicated in his state of the Union message, there will be specific programs forthcoming with respect to low-income housing.

Mr. ULLMAN. I am going to look forward to that program. This is a critical area in our whole economic picture that definitely needs attention. Of course you have to relate interest rates to the whole problem of housing and I would like to look at that for just a minute.

You were citing some figures on interest rates—I guess it was you, Mr. Martin, that cited the figures on levels of interest rates. I have figures that show that the yield on 3- to 5-year issues of Government securities dropped from 5.3 percent in November 1966 to 4.46 percent in April and since that time has been generally rising until it reached the point of 5.74 percent. Now does that correspond with figures that you have?

Mr. MARTIN. Not quite. I have, on January 12, for 3- to 5-year bonds, 5.43 percent.

Mr. ULLMAN. 5.43 was my first figure.

Mr. MARTIN. Yes; that is right. The high in 1966 on 3- to 5-years was 6.02, which I think was probably caused at that time by the statutory 4¼-percent limit on the interest rate payable on long-term Government bonds.

Mr. ULLMAN. In other words, the 5.43 in November 1966 is not the high, it had dropped from 6.02, is that right?

Mr. MARTIN. That is right.

Mr. ULLMAN. Next corporate AAA's—yielding a rate of 5.41 percent in October 1966—falling to 5.03 in February, remaining at a low rate through March and April and then rising until December 16 when they were back up to 6.16.

Mr. MARTIN. That is about right.

Mr. ULLMAN. How does that 6.16 compare with the peak in 1966?

Mr. MARTIN. The high in 1966 for seasoned bonds was around 5.53.

Mr. ULLMAN. In other words, the corporates are higher today than they were at the very peak of 1966.

Mr. MARTIN. That is right.

Mr. SCHULTZE. Much higher.

Mr. ULLMAN. What about long-term Governments? What do you have on those?

Secretary FOWLER. I can give you those.

Mr. ULLMAN. Mr. Fowler.

Secretary FOWLER. On 20 years, the peak in August and September, 1966, was 5.12, and as of last Friday, the 19th, it was 5.48.

Mr. ULLMAN. In other words, we are considerably higher than we were at the peak in 1966.

Secretary FOWLER. Right.

The 10-year paper was 5.51 in the peak of 1966, and last Friday it was 5.59.

Mr. ULLMAN. What did you have to pay on your 7-year notes?

Secretary FOWLER. I think 5¾, as I recall. I don't know what the discount factor was.

Mr. ULLMAN. Mr. Martin, I would like to explore with you just a little more in depth this problem of interest rates, because it is such a vital part of the balanced economy, and I have some real misgivings at the moment that there is any hope, whether we pass the tax increase or whether we don't, of getting interest rates back down where we can have a balanced flow of money in our economy.

Turning back to 1966, December 1966, I think that is the month when you started turning the faucet and increasing the money supply in the country. Is that right, Mr. Martin?

Mr. MARTIN. We started a little earlier than that, but it is all right to take that. We started in November.

Mr. ULLMAN. At what rate, then, during this past year, the first half of the year, at what rate were we putting money into the economy through an increase in money supply?

Mr. MARTIN. Well, the money supply in the first quarter of 1967 went up to 6.3 percent, in the second quarter 7.2, in the third quarter 6.8, and there has been a slowing in the growth in the money supply since then. The growth rate was down around 2 to 3 percent in December.

Mr. ULLMAN. 2 to 3 percent.

Tell me, Mr. Martin, how you increased the money supply. What is the technique you used in increasing the money supply?

Mr. MARTIN. In large measure by the purchase of Government securities.

Mr. ULLMAN. Through the open market?

Mr. MARTIN. Through the open market. That is correct.

Mr. ULLMAN. This is by far the biggest factor in the increase?

Mr. MARTIN. That is right.

Mr. ULLMAN. Was this supplemented during the first part of the year by any other act? What else did you do?

Mr. MARTIN. We did lower reserve requirements in April.

Mr. ULLMAN. It is true, then, that the money supply has been growing less than half as fast since August as it did from January through August?

Mr. MARTIN. Well, I would not say——

Are you comparing 1966 with 1967, now?

Mr. ULLMAN. 1967.

Mr. MARTIN. No, for 1967 it was 6.3 in the first quarter, and 7.2 in the second quarter, and 6.8 in the third quarter. There has been no significant reduction in the growth of the money supply until the fourth quarter of this year.

Mr. ULLMAN. In the fourth quarter, then, you have brought it down from 6.8 to——

Mr. MARTIN. In the neighborhood in December of 2 percent.

Mr. ULLMAN. Around 2 percent in December?

Mr. MARTIN. Yes.

Mr. ULLMAN. This change does not seem to have had any appreciable effect on the interest rate picture, or have you noticed a change in interest rates as a result of your action?

Mr. MARTIN. Well, if anything, it has tended to stabilize interest rates at a slightly lower level, certainly in January, but as I say, you have a year-end development here that is not very——

Mr. ULLMAN. How can you explain the fact that you reduce the supply of money, and it lowers the interest rate?

Mr. MARTIN. This is largely due to expectational factors, you see, Mr. Ullman. After pursuing a vigorously easy monetary policy, and with the expectations of inflation just continuing ad infinitum, with rapid growth in the money supply continuing, that way, we got a great deal of psychological impact in the money market by having a little less easy monetary policy. That change has actually been reflected in reduced interest rates, strange as it may seem.

This is one of those things that frequently happens in a money market, and I think it is important that we reduce the budget deficit, the size of the budget deficit, which is putting so much pressure on the financing of the Government.

Mr. ULLMAN. What action did you take in addition to decreasing purchases through the open market—what other action did you take to tighten up on the money supply?

Mr. MARTIN. We raised reserve requirements against demand deposits in excess of $5 million effective January 11 for Reserve city banks, and January 18, just this week past, for country banks.

Mr. ULLMAN. From 16½ to 17 percent for Reserve city banks, 12 to 12½ for other member banks?

Mr. MARTIN. That is right.

Mr. ULLMAN. Then what other action did you take?

Mr. MARTIN. That is all.

Mr. ULLMAN. You also increased the rediscount rate, did you not?

Mr. MARTIN. Yes; the rediscount rate was increased at the time that the British rediscount rate went up from 5 to 8 percent. We went up from four to four and a half at that time.

Mr. ULLMAN. Why are the two tied together? Why did you feel it was necessary to do that, when the British rate was increased?

Mr. MARTIN. It was a defensive and precautionary measure that seemed wise to take, in view of the fact that we cannot totally isolate interest rates around the world, and we had no idea what the impact of an 8-percent British discount rate was going to have.

It seemed wise for us to get a little closer in line with what might be developing in the money market, but we did not aggressively change the discount rate.

We could have gone to 5 or 5½ percent. In fact, some people in the system thought we should, but we took the modest precautionary step of going up from 4 to 4½, which put us in line with where we were a year earlier.

We went down, you remember, in April, from four and a half to four. This was during the period of easy money. So we were restoring the position that we had previously, and this action was in line with the developments in the economy. We got up to a new high in production in December of this year.

Mr. Ullman. I am concerned, though, in relating it to the British situation that it does not indicate on your part the conclusion that with interest rates going up abroad, it is necessary for American interest rates to go up, too.

Mr. Martin. It is not possible, Mr. Ullman, in my opinion for any of us to be completely isolationist on interest rates, including the United States. I think we do have to be aware of what interest rates are in the world.

Now, Secretary Fowler engaged, as you know, in some efforts early last year to get world interest rates to come down. Recently there has been a reversal of rates, as a result of the unfortunate problem in the world balance of payments; the adjustments have not been as satisfactory either for surplus or deficit countries as we would have liked them to be.

Mr. Ullman. What I am trying to do is to get this picture in perspective. We are being offered the hope, with the tax increase, that interest rates will come down, yet, given the present balance-of-payments situation, which we all know, of course, is serious, and has gotten worse during the past month, is it not your policy that interest rates domestically must remain relatively high as long as interest rates abroad are high?

Mr. Martin. I don't think so. In answer to your earlier question on what we can do about the mortgage market, whatever the level of rates, the mortgage market is going to be better supplied if we can get stability in the economy through a reduction in expenditures and an increase in taxes, which will make this budget deficit more manageable.

This is the surest way in my judgment that we will get adequate financing in the mortgage market.

I just came from a luncheon and a visit with the National Association of Home Builders here. This point was made to me by several of them.

Now, the supply of mortgage funds, which is very important, is related to interest rates, but the surest way to get this interest rate and the supply of mortgage funds into a better alinement than it is today is to get this budget deficit, which in my judgment is in unmanageable proportions, into more manageable proportions.

Then I think there will be a tendency for interest rates to go down, and in any event, they will be lower than they would be if there was nothing done about this budget deficit.

The precise levels of these interest rates you cannot make an accurate forecast on, because here you have demand and supply pressures that are imponderable.

Mr. Ullman. I remember very well during 1962 and 1963 the economic situation called for low interest rates, yet, because of the balance-of-payments problem, there was tremendous pressure to increase the interest rate structure, because of the short-term capital outflow problem.

I think that the general position of Treasury at that time was that interest rates needed to go up. I think that was part of the reason for the move to bring short-terms up.

Would you like to comment on it?

Secretary FOWLER. I would like to comment.

It is definitely the feeling of the Treasury Department today that interest rates all over the world, Western Europe, North America, are too high, and there should be a continued effort on the part of all concerned to bring the level of interest rates down on both sides of the Atlantic. An affirmative, effective use of fiscal policy is the only way I know to achieve that particular objective.

That is why this particular tax bill is so important. Following the efforts last January that Mr. Martin alluded to, there was a spiraling down, an "interest rate disarmament" program, if you will, became effective, and interest rates all over Western Europe were lowered.

Frankly, the finger has been pointed at me all during these last 4 or 5 months because of my inability to get adequate fiscal action on this side of the water to hold our interest rates from their movement upward, which everyone has remarked on.

Mr. ULLMAN. But, Mr. Secretary, you remember, and I remember—the European bankers just a few short years ago put their main emphasis on low-interest rates and say that the U.S. level of interest rates should be higher, if we really were going to tighten our belt?

Secretary FOWLER. I was not actively in the international circle at that time. I think that your statement is probably correct, but whatever the opinions were that were held in 1962 and 1963, I can say that there is a general sentiment, there has been for the past year, on both sides of the Atlantic, as far as finance ministers and central bank officials are concerned, that a general movement toward lower interest rates would be advantageous.

They have been feeling the need for stimulative action on their side of the water, because their economies, particularly the West German economy, has been in the doldrums, and I believe the Bundesbank moved down its interest rates on three different occasions following the meetings last January.

They don't feel there has been reciprocal action on this side of the water.

Mr. ULLMAN. Well, can you hold out any hope for us, that with the tax increase, interest rates will come down?

Just frankly, between you and me, I am not optimistic at all about it.

I would like to hear from both you, Mr. Martin, and you, Mr. Fowler, giving me some assurances that we can get interest rates down if we do pass the tax increase.

Mr. MARTIN. I can give you this assurance, Mr. Ullman, that if we do not get a more manageable budget deficit than we presently have, interest rates are going to be higher than they otherwise would be.

It is my conviction—I can't prove this, but it is my conviction as a student of money markets, that if we can reduce this budget deficit to more manageable proportions, you will get lower interest rates.

But I cannot prove that, and I cannot give you any assurance of that. All I can say is that the interest rates will be lower than they would be if no action is taken to get this budget deficit into more manageable proportions.

Mr. Ullman. I think you have more power in that regard than anybody else in this Government. Will you use the power and authority that you have to accomplish, to attempt, at least, to accomplish that purpose?

Mr. Martin. It is our desire to have as low-interest rates as we can possibly have, as I have asserted many times, without producing inflationary effects.

Now, we are in a period of inflation right now. The third and fourth quarter figures show that we are no longer talking about prospective inflation. We are in it right now.

Of the growth in our gross national product in the third quarter of this year nearly one-half—represented price increases. We lost about that amount in the fourth quarter. Now people are saying, "Where is the next inflation?"

I say you have to take policy decisions, and the policy decision here ought to be to reduce the current budget deficit to more manageable proportions before the horse, which is already out of the barn, gets so far out of the barn that you cannot even see him.

This is the basic inflationary problem that we are wrestling with.

Mr. Boggs asked me this morning about speculation in the securities markets, and I say one of the elements in speculation in the securities markets today, and the reason there is this terrific turnover in these markets, is the fact that everyone knows we have a budget deficit that is of unmanageable proportions, and we also have a balance-of-payments deficit that is of very difficult proportions to deal with.

The President has come forward with a program now, saying that the most urgent thing to do is to pass this anti-inflation tax bill.

Now, I couple with that reduction in expenditures, too. I am simply saying we have, in my judgment, a hazard here, a risk.

As against the possible risk of turndown that some people constantly raise in front of us, we have a serious risk of an inflationary binge that will cause us untold difficulties later.

This is what I think the President was trying to deal with in the balance-of-payments message, and in emphasizing in the balance-of-payments message that this budget deficit was the No. 1 priority.

Secretary Fowler. Mr. Ullman, I would like to add one note to that. I think we can debate at length, whether the increases in the existing programs in the 1969 budget that were discussed this morning should be as high as $3 billion, or should have been only $1 billion, or should have been zero, or whether there should have been a reduction.

But I think we have to remember that as we keep this colloquy going, time is running, and you have confronting you on the other hand a tax program which, if you pass it, will knock $16 billion out of the deficit in fiscal 1968 and 1969.

I just don't believe the discussion that we are going to have, however useful it may be, is going to produce that kind of change in budget expenditures in this year.

Mr. Ullman. Mr. Secretary, it is a little difficult for me to try to put myself in your place, and even with the tax increase, in the context of the whole balance-of-payments problem, to come to the conclusion that you could recommend a reduction in interest rates or policies that would lead to reduction in interest rates.

Secretary FOWLER. I could certainly be in a lot better position to go across the water and ask for reciprocal action, than I have been in the last 5 or 6 months, as we come down, they come down, too.

Mr. ULLMAN. This is what I wanted to hear you say. I would hope that the balance-of-payments crisis is not going to lessen your determination to bring interest rates down around the world. I think they are a fundamental issue.

Secretary FOWLER. Mr. Ullman, I think I can say to you very affirmatively that there is a general, and has been for the past year, a general desire on the part of the financial officials concerned to lower the levels of interest rates on both sides of the water. Frankly, the big element that is pointed to that arrested this process, which was going forward during the first 6 months of this year, is the situation we are concerned with right here today.

Mr. ULLMAN. Now, Mr. Secretary, getting back to a final question here on the matter of general policy, were you not here as Secretary in 1964 when we enacted the general tax reduction?

Secretary FOWLER. I was very much here, Mr. Ullman.

Mr. ULLMAN. Yes, I remember.

Secretary FOWLER. I was behind the scenes.

Mr. ULLMAN. Now, you obviously agreed completely with the philosophy of a tax decrease.

You still believe in the long-range objective that we strove for at that time in lowering the general level of taxes?

Secretary FOWLER. I agree very fundamentally with all of the bills, including particularly section I, the declaration of policy by this committee at that time.

I think I was for a tax decrease accompanied by holding down expenditures, so that the fruits of the fiscal dividend could be used in substantial part to lower the deficit.

Mr. ULLMAN. You still believe in that basic philosophy?

Secretary FOWLER. Very much.

Mr. ULLMAN. You still think what we did then was right?

Secretary FOWLER. Absolutely.

Mr. ULLMAN. What is the main factor, then, in creating the problem we have now?

Secretary FOWLER. Well, because at that time, Mr. Ullman, we had unused resources in a very substantial way, we had rates of unemployment that were running in the neighborhood of 5½ percent, we had large amounts of unutilized capacity.

We had in effect an economy that was not running at any full rate of speed.

My concern today is that we have an economy, and have had an economy for the last couple of years that has been running a good deal of that time at an excessive rate of speed. It did taper off in connection with the inventory adjustment the first 6 months of this year, but it now has resumed a rate of advance that, without this tax increase to restrain it, without the expenditure restraint which has been applied, would run at an excessive rate of speed and run out of control.

Mr. ULLMAN. Now, the problem obvously involves the war effort in Vietnam, the $25 to $30 billion we are spending is probably the difference between an economy working smoothly under the guidelines that

were laid down then, and one that builds up pressures. Is that right?

Secretary FOWLER. I think that is right.

Mr. ULLMAN. I think you said in your statement that the tax increase would be no longer essential when the war was concluded. Is that right?

Secretary FOWLER. Indeed I did.

Mr. ULLMAN. And you stated if we did pass the tax increase, that it would be your hope we could take it off as soon as the emergency is over. Is that right?

Secretary FOWLER. Yes.

Mr. ULLMAN. So, having a very special situation, and needing the money for a special situation, presents a rather specialized problem.

Now, if we don't pass a tax increase, how are we going to get the funds to carry on?

Secretary FOWLER. We have to go into the caiptal market and borrow the money.

We do the very best we can with our savings bond program to tap personal savings to the extent we can, but that is obviously limited. We simply have to go into the money market, where we get the funds, somebody else gets pushed off the end of the bench. The pressures that are involved were brought out in the questions Mr. Byrnes asked me about the impact in the supply-demand picture in the money market.

It is a very, very big factor, as Chairman Martin's testimony indicated. It is the major demand factor. Whereas a year ago we were contributing to the supply side of the money market, we are now the principal element of demand.

Mr. ULLMAN. If there was any way, Mr. Secretary, to borrow the money we need from the taxpayers, rather than from the security market, the adverse effect that we are talking about would not be felt?

Secretary FOWLER. Well, no, it depends entirely on how that individual is going to look at it.

We have looked at this question of forced savings, if that is what you have in mind. If it is compulsory saving, I think you get an entirely different set of economic conditions from a tax collection.

Mr. ULLMAN. Why?

Secretary FOWLER. Well, a man looks at his assets and his liabilities, and he figures this bond he has is an asset, and he may then reduce savings that he otherwise would have made. If he wants to buy something, he looks at his total picture.

Mr. ULLMAN. You are nullifying your argument for savings bonds, now.

Secretary FOWLER. Not in the least.

Mr. ULLMAN. If you could finance the whole deficit in savings bonds, this would be——

Secretary FOWLER. That is certainly preferable to going directly to the money market, to the capital market, and putting the pressure there. It would still have severe indirect effects on the money markets. It would be less desirable than an income tax.

Mr. ULLMAN. What you are saying is that you take it from the same people as if you had some kind of forced savings, and borrowed it from the same people, but the effect of taking it, you say, is good, and the effect of borrowing it would not be good.

Secretary FOWLER. I would put it this way: As compared to going into the money market and borrowing it, I would prefer to borrow it from the individual. Looking then at the alternatives of borrowing it from the individual, and taxing it away from the individual, I think the second is the preferable course.

Mr. SCHULTZE. I might add, if you wanted to get that kind of money away from individuals by borrowing, you are going to have to bid up the interest rate substantially to do it.

Mr. ULLMAN. I would not be adverse to that, at all. I think that the average person has received relatively low interest rates and yet the people who have the major capital that is financing the Government, are getting the 6-percent rates.

Mr. SCHULTZE. Except, of course, when you do that, you will be taking it primarily away from savings and loan institutions.

Mr. ULLMAN. Well, the tax increase itself is going to take it away from savings and loans.

Mr. SCHULTZE. Not if consumers behave as they normally do, splitting the proportion of what they give up in taxes between consumption and savings. They will take it mainly from their consumption outlays, mainly, not solely, and not primarily from their savings; if they behave as they normally do.

Mr. ULLMAN. If you take it from individuals or borrow it from individuals in the same amount, I certainly cannot see any different effect insofar as the savings institutions are concerned.

Mr. SCHULTZE. My point is that when you try to borrow that amount of money by bidding up, in effect, the price of money, you set up certain kinds of distortions in the market which, (*a*) raise interest rates, and (*b*) channel the flow of money out of savings and loan institutions.

Mr. ULLMAN. If you had some kind of forced savings, you would not be bidding. You would be taking it, and offering the same kind of interest rates that you get in the capital market.

Mr. SCHULTZE. Yes, if it were forced——

I am sorry. If it were forced savings?

Mr. ULLMAN. Yes.

Well, I am not going to pursue that any further at this time. I am certainly in sympathy with the problem, and I am most hopeful that we can come to some conclusion on it in the not too distant future.

I think we have to take a much deeper look at the budget first, and at the balance-of-payments problem, second. I think the big cause of concern is the deficit. I do not think that the economic argument is at all conclusive.

The interest rate matter is critical, as far as I am concerned, but again I don't think you have given me any real hope that interest rates are going to come down very much, whether or not we have a tax increase.

I do think the problem of a major deficit is the No. 1 issue, and I am hopeful we can avoid the kind of deficit that we are facing today.

Mr. SCHULTZE. May I add one point with respect particularly to the homebuilding industry?

The total yield in 1969 of the tax measures we are proposing is about $13 billion, which, in effect, means the Treasury is borrowing $13 billion less.

In recent years, the annual increase in outstanding mortgages, a kind of net new flow of funds in the mortgage market, is around $20 billion. So, if you look at the $13 billion reduction in the Treasury borrowing requirements in relation to a money market, which provides about a $20 to $25 billion net addition to the flow of mortgage credit, you can see that there would be a large difference between having a tax increase and not having a tax increase, just interms of the magnitude of the amounts involved, even if no one can tell you precisely what is going to happen to the absolute level of interest rates or the absolute impact on mortgages.

Mr. MARTIN. Mr. Ullman, can I make one further comment on interest rates?

Mr. ULLMAN. Yes.

Mr. MARTIN. I may not have given you much hope that interest rates are going to come down. I cannot be sure of that. I have given you my conviction that there is a likelihood of it, a possibility of it, if we reduce this budget deficit to more manageable proportions.

But I have tried to point out that the risk of interest rates going substantially higher is very great indeed unless this budget deficit has gotten into more manageable proportions than it is at present.

I just wanted to make that clear.

Mr. ULLMAN. Except that what confuses me is the fact that your restrictions in the money market, the actions you have taken to tighten money supply, has resulted in a lowered interest rate, because of long-range expectations.

When you get psychology in the picture, and adverse reactions, then I get a little bit confused about how, really, it is going to work.

Mr. MARTIN. I will only say on that, Mr. Ullman, that the money market is not as complex as it appears, and at times what it needs is for stability to come in by some assurance that effective policy is going to be maintained and provided.

The money market had gotten the conviction toward the latter part of this year that the Federal Reserve was going to totally ignore its responsibility for fighting inflation, and was going to just add ad infinitum to the money supply, and while this may be a temporary adjustment here, it is an indication that when there was an indication to the money market that there was an awareness of this problem, and a willingness to face up to it, it did temporarily stabilize the money market, instead of the reverse.

And that is not an abnormal reaction. You study money markets over a period of years, you will find that has happened a good many times.

Mr. ULLMAN. It would almost lead one to the conclusion that you, down in your shop, have more to do with interest rates than we do up here.

Mr. MARTIN. No; I would say that we share the responsibility on that, but let me just make my favorite speech on this again, that none of us, either up here or in the Federal Reserve can ignore the fact that we do not have control of the money market. There are factors that are greater than we are at work.

We can have influence on it, and we do have influence on it, but in an economy as large as this, and as strong as this, it is impossible to completely control it, or to time your actions in the market, because

you are dealing with an economy where free human choice is still the primary factor to deal with.

Mr. ULLMAN. That is a good statement to end on.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Broyhill.

Mr. BROYHILL. Mr. Secretary, last year, when we were considering this proposal, you had proposed that the corporate surcharge be made retroactive to July 1, and the individual effective October 1.

Secretary FOWLER. That is correct.

Mr. BROYHILL. The proposal this year is for the corporate surcharge to be retroactive to January 1, and individual April 1.

There is a 3-month period. Is that just a coincidence, or is there a particular reason why the corporations are to be called upon to pay their surcharge 3 months earlier?

Secretary FOWLER. It is responsive primarily to the administrative considerations that have been discussed here before this committee at several hearings. The collection of the tax from the individual usually begins to bite when the withholding rate is changed. Retroactivity for individuals largely requires additional payments at the end of the tax period, whereas with the corporation a tax that would be enacted in February or March would be applicable to the entire year and would largely affect current payments. This does not present the same administrative complications.

This was the reason for the proposal in August that the corporate tax become effective July 1, and the individual tax October 1, and these considerations dictated the present dates.

Mr. BROYHILL. You did not change it, did you, when you were here in November? You had planned, had the Congress enacted the legislation at that time, to have the same spread between individual surtaxes and corporation taxes?

Secretary FOWLER. That is right.

Mr. BROYHILL. For the surtax for this fiscal year, the Treasury would have to act pretty fast in getting withholding tax forms in hand, would it not, or would that be done?

Secretary FOWLER. Yes. From the time when it was known that the rates were going to be at a certain level, it would take about 20 days thereafter to change, to get the withholding rates out in the hands of the employers and give them an adequate opportunity to change the withholding pattern.

Mr. BROYHILL. All the anticipated revenue for the individual surtax for fiscal 1968 would be as a result of change in the withholding tax?

Secretary FOWLER. That is right.

Mr. BROYHILL. No income tax would be filed for an individual at the time?

Secretary FOWLER. That is right.

Mr. BROYHILL. Mr. Director, the net lending idea you discussed with Mr. Byrnes, as I understand it, all lending and all receipts from loans would be included in the budget in a separate category known as your——

Mr. SCHULTZE. Outlay.

Mr. BROYHILL. It would be considered as a net figure?

Mr. SCHULTZE. Correct.

Mr. BROYHILL. The additional $10 billion loan, or contemplated $10 billion loan for the coming fiscal year, $5 billion payment, the figure you have in your budget would be $5 billion net?

Mr. SCHULTZE. Yes, sir; that is correct. That particular way of handling it is not new.

Mr. BROYHILL. Do you have some loan payments that did come in as receipts?

Mr. SCHULTZE. Yes, sir. REA and a few others. I think REA is the big one. There may have been a few others.

Mr. BROYHILL. The participation certificates would be sold just as any other Treasury certificate?

Mr. SCHULTZE. Correct.

Mr. BROYHILL. The payment of those certificates would be the same as paying Federal loans?

Mr. SCHULTZE. Yes.

Mr. BROYHILL. The payment of loans which those certificates cover would come in and reduce the net lending?

Mr. SCHULTZE. That is correct.

Mr. BROYHILL. Are all loans listed together, or tied together?

Mr. SCHULTZE. No, sir. Not in net lending.

In the first place, we do not classify as loans—we classify as expenditures—foreign loans made on noncommercial terms. So AID's development loans are not classified as net lending.

Second, we don't show it only as a lump sum. For each program: health, education, agriculture, we show the expenditures and the net lending for that area in total and in the detail, so we can look at it in each program.

Mr. BROYHILL. Now, on the writeoff of a bad loan.

Mr. SCHULTZE. That is a good question.

It shows as an expenditure, not a loan.

Mr. BROYHILL. Increasing expenditures?

Mr. SCHULTZE. Once you write a loan off, that is an expenditure, as, obviously, it should be. It is no longer a loan.

Mr. BROYHILL. One more question on trust funds.

Mr. SCHULTZE. Yes, sir.

Mr. BROYHILL. Under present monetary practice, any surplus of the social security trust fund, or highway trust fund that is borrowed by the Treasury will show up as a net income in your budget?

Mr. SCHULTZE. Correct.

Mr. BROYHILL. In the future it will be?

Mr. SCHULTZE. That is correct.

Again, may I clarify that a little bit?

In the past, we have used primarily the administrative budget, which ignores the trust funds. We have also, however, published and talked about the cash budget, which puts the two together.

In that sense, this budget is closer to the cash budget. It puts the trust funds and the other funds together, in coming to totals.

You are right, the old administrative budget ignored the trust funds, the new budget does not.

In the new budget expenditures of the trust funds are included in total expenditures; the receipts of the trust funds are in total receipts.

Mr. BROYHILL. You were candid in response to Mr. Byrnes' ques-

tion in saying that they are there to be used, and there will be a tendency to use them.

Mr. SCHULTZE. I want to make a very careful distinction between an accounting treatment and a program treatment.

By that I mean in an accounting sense you are quite right to put these funds together. In a program sense, the revenues from the social security fund are now and will remain dedicated to that fund.

So I just want to be clear, for the record, that while on an accounting bases we are showing them together, we are not merging them in the program sense. We are not saying that the earmarking of revenues for the social security or the highway trust funds is any less sacred than it ever has been.

Mr. BROYHILL. Is there surplus in each of the trust funds? I think the social security is close to balance, now.

Mr. SCHULTZE. The total trust fund has a substantail surplus this year.

Mr. BROYHILL. There is a posibility that the Government will have a balanced budget by virtue of the surplus of the trust funds?

Mr. SCHULTZE. Yes, sir; quite possible. From an economic standpoint, that is the way we ought to look at the budget.

Mr. BROYHILL. In future years we could have difficulty raising revenues to make up for the deficit in the program?

Mr. SCHULTZE. It could cut either way.

Mr. BROYHILL. I have no quarrel with you. I strongly favor this trust fund idea. I like it for aviation, I like it for postal rates.

I would like to have more trust funds, Mr. Secretary, where we earmark what the expenditures are for.

Secretary FOWLER. Mr. Schultze is a hard man on this subject.

Mr. SCHULTZE. I think I would disagree that—outside of benefit-type payments, and a few others—that strict earmarking of revenues is generally the case.

What you often find in many instances is—Mr. Byrnes, and I skirted around this point a little earlier—is that sometimes you get a lot of pressure to spend money simply because the revenues are there.

Mr. BROYHILL. They exert a kind of self-discipline?

Mr. SCHULTZE. They could cut either way. Sometimes as you say, they do serve to restrain. Other times, they cut the other way. Since the revenues are there, even though you don't need to spend that much money, there is a tremendous amount of pressure to spend it, just because you have the revenue.

I would not make an either-or statement on trust funds. In some cases these earmarkings are good, in some cases they are bad for the budget. They vary.

Mr. HERLONG (presiding). Mr. Burke.

Mr. BURKE. One thing that concerns me—in fact, when I was back home during the recess, average wage earners asked me this question—is whether or not, with the additional withholding now on the social security, they now are going to face another additional tax, a 10-percent surtax.

By raising the wage base from $6,600 up to $7,800 as of January 1 of this year, I believe this meant a pay cut of $1-something a week for the wage earner earning up to $7,800.

If this 10-percent surtax goes through, there will be an additional $2.60 or $2.70 a week taken from those people.

Also, the corporations and the business firms—their taxes have gone up since January 1 as a result of this wage base increase.

Dont' you believe that there should be some exemption or compensation given to these people, in view of the increases that business and the individual will have to pay on the social security in the next 2-year period?

Mr. SCHULTZE. There are several points on that, Mr. Burke.

As far as businesses are concerned, the increased payroll tax is deductible, in determining their own corporate tax.

Secondly, as far as the individuals are concerned, they are, with the additional payroll tax, buying themselves future benefits.

It seems to me there is no reason to make special exemptions for that.

Mr. BURKE. Well, people with unearned income are not paying this social security tax. How do you get them?

Mr. SCHULTZE. As I understand it, they don't get benefits. The benefits are calculated on the amount of payroll for which they are paying taxes.

Mr. BURKE. They do get benefits. They get full benefits, and they can earn unlimited amounts after they are 65 years of age of unearned income. There is no limit on their earnings.

I am talking about these other people here, whose wage base is increased from $6,600 up to $7,800, which means that they will pay an additional tax of at least $52 a year. They will be further called upon to pay another additional tax of close to $150 a year.

Mr. SCHULTZE. My only point, Mr. Burke, was that as the wage base rises from $6,600 to $7,800, this also increases the base on which your benefits are calculated, so there will be additional benefits that go with the higher taxes.

You are quite right; however, there will be additional taxes.

Mr. BURKE. There is an inequity, because the other people are not paying this, and are still getting the benefit.

Mr. SCHULTZE. There are people who are not paying, and are getting benefits——

Mr. BURKE. For example, a top executive in a corporation who pays social security all during his lifetime, and he only has his withholding up to $6,600 by January of this year, when he becomes 65 years of age, and he gets a pension, or he is on unearned income, he can earn any amount of money he wants to.

Mr. SCHULTZE. Yes, sir; but his social security payments are only calculated on his payroll income. It used to be $6,600, now it is $7,800, so he is not getting social security benefits calculated on that unearned money. He can earn more money. That is right.

Mr. BURKE. What you are doing is hitting the family man twice. He has been hit on social security, and now you are coming in and hitting him again on this increase.

I should think that where this is a temporary tax, that we should have some consideration for this individual. He should be able to take whatever social security increase he paid in as an exemption on his total taxes he pays for the year. It is a small amount to ask for.

When you have a 10-percent increase on corporations, you are going to bring your tax up higher than it was prior to the cut. I don't think

that is going to rest very well with the corporations in this country.

The individual worker finds his wage cut by the social security increase. All he knows is what he takes home every week in his pocket. They can tell him all about the promises when he reaches the age of 65, but he is confronted with the problems of today.

I say that on these particular people, people earning money at $7,800, that there should be some exemption granted to them on the makeup of his tax.

I know that those who put this together threw out a figure of 10-percent surtax, and that was a simple formula to present, but it is creating a lot of inequities with the lower wage earner.

Secretary FOWLER. Let me make a little arithmetic here.

We have looked at this thing a lot in terms of the tax reduction in 1963, and the fact that now you are having a plus-social-security tax, and you are having a surcharge.

Now, in 1963 prior to the income tax reduction in 1964, a fellow with a thousand dollar wage income paid $98 on his income and social security tax, a total of $98. Now, if you take the reduced income tax plus the higher Social Security plus the 7½-percent surcharge, and he is paying $60 in 1968, whereas he paid $98 in 1963. The figures are roughly comparable as you go to higher incomes.

Then as you get over to 1969, where, let us assume, the tax expires on June 30, 1969, his total income tax plus his social security plus his 5-percent surcharge, would be $64 in the calendar year 1969, as against $98 in 1963.

So, he still has a substantial tax decrease in 1968, and also in 1969 compared to the position he had in 1963.

Mr. BURKE. I agree with that, and I know it is correct, but I am trying to point out the practical problem the administration is faced with here.

A fellow takes home his check as of January 1 this year, and he sees a slight reduction of $1-something in his pay. The first question he asks is, "Who did that?" He starts complaining to his employer. His employer says this is social security.

Now on April 1 we are going to tap him another time. He then wants to know who is the one who accomplished that one. Of course they will say the Congressmen.

Now, if you want to get a bill through, you had better put a few sweeteners in here, or you will get no bill passed.

I think the big problem first is that many of the Members of Congress face primaries prior to June 1 of this year. I can tell you right now, just sitting from a practical point of observation, I cannot see how any bill will be passed before that time. The rest of the fellows are facing the electorate in November.

But when you cut a man's pay twice in 1 year, watch out, watch out, particularly when you take nickles and dimes out of his pay.

Secretary FOWLER. I think you have just got to come back to what Mr. Schultze says. He has to take comfort in the fact that for that first nickel he is getting something laid up for him and his family a little bit later on. That is social security.

That used to be a pretty popular program. I don't know what you have all done with it right up here.

Mr. BURKE. I don't criticize the program. I say this, twice in 1 year you are going to cut that fellow's pay.

I am talking about the family man, the fellow who has all of these problems, with two or three children. When you take $2 or $3 more out of his check, watch out.

I think that what the administration should do is come down here with some amendments or suggested amendments to this bill, at least to give those people who are getting nicked the most some type of credit where they will not be hit twice in 1 year, exempting the first $5,000 from income, or $3,000 or $4,000 of the initial income, or however you do it.

I say you have a rocky road to travel here. It is a kind of bad year to try to travel it.

Mr. ACKLEY. May I make two points in that connection?

First, the increase in the wage base under social security does not raise the weekly deduction from the paycheck. It merely means that it runs a longer number of weeks in the year.

Secondly, that fellow you are talking about is a fellow who, if he is typical, is probably getting a 5- or 6-percent wage increase this year.

This is not all coming out of his hide. It means he is getting less of a gain than he might otherwise have, but he is not going to be worse off.

Indeed, any calculations we can make show that there will be, after the tax increase, a substantial increase in per capita income, in terms of what they will buy.

Mr. BURKE. Some of those brackets may be $8,000 and over, but I think in the menial jobs in this country the pay is very low. I know there is an exemption here, but the average wage earner today, making $7,000 or $8,000, is not getting any big increase, not in my district, anyway.

I merely say there should be some more concessions made here with relation to those whose incomes are under $7,800.

Secretary FOWLER. I would like to get into that discussion with you in executive session. We have never gotten around that far on this bill. I think I would welcome the opportunity if you could arrange it. I will come here in a very beneficent frame of mind.

Mr. BURKE. I am willing to go into executive session and vote on this bill now, with a few changes.

I will go along with the chairman for a while. I cannot go all the way with him, but I will go as far as I can.

The CHAIRMAN. Are you through, Mr. Burke?

Mr. BURKE. Yes.

The CHAIRMAN. Mr. Battin.

Mr. BYRNES. Mr. Battin, would you yield for just a second?

Mr. BATTIN. Yes.

Mr. BYRNES. He was wondering what happened to social security. I think what has happened to it, Mr. Secretary, is that the taxes are finally catching up to benefits, and it is not quite as attractive.

That is one of our problems today. The need for taxes is catching up with the Great Society programs. There are problems on both sides, both programs.

Secretary FOWLER. Of course we could argue about where it all begins.

I think in my own mind, the real, direct correlation between this and our undertakings in Southeast Asia more than the Great Society—

I think we are paying for a fight that we are making. If that were not in the picture, I don't think we would be here today.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. The only question is that I recall earlier Mr. Schultze said that the budget would be coming up probably in the next week or week and a half, but the resolution we adopted on the floor of the House today, as I understood, will give the President until March 22 to send up the budget.

I hope there is no correlation between that date and what you suggested.

Mr. SCHULTZE. I hope so. I think it was just safety.

We are shooting for next Monday. I cannot be 100 percent sure we will make it, and it just might be a day or two late.

I presume they just wrote the resolution in terms of giving us plent of time.

The CHAIRMAN. It is a printing problem, is it not?

Mr. SCHULTZE. Our main problem—no use weeping on your shoulder—has been a combination of a late congressional session last year, trying to make the budget cuts for 1968 and going over to the new budget concept.

The new concept sounds simple, but actually involves many thousands of changes all the way through the budget, here and there. But we are still shooting for next Monday. I cannot guarantee we will make it.

The CHAIRMAN. Mr. Battin, we apologize for breaking in. Proceed.

Mr. BATTIN. That is all I had. I hope to be here after the election next year.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Mr. Schultze, in your statement this morning there was discussion of where the cutbacks generally could be made. At the same time, other areas where there are to be increases were mentioned.

My question is this: As a review of the budgetary requests was made, what effort, or what process was used in determining the nonessential programs within the broad essential programs?

I will give you an example. In the primary and secondary school bill there are many programs which admittedly are desirable—no one questions that—but they are deferrable, in the light of the critical problems we face. For example, the audiovisual experimentation programs, which you find in the wealthy school districts, and in my own district, secured without any help from their Representatives, I must say, and library experimentation programs. If you can afford them, and some day absolutely necessary, but at the moment deferrable.

Mr. SCHULTZE. Mr. Collier, it so happens that our priorities here, in terms of budgetary stringency, and yours will be about the same, as you will find when the budget comes up. Precisely in these programs, some action has been taken along the lines of what you said.

Mr. COLLIER. Thank you.

The CHAIRMAN. Mr. Conable.

Mr. CONABLE. Mr. Schultze, don't we do our biggest Government borrowing in February or March?

Mr. SCHULTZE. Mr. Fowler can answer that.

Secretary FOWLER. The biggest borrowing is usually in the first 6 months of the fiscal year, from July 1 until December 30.

We will have to do some borrowing this year contraseasonally.

Mr. CONABLE. Starting in April, we get revenues coming in; do we not?

Secretary FOWLER. Right.

Mr. CONABLE. Will borrowing during the next 2 months likely reverse this small downward drift in the interest rates we were talking about?

Secretary FOWLER. I think the pressure on the market is one that flows from a long-term appraisal of the extent to which the Federal Government is going to have to go in the market over a long period of time.

I would doubt very much that the fact that we don't have to go in as much from January 1 to December 30 as we did from July to December is going to change the long-term projections in the market.

Mr. CONABLE. Variations in Government borrowing will have a minimal effect on the interest rate, then?

Secretary FOWLER. I think a lesser effect; yes. It is the overall future demand of the Federal Government on the market that over the long pull is taken into account.

Mr. CONABLE. Mr. Director, I want to thank you for the administrative budget and new budget concept figures that you reported to us this afternoon.

I notice that under the administrative budget, under the old system, our estimated deficit is $118.6.

Mr. SCHULTZE. Please say that again.

Mr. CONABLE. Our estimated receipts are $118.6. Our estimated deficit is minus $18.6.

Mr. SCHULTZE. Yes, sir.

Mr. CONABLE. As opposed to the $19.8 that Mr. Byrnes was talking about earlier.

Mr. SCHULTZE. Yes, sir.

Mr. CONABLE. Why is that $1.2 billion lower than it otherwise would have been? Did we cut beyond the expected——

Mr. SCHULTZE. No, sir; we did not.

In the relatively affected programs, we did by a hundred million or so, but the point is, if I recall correctly, the 19.8 figure last November was a figure without any tax increase effective in 1968.

This 18.6 assumes the enactment of the tax increase we are proposing with the January 1 effective date for corporations and an April effective date for individuals. That is point No. 1.

Point No. 2, the actual revenue estimates are slightly different from those used then.

Point No. 3, since I was here in November relative to the estimates I gave you then of expenditures after the cutback, there has been a half billion dollar increase in our estimate of the cost for Vietnam, about a $300 million increase in our estimate for public assistance, and $200 million in our estimate of the cost of interest.

There have been some changes in expenditure figures. This number is after the tax increase; the earlier number was before the tax increase.

Mr. CONABLE. Are you anticipating any supplemental appropriations of substantial amount?

Mr. SCHULTZE. Yes, sir.

Well, a pay supplemental for the pay bill.

There will be a supplemental for—significant supplemental—to pay for the increased cost of medicaid and public assistance.

Most of those numbers I have already given you in November, as an estimate. Actually, we will have to come up in February or thereabouts to get the legal appropriation.

So, supplementals will be needed for pay, public assistance, medicaid, and a few others.

The Defense Department will be up with what is technically a supplemental involving no new addition of funds, but a shifting of funds between accounts, as non-Vietnam programs were reduced, and Vietnam needs increased.

Mr. CONABLE. Thank you.

Mr. Martin, is there any substantial amount of this disintermediation going on now?

Mr. MARTIN. There is some going on now. I don't think it is too large at the moment, but there is some going on.

Mr. CONABLE. At what level do you estimate that will be a serious problem? That will depend on a number of factors?

Mr. MARTIN. It will depend on quite a few factors.

I think probably to have it very serious, the regulation Q rate—the maximum rate banks may pay on time deposits—would have to be exceeded by market rates. But market rates would have to go up further from present levels for disintermediation to be very substantial. The present ceiling rate is 5½ percent for commercial banks.

Mr. CONABLE. At the present rate of savings, you are not concerned about any disintermediation going on right now?

Mr. MARTIN. I would not say we are not concerned. We are watching it carefully.

Secretary FOWLER. It depends on whom you talk to. You can get some people who are quite concerned. I have some communications here about it, but I think on the whole, the savings and loans and the mutual savings organizations felt that at the close of the year and the first 10 days in January things were not as alarming as they were fearful they were going to be.

Mr. CONABLE. That is all, Mr. Chairman.

Thank you.

The CHAIRMAN. Mr. Bush.

Mr. BUSH. Mr. Secretary, I have just one question.

Is the situation serious enough that there will be any moves toward recision of any existing programs, or any request for legislation which will actually require legislation to stretch out any existing program?

Secretary FOWLER. I think I will ask the Director of the Budget to respond to that, since it involves the budgetary picture.

Mr. SCHULTZE. There will be a number of requests for legislation with the objective of reducing programs. In many cases—Excuse me.

Mr. BUSH. I am talking about appropriations.

Mr. SCHULTZE. I am saying that in addition there will be some requests for non-appropriation-type actions which will have an effect, in some cases, on 1969, but in other cases on 1970 or 1971, in reducing budgetary cost. There will be requests for substantive legislation to do that.

Of course, most of the requests will involve appropriation action, but there will be additional requests for a number of program reforms which we will be proposing which will have an effect, probably more in 1970 and 1971 rather than in 1969.

Mr. BUSH. This will be to stretch out commitments that we would have to make?

Take the pay bill, which this year had only a very handful of votes in the Congress against it, as you pointed out.

Mr. SCHULTZE. Yes, sir.

Mr. BUSH. But perhaps this would be an unpopular one to take——

Mr. SCHULTZE. That is not one of them.

Mr. BUSH. On that one, it is $2 billion over last year's budget request, and $3 billion over for 1970.

Now, the administration proposed—well, I think you answered it—are they going to come back and say, "Look, instead of making it $2 billion in 1969 and $3 billion in 1970, we are going to ask the Congress to go back and do this all over and stretch it out over 5 years."

Will there be a serious large-scale move—I take as an example the one that keeps cropping up, which is one that is beyond the control of the administration.

You see my point?

Mr. SCHULTZE. I see your point. I cannot think of any, to tell the truth, which involve substantive legislation to stretch things out.

I don't want to mislead you. There will be substantive legislation to simply abolish or reduce programs. In some cases, for example, we have to request appropriations because the very nature of the substantive law requires it.

There are some cases in which we will be asking for modification of the substantive law. I honestly cannot think of anything analogous to the Pay Act legislation where you have a commitment like that, and you say you are going to rescind it or take it back.

I can argue with you on the pay example a little bit, but I think I did before——

Mr. BUSH. I will be glad to argue about it. There was not any real serious effort made by the administration to fight the pay bill, and yet you decided that the pay bill is one of the things that is causing $2 billion in overspending.

I don't remember anyone contacting me and telling me to vote against it. A lot of people contacted me for the bill, to vote for the bill, to cost money.

Mr. SCHULTZE. Last year the Congress made a deliberate choice along the following lines. In the pay bill last year, we proposed on several grounds that there be an automatic increase this coming year. But one of those grounds was that given what was happening and what was likely to happen to private pay, and given the fact that this is a year divisible by two, we thought that we were likely to get a smaller increase in Government cost by proposing a pay increase last year with an automatic second step this year, than by coming up and taking our chances this year, at this time of the year.

And I think we will be right. Pay legislation does increase Government expenditures. I could be wrong, but I think the increases will buy a lot less than would otherwise have been the case if we had played it from year to year.

Mr. BUSH. Thank you.

THE CHAIRMAN. I want to call on Mr. Curtis next, but before I do Mr. Secretary, your recollection of history might save me asking you a lot of questions later on, if you coincide with my recollection of history.

You made reference on page 14 to the very distinguished Member of the British Parliament, Edmund Burke. You referred to his making his constituents angry with him by his vote, and he wrote an explanation of why he did it.

Did that vote, and the resulting letter, precede his defeat in the next election?

Secretary FOWLER. I will send the boys back to the history books on that.

The CHAIRMAN. I wish you would. It is my recollection he was defeated in the next election.

Secretary FOWLER. I will be glad to let you have that for the record tomorrow morning.

The CHAIRMAN. Fine.

Mr. CURTIS. That is probably a pretty good note for me to start on, because I voted against 15 out of the 17 appropriation bills this last session, because only two of them had less money in them than had been asked the previous year.

Let me pick up on some of the detail that Mr. Bush brought out on this pay bill. Of course, we could minimize the cost effect of the pay bill by not filling all the job vacancies that are normally created by cutting back in total Federal employment.

Indeed, that is what the President promised he was going to do. Yet we, I think, end up with around 300,000 more Government employees, in the past 2 years.

Mr. SCHULTZE. In part, some of the pay bill will be absorbed that way. As you recall, under the cutback we made, part of that cutback was a reduction in personnel from budgeted and appropriated levels.

Mr. CURTIS. I am not interested in the high levels that the administration apparently sets and then keeps to itself. I am interested in levels that were public.

Mr. SCHULTZE. These were public levels.

Mr. CURTIS. I am talking about what the levels were the preceding year, because these cuts always end up in an increase, I notice, over the previous year.

You are not telling me that there are fewer Government employees in January 1968 than there were in January 1967?

Mr. SCHULTZE. No, sir; I am not.

Mr. CURTIS. You see, that is the problem we are confronted with.

Now let me ask a general question first, if I may. I think Mr. Ackley is the best one to answer it, or maybe it can be a collective judgment.

If we were to pass this tax bill, the testimony is to the effect that there will be no inflation, or that interest rates will not remain high.

Am I correct in that?

Suppose we pass this tax bill requested. Does that mean that we will not have inflation, as measured by the Consumer Price Index, and it will be a price deflater?

Secretary FOWLER. No claim has been made.

Mr. CURTIS. How about interest rates?

Of course, you have to set a figure. Would interest rates go down below, say, 1965 level?

Mr. MARTIN. I will make no prediction on interest rates, Mr. Curtis, other than to say that if we do not get this budget deficit into more manageable proportions—I don't say it is completely unmanageable today—but into more manageable proportions, I am confident we will have higher interest rates than we will if we get this——

Mr. CURTIS. I was going to come to that question, if I may.

Let me ask this. Has there been any attempt to compute what the figures would be?

Let us take inflation, for instance. How much inflation can we anticipate in fiscal 1969 if this tax bill becomes effective, measured in both the CPI or the Consumer Price Index, and the Wholesale Price Index? Have you made such estimates?

Mr. ACKLEY. Mr. Curtis, as far as I am concerned, we have given a good deal of thought to the question of trying to make some estimates of what the change in price might be with and without the tax bill.

I think our conclusion is that it is impossible to give an honest, reasonably scientific answer to that question.

Our expectation is that with the passage of the tax bill, the GNP deflater might be expected to increase by something over 3 percent in 1968.

Mr. CURTIS. Even with the tax?

Mr. ACKLEY. Even with the tax bill.

Mr. CURTIS. Without the tax bill——

Mr. ACKLEY. Without the tax bill, it would certainly be more than that.

I did make the comment in my testimony this morning that the big difference that a tax bill makes for prices is a difference that will only be seen in 1969.

With the tax bill, I think there is hope that we could be gradually decelerating the rate of price increase during 1968 and moving into 1969 with the prospect of moving back toward reasonable stability.

Mr. CURTIS. Were you talking fiscal 1969?

Mr. ACKLEY. I am talking calendar 1969.

Without the tax bill, I think there is very little prospect of decelerating the rate of price increase. Rather, the prospect would seem to me to be one of further acceleration of price increases during the year.

If you take the year as a whole, as an average, you would not see very much difference. Actually, the effect of the tax increase will primarily now be in the second half of the year. With withholding beginning April 1, and with the lag in its effect, it is going to be small in terms of the difference for the year as a whole. But you will have a very different trend of price change within the year, and you will have a very different price picture in 1969.

Mr. CURTIS. Did you attempt to compute what cutting the equivalent amount from Federal expenditures would be on the implicit price deflater? Using the figure, for example, of $10 or $11 billion?

Mr. ACKLEY. This is a purely hypothetical exercise. I would think, as a hypothetical answer to that question, I would suppose the effect on the price level would be about the same whether you raised it through taxes or got it through cutting expenditures.

Mr. CURTIS. Most of the economists who testified before us in a panel said they felt cutting an equivalent amount of expenditures would have a considerably greater multiplier effect on inflation.

Mr. ACKLEY. I thought you were perhaps taking that into account in your measure of what was equivilent, because you spoke of a $10 or $11 billion cut in expenditures, versus the $13 billion tax increase.

Mr. CURTIS. I meant to use the same figures.

Mr. ACKLEY. If you use the same figure, then there would be a somewhat higher multiplier applicable to the expenditure cut; but not significantly.

Mr. CURTIS. At least as far as your work is concerned, you did not examine into that possibility, because I assume you are going by the administration's decision in respect to expenditure policy.

Mr. ACKLEY. We try to answer all questions that are asked of us, and we include hypothetical ones, but we don't make the decisions on expenditure policy.

Mr. CURTIS. Now, if I may, Mr. Schultze, I want to find out some figures on the one budget that seems to be, of all the many budgets we have, the most vague. Yet it is the budget that really confronts us in determining how much revenue we should get from taxes, and how much through trying to sell more Government bonds; namely, our expenditures in a given fiscal year versus our revenues.

Now, I want to discuss first table 8, on page 49 of the 1968 budget, the one you presented last year. We have an item there, "Unspent authorizations for expenditures in future years, $132.8 billion."

The previous figure for the previous year was $125.6.

What is that figure for fiscal 1969?

Mr. SCHULTZE. I don't have that figure, Mr. Curtis.

Mr. CURTIS. Can you get it?

Mr. SCHULTZE. I cannot get it at the moment.

Mr. CURTIS. Tomorrow?

Mr. SCHULTZE. No, sir. That I cannot have.

I am not sure. I want to check something. We will have the equivalent concept on the new budget, but I don't have it on the old administrative budget.

Mr. CURTIS. Will data be available so that we can get it?

This, to me, is a crucial point.

Mr. SCHULTZE. We can come fairly close by taking the trust funds out. It would not be exactly the same thing, but it will come fairly close.

Mr. CURTIS. Will it be a larger sum than $132.8?

Mr. SCHULTZE. I am sure it probably will.

In particular, just knowing the rough shape of the numbers in this, we have not done that complete tabulation and checked it out yet, but primarily because there is a fairly significant increase in new obligational authority for defense.

Mr. CURTIS. I am pretty sure you would, too, only I compute it in a different way.

There is another item of interest here. It is so small that you can hardly see it, but it is there; $1.8 billion expiring authority in interfund payments is taken off of the carryover balance of authorization. Do you know what that figure is?

Mr SCHULTZE. No, sir; I don't.

Mr. CURTIS. Will that be about $1.8 billion?

Mr. SCHULTZE. That I could not tell you.

Mr. CURTIS. It is not going to be a sizable figure compared to that figure?

Mr. SCHULTZE. I don't really know, because I would have to take a look at the impact of the cutbacks this year on that.

At the moment, I don't know.

Mr. CURTIS. Do you think that could be obtained?

Mr. SCHULTZE. I am fairly sure it could be gotten, although it may be slightly different because of the different nature of the new budget.

Mr. CURTIS. The significance, of course, is that this is where some of your decisions on power to spend would occur, if you really rescinded instead of just simply postponed.

Mr. SCHULTZE. As I pointed out this morning, when you were not here, Mr. Curtis, what we have done in many cases——

Mr. CURTIS. I was here, and listened to that.

Mr. SCHULTZE. This is on the construction?

Mr. CURTIS. Yes, sir.

Mr. SCHULTZE. That comes to the same point, as you can see.

Mr. CURTIS. Nevertheless, hopefully those tend to be postponements in effect, because they are coupled with the new authorization.

Mr. SCHULTZE. Except we are lowering the new authorizations by the amount of the money we had from last year.

Mr. CURTIS. I understand. That is what we are really after, to find out what your total power to spend is. This is what this chart reveals. It is the only place that reveals that the administration for this beginning fiscal year had $125.6 billion carryover power to spend, requested $144 billion new power to spend, and so it has a total of $269.6 billion to spend. Am I right.

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Of which $135 billion was expended. The subtraction would give the carryover expenditures for fiscal 1968. That is what I am trying to get.

As a matter of fact, this Congress authorized $157 billion new power to spend. Now that is included, not for just fiscal 1968. That includes——

Mr. SCHULTZE. Some of the multiyears.

Mr. CURTIS. Yes, includes the 1967 deficiencies.

Mr. SCHULTZE. Plus probably some of the multiyear authority.

Mr. CURTIS. It could have some of that, but it is comparable, and this is the point, to the figure of the second session of the 89th Congress of $139 billion, because that also included supplementals and some of these other powers to spend.

Am I correct in that?

Mr. SCHULTZE. I don't have those numbers. I assume so.

Mr. CURTIS. If this is not a correct figure, I want it corrected.

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. I am pointing out that this Congress, which was hailed as "do-nothing" by some of the people of the last session, some people even in my own party, as having authorized the expenditure and actually voted $157 billion power to spend in relation to $139 billion of the second session of the 89th Congress.

Mr. SCHULTZE. My recollection would be that a large part of that, I think, of the $157 billion, would include the Vietnam supplemental in the first part of the year.

Mr. CURTIS. That is right. It includes a supplemental of $14.2 billion, compared to a $14.3 billion in the second session of the 89th Congress, which leads me to the question I was going to ask.

One of my colleagues, Mr. Conable, was asking about the supplementals that would be presented this session.

Mr. SCHULTZE. $3.2 billion.

Mr. CURTIS. Nothing like the $14 billion in the 2 previous years?

Mr. SCHULTZE. No, sir.

Mr. CURTIS. That is encouraging.

Mr. SCHULTZE. There are a number of items, but there are really two items in it, the pay and the public assistance, and medicaid. Those are the two big items.

Mr. CURTIS. I want to ask specifically about this. Is that to be added to the $136 billion, because some of the medicare or social security bill comes out of general revenues, but the bulk of the increase comes out of the trust fund?

Mr. SCHULTZE. I was not talking of the trust fund, at all.

Mr. CURTIS. This increase is just from what we did in the general revenue financing?

Mr. SCHULTZE. That is right. There are three items. Medicaid, cash public assistance, and general revenue payment to the HI and MSI trust funds.

The CHAIRMAN. Mr. Schultze, is that figure $3.1, to be added as an expenditure in the fiscal year 1968, to the $137.2?

Mr. SCHULTZE. No, sir. The $137.2 includes that.

The CHAIRMAN. It includes all of this?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. Some of the $3.2, then, will be actually spent in future fiscal years?

Mr. SCHULTZE. No, sir: I think most of the spending of these particular supplementals will be this year.

The CHAIRMAN. Most of it is already included in your estimate?

Mr. SCHULTZE. Yes, sir. As a matter of fact, a lot of it was included in your estimate last November, and last August. I told the committee there would be substantial additional expenditures in public assistance and medicaid.

It is just that we don't send the supplemental up for that until February or so.

Mr. CURTIS. Of course this supplemental and the figures I gave were not to be added to that $157 billion, because——

Mr. SCHULTZE. That was previous.

Mr. CURTIS. What are the figures for net budget ependitures for the month of December?

Our latest indicators, of course, are only December, and the last month we have is November.

Mr. SCHULTZE. Yes, sir. I had the photostats. I thought I brought them, but I did not. I have it for the half year.

Mr. CURTIS. What is it for the half year, then?

Mr. SCHULTZE. I think it was $70 billion, in round numbers.

December was published. I am sorry.

Mr. CURTIS. I have not seen it.

Mr. SCHULTZE. It came out today.

The figure for December was $10.1 billion, compared to $11.7 for the prior month.

Mr. CURTIS. Yes. That alters some things, and I am pleased by it, because the last figures I had were first the ones in December which showed for the first 5 months of fiscal 1968 an expenditure of $60 billion, divided by five, to get the monthly rate as 12, and multiplied by 12 gave us $144 billion level.

It is very difficult for me to see how you are going to come up with $137.2, with the first half starting out that way.

Mr. SCHULTZE. I have an analysis on that which you may find useful on this.

Take the $70 billion and make two adjustments, first for participation certificates, and secondly for the Commodity Credit Corporation, which tend to spend most of its money in the first half of the fiscal year.

Mr. CURTIS. Oh, no.

Mr. SCHULTZE. I have to.

Mr. CURTIS. I know you do.

Mr. SCHULTZE. We can come back to this.

Mr. CURTIS. Maybe my hopes are being dashed. That $10.1 is not that low, because you were putting some P.C. sales, reducing expenditures there, were you?

Mr. SCHULTZE. I don't know whether we realized the proceeds in December. Did we?

Mr. CURTIS. I was pleased to note in your statement that one recommendation to this Budget Committee was that you were going to treat P.C.'s——

Mr. SCHULTZE. We are.

Mr. CURTIS. You would not be, if you did it the way you described. That is why I interrupted you.

Mr. SCHULTZE. I want to make sure we are talking about the same thing.

The new budget will not treat P.C.'s as offsetting expenditures. We are talking about the old administrative budget still.

Mr. CURTIS. So it might be used there?

Mr. SCHULTZE. Yes, sir.

All I wanted to point out was that we sold $1 billion P.C.'s in the first half year. We plan to sell four in the second half, so that you cannot just multiply the figures.

It turns out if you adjust for P.C.'s and the Commodity Credit Corporation, that you can reach our $137.2 figure, and still spend a billion dollars more in the second half in the fiscal year than you spent in the first.

Mr. CURTIS. I understand it, and I appreciate your frankness on it. It does through raise the question which has been discussed before; how are these treated?

I regard P.C.'s as a method of how you finance your expenditures.

Mr. SCHULTZE. Let us calculate it without P.C.'s.

Mr. CURTIS. It would then be around $144.

Mr. SCHULTZE. $142 and a half.

Then again if we do use the half year figures, you find if you adjust for P.C.'s, $71.2 billion the first half, $71.3 the second half.

Mr. CURTIS. The problem here, as I see it, going back to table 8 of your administrative budget, you anticipate expenditures in 1968 of $135 billion.

This will repeat some of the questions I had last December.

The Joint Economic Committee has been holding hearings on the budget, as well as the Economic Report, and unanimously concluded that this figure should be cut by $5 billion, to $130.

This would be $5 billion more than your expenditure level of the previous year, 125 billion. So, instead of doing that, we now are at a level I would identify as $142.

I appreciate you use $137, which you have now explained, because of this different treatment of P.C.'s.

So this is where your semantics of having cut expenditures, don't relate to what I think is the budget we are talking about; namely, they don't relate to this budget that we have to consider here.

How much are we going to raise in taxes? How much in selling new bonds, and how much selling P.C.'s, or whatever, to finance these expenditures, and what is the economic impact of that mix?

I just think that the $142.5——

Mr. SCHULTZE. As you understand, that is not up from $135. The $135 has P.C.'s in it.

Mr. CURTIS. It is up from $125, Mr. Schultze.

Mr. SCHULTZE. That would be $129, if you did it on the equivalent basis with P.C.'s.

Mr. CURTIS. But the Secretary of the Treasury has found it difficult to try to market P.C.'s, creating the problem of high interest rates. That is why I try to relate them together.

Mr. Chairman, I would like to point out that we are about to adjourn over until tomorrow. I will conclude on that point, and hope I will have an opportunity to ask further questions.

The CHAIRMAN. I will ask you gentlemen to be back in the morning at 10 o'clock.

Without objection, then, the committee will adjourn until 10 o'clock.

(Whereupon, at 5 p.m., the committee adjourned, to reconvene at 10 a.m., Tuesday, January 23, 1968.)

PRESIDENT'S SURTAX PROPOSAL: CONTINUATION OF HEARING—JANUARY 1968

TUESDAY, JANUARY 23, 1968

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee room, Longworth House Office Building, Hon. Wilbur D. Mills (chairman of the committee) presiding.

The CHAIRMAN. The committee will please be in order.

Mr. Curtis will resume his interrogation.

Mr. CURTIS. Mr. Schultze, were you able last night to get that figure for the carryover balance?

STATEMENTS OF HON. HENRY H. FOWLER, SECRETARY OF THE TREASURY; HON. CHARLES L. SCHULTZE, DIRECTOR, BUREAU OF THE BUDGET; HON. WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM; AND HON. GARDNER ACKLEY, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

Mr. SCHULTZE. No, sir, I haven't. We are still checking and getting those numbers finally down. I don't have that number. May I make one point?

Mr. CURTIS. Surely.

Mr. SCHULTZE. It will be, as I think I indicated yesterday, substantially larger because of the trust funds. Now, when one pulls the trust funds out I am not sure how it is going to come out yet.

Mr. CURTIS. I want it without the trust funds.

Mr. SCHULTZE. I understand that.

Mr. CURTIS. Although I am interested in trust funds, too.

Mr. SCHULTZE. I just meant the total under the new concept would be larger.

Mr. CURTIS. Under your projected deficit for fiscal 1969 of $8 billion, that does include the trust funds. Aren't the trust funds a plus item?

Mr. SCHULTZE. Oh, yes, sir, by about $7½ billion.

Mr. CURTIS. About $7½ billion.

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. So that would mean that actually we would have an imbalance in the old administrative budget of around $15 billion?

Mr. SCHULTZE. Yes, sir. If you exclude the PC's, that's right.

Mr. CURTIS. If you exclude the PC's. How much did you say you were going to sell?

Mr. SCHULTZE. Let me give you the numbers again if I might. The old administrative budget as previously defined has a deficit of $11.8 billion.

Mr. CURTIS. $11.8 billion, so your PC's then are about $3 billion?

Mr. SCHULTZE. Then you have $4 billion of PC's and $7.3 billion I think of trust funds. There are a few other minor adjustments.

Mr. CURTIS. Also, some of those would be in your method of computing what we call the user tax?

Mr. SCHULTZE. I don't follow that, sir.

Mr. CURTIS. These various charges that we make for Government services.

Mr. SCHULTZE. Yes, sir; we are proposing some additional user charges to the tune of something a little less than $300 million.

Mr. CURTIS. I knew that. Then I was also directing attention to whether in your new budget setup you were changing your method of accounting for present user fees.

Mr. SCHULTZE. To some extent; yes, sir. I think it is best explained this way: that wherever the Government acts as a proprietor, either in selling land or in selling services, those are netted against expenditures. They were to a significant extent in the old budget but it was rather haphazard, depending upon the specific nature of the law involved.

Now they are all done that way. This does not affect the deficit but does switch transactions between receipts and expenditures. In other words, it wouldn't affect the deficit in any way. It simply means that in some cases items which used to be counted as miscellaneous receipts are now counted as an offset to expenditures.

Mr. CURTIS. Then you are showing a reduction in expenditures which in the previous method you weren't showing, right?

Mr. SCHULTZE. Oh, no, sir. I'm sorry. I don't want to mislead; not when you make comparisons year to year. We have, of course, gone back and established comparability for every year.

Mr. CURTIS. Concerning this document I am holding up here with the budget message for fiscal year 1968, would that have the computation of these market-oriented miscellaneous receipts, grazing fees, et cetera, used to offset expenditures rather than be counted as receipts?

Mr. SCHULTZE. In the old document I would say the majority of revenues from business-type activities of the Government were also used to offset expenditures but not all of them. In the new document all of such items will be used to offset expenditures, but then obviously we keep it—how do I say this—on all fours every year back. By this I mean we don't take credit for the offset from year to year simply because of switching from one accounting system to the other.

Mr. CURTIS. How much would that amount to, just switching over into the new method of bookkeeping here, as far as——

Mr. SCHULTZE. About $2 billion in 1969, I am informed.

Mr. CURTIS. About $2 billion.

Mr. SCHULTZE. That is again each year going back.

Mr. CURTIS. I understand. Well, now, I don't want to get into an argument on this point that I am about to make but I do want to stress it. Of course, when you use the $7½ billion plus that presently exists

in your trust funds this is taking money that is really earmarked for other purposes. It worries me very much if the new budget concept is going to be doing that because it hits at the integrity of the trust funds if you do this.

Mr. SCHULTZE. Oh, no, sir.

Mr. CURTIS. Let me explain how. When we zero in on the solvency of the social security trust fund we are counting on these surpluses that may come in in certain particular years because we anticipate the deficits that will be occurring in subsequent years.

This is how we compute whether or not the trust fund is actuarially sound, and we are dealing in pretty broad figures. But if you are starting to count surpluses that may occur in particular years, and they happen in the next few years in social security, as a method of making the actual deficit appear to be less, this means that we are going to have to do a little rethinking, I would say, on the concept of trust funds.

Mr. SCHULTZE. May I reply?

Mr. CURTIS. Certainly.

Mr. SCHULTZE. It seems to me, quite apart from whether you agree or don't agree with the accounting change involved—that is what it is, an accounting change—that the rules governing the trust fund and the investment of trust fund surpluses and the like, as you realize, do not change.

In other words, there is nothing that changes the cycle.

Mr. CURTIS. May I interject and illustrate. For instance, last year just about this time the Secretary of the Treasury said that—I think it was on the debt ceiling—if the Ways and Means Committee didn't go along with the President's proposals, we were going to be endangering the payments to the social security recipients.

Now, of course, I thought that was in error and said so at the time. This created a great confusion around the country. But the reason I felt it was in error was that these funds in the trust fund were exactly for the purpose of protecting against any contingent liability, and a statement by the Secretary of the Treasury that these funds might be used or diverted through accounting procedures, or whatever you want to call it, to reflect the imbalances that occurred in the administrative budget is distortion and confusion.

Mr. SCHULTZE. All I wanted to point out again is—quite apart from that particular point or any similar point—that nothing in the new budget concept which is a change in the presentation of the numbers changes the laws, rules, or practices governing the trust funds.

Now, whatever point you might want to make about that earlier incident or anything else has nothing to do with the new budget concept, any more, for example, than the presentation of a national income accounts budget or a cash budget, both of which includes the trust fund, in and of itself had anything to do with the nature of the trust fund itself.

Mr. CURTIS. Last year when the President's economic message directed attention almost exclusively to the national income accounts budget I said, "Yes, this is one of the most valuable budgets we have," as from a long-range economic standpoint this tells us a great many things we need to know, but the immediate problem, particularly before the Ways and Means Committee, has to do with a fiscal problem

that is not involved in the national income accounts budget but is involved in the administrative budget.

This is the problem, as I see it, that faces us now on the tax question of expenditure cuts. It has to do with cash flows of this particular year.

Mr. SCHULTZE. That is what the new budget gives you fairly closely, the cash flows of a given year.

Mr. CURTIS. Yes, but in this sense your trust funds, and I will argue for this, are no different from any other purchaser of Government securities. In the private sector, there are some people who have been trying to make the point that in the social security trust funds are bonds that are just representing expenditures the Federal Government has previously made, which is true, but my counter to that is that these bonds are just as good as any bonds held by individuals, or in corporate accounts, or bank accounts, and so forth. So in this sense, all that the trust fund is is another holder and purchaser of these bonds and what is concerning is what is the extent of the holdings of Government bonds as a result of the imbalances in the administrative budget. For this fiscal year 1969, it will be $15.5 billion, disregarding the PC argument, not $8 billion; right?

Mr. SCHULTZE. In that you add the PC's, that is the right ball park. But I make the point, it seems to me from the point of view of this committee and its deliberations with respect to taxes, that the new budget does give you, I would say, two of the three most relevant pieces of information.

Those would be, first, the impact of the Federal budget in terms of its total cash flows to and from the public, and, second, the borrowing requirements of the Federal Government from the public, which of course are what is relevant in terms of the pressures on the money market. And this is the reason that the Budget Concepts Commission essentially went to this concept because, from an economic and financing standpoint, this measure comes closest to giving you the budgetary implication.

Mr. CURTIS. As you probably know, the Joint Economic Committee held hearings and had the Budget Commission before it. I was happy to interrogate representatives of the Budget Bureau and I thought too that they showed a lot of improvement. But the point I made was that this was going to tend to again distract the people as well as the Congress from the budget that is the crucial budget, namely, the administrative budget that creates the economic problems that we are trying to discuss.

Mr. SCHULTZE. This is where we disagree, Mr. Curtis, respectfully, because I would believe that the economic impact of the budget and the financing impact of the budget are best seen in the context of the new budget.

Mr. CURTIS. We are not on the same wavelength. I am talking about the immediate problem of how we finance in this given fiscal year, fiscal 1968 and the ensuing one, 1969. How do we finance those expenditures and whether we finance them through tax receipts, whether we finance them through sale of new Government securities, bonds, or selling off capital assets which may be PC's?

That is the immediate economic problem.

Mr. SCHULTZE. That is where we disagree, Mr. Curtis.

Mr. CURTIS. I don't see how there can be any disagreement on that statement.

Mr. SCHULTZE. It seems to me there is a clear reason for the disagreement. We are interested in the impact of the Federal Government's activities on income and output in the private economy, on prices, and on the money and capital markets. These are in the aggregate.

Mr. CURTIS. We are all interested in this, but the immediate component that we are discussing right now, at least what I am trying to discuss, relates to this specific problem: How much should we get in additional revenues through taxes?

Mr. SCHULTZE. Right.

Mr. CURTIS. And if we don't get it through taxes, we have to get it by selling bonds.

Mr. SCHULTZE. Which has an impact on the money market.

Mr. CURTIS. All right, sure.

Mr. SCHULTZE. And this is what we are after.

Mr. CURTIS. And this is why we argued that PC's were economically the same thing practically as selling Government bonds because you took from them what there was in the money market.

Mr. SCHULTZE. And in the new budget this is the way we handle it.

Mr. CURTIS. I understand that. This is just why I use the $15.5 billion figure. You want to account for the PC's and I say that from an economic impact it is the same thing as far as our problem is concerned as bonds.

Now I have been trying to refine it further. Where you say, "Well, we take from the public and the private," and so you want to put the trust funds in there as part of the public, I have been trying to point out here briefly——

Mr. SCHULTZE. No; as part of the Government.

Mr. CURTIS. As part of the Government. That is public, government, public.

Mr. SCHULTZE. I mean that is the point, Mr. Curtis. We want to get at what the Federal Government borrows from the public.

Mr. CURTIS. We set up the trust funds on their own base and they are no more than any other purchaser of bonds from the society. I don't care whether you call them government, public, or whatever. They have been earmarked and they are sacrosanct.

Mr. SCHULTZE. Of course; no argument.

Mr. CURTIS. Well, there is an argument because if what I am saying is true, then this is simply another customer for bonds and we have the problem of financing $15.5 billion of deficit in the administrative budget, not the $8 billion that you have given us.

Mr. SCHULTZE. There is where again I disagree, Mr. Curtis, because clearly you do not have the problem of financing that additional amount in the market and getting into competition with private funds. That is the whole point with respect to analysis.

Mr. CURTIS. You have a capital market here.

Mr. SCHULTZE. Whether it is capital or not, the fact of the matter is it is a different market. It is a capital market, of course.

Mr. CURTIS. No different from the Federal Reserve.

Mr. SCHULTZE. Of course it is, a major difference. Well, I shouldn't speak for Mr. Martin.

Mr. CURTIS. In its fundamental point, no different. Sure, there are differences in the way the two funds operate. Well, I have examined this I think enough for the purpose of the record and I think we have brought out something that is a fundamental difference in concept and I think a very important one, and understandably if the administration goes on on the theory that you are advancing——

Mr. SCHULTZE. Not the theory I am advancing.

Mr. CURTIS. Well, who is advancing it?

Mr. SCHULTZE. The unanimous recommendation of the Commission on Budget Concepts.

Mr. CURTIS. And you are advancing it in behalf of those people. All right.

Mr. SCHULTZE. That is correct, sir.

Mr. CURTIS. And I am saying if this theory is followed, then we on this committee who have to be concerned about the integrity of these funds, namely, the trust funds, had better reexamine them in light of the fact that this theory you are advancing might prevail. This is needed because under your theory I can easily see why the Secretary of the Treasury might say that what we do or don't do in these fiscal matters would affect the social security trust fund or, as was claimed by the administration that they were cutting back on highways under the highway trust fund program because that would affect the administrative budget.

Mr. SCHULTZE. It would not affect.

Mr. CURTIS. Yes, this was one of the announcements, that it had been done, that cutting back on the highway program, which does not relate to the administrative budget was somehow or other going to affect the administrative budget.

It was put forth as a cutback in expenditures on the administrative budget.

Mr. SCHULTZE. If you can show me that I would be glad to apologize for any such statement coming out of the administration. To the best of my knowledge no such statement at any time came out of the administration.

Mr. CURTIS. Well, the President of the United States was among those who issued such a statement.

Mr. SCHULTZE. I would be glad to see it, Mr. Curtis.

Mr. CURTIS. I am sure you have not seen it.

Mr. SCHULTZE. Mr. Curtis, I have not. I have stated that I have not.

Mr. CURTIS. I know. I think you are misunderstanding the import of what I am saying, not disagreement of a matter of fact. I am saying that he made the statement in context of this problem that we have on the administrative budget and our arguments that he should cut back expenditures relating to the administrative budget, by saying, "We are cutting back on the highway program." I am saying that that did not relate to cutting back expenditures in the administrative budget. However if your theory of commingling these trust funds with general revenue simply because it is the Government that has these trust funds is an accurate theory, then maybe the President was correct in relating a cutback in the expenditures in the highway program to the administrative budget.

I have one other area to examine. Again in your use of the words "noncontrollable expenditures" I presume you are using the same

guidelines that you gave to me last October and December that if a matter is under contract that thereby it automatically goes into a noncontrollable area.

Mr. SCHULTZE. No, sir; I am not.

Mr. CURTIS. Would you restate it?

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Maybe I misunderstood your criteria. Will you restate the guidelines to determine what is noncontrollable.

Mr. SCHULTZE. Yes, sir. What I indicated in my statement yesterday was that expenditures in noncontrollable programs added to some $10.4 billion. That $10.4 billion did not include payments on prior contracts.

I then went on to state that there were—it's a separate point—in addition increases of between $1½ to $2 billion in payment on prior contracts.

In other words, the Secretary and I both listed the major increases in noncontrollable expenditures. We did not include, however, in that listing and in the total of noncontrollables, payments on prior contracts. I then went on to state separately that in addition to these, as a matter of information and fact there were increases of $1½ to $2 billion in payments on prior contracts.

Mr. CURTIS. You recall our previous dialog where you were saying that anything under contract was noncontrollable and I argued that every Government contract that I knew of had a cancellation clause or certainly had the ability to defer.

Of course, maybe there might be penalties and things with it. Do you recall that dialog?

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Have you changed your position since then?

Mr. SCHULTZE. Not basically.

Mr. CURTIS. That all these kinds of items are controllable or uncontrollable.

Mr. SCHULTZE. What I am saying, Mr. Curtis—I wanted to avoid the semantic argument—is I have not labeled them as noncontrollable but I do point out here and in the budget message when it comes up that in addition to the noncontrollables more narrowly defined there are increases in expenditures based on prior contracts of $1½ to $2 billion.

Mr. CURTIS. Let me apply it to public works. Senator Proxmire said that we have about $9 billion of public works going. I don't know where he got the figure, but what would you give me as a figure?

Mr. SCHULTZE. I am sure that is approximately correct, including the highways.

Mr. CURTIS. Oh, that would include highways?

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Well, let's exclude highways. Then what would it be?

Mr. SCHULTZE. A little over $4 billion in civil public works.

Mr. CURTIS. About $5 billion. Do you list this $5 billion as noncontrollables——

Mr. SCHULTZE. No, sir.

Mr. CURTIS (continuing). As controllable?

Mr. SCHULTZE. I don't want to get into the semantic argument. I would say that the largest part of what is on the margin, can be and is being controlled. Yes, sir; we are reducing it.

Mr. CURTIS. We are getting to a better understanding because there are very few items that I see in the budget that are uncontrollable. I would say some that are, for example, are veterans' pensions and things where the statute sets up the criteria.

Mr. SCHULTZE. And we are even proposing some statutory changes to reduce a few areas there.

Mr. CURTIS. I was going to suggest that those are controllable, too, if you use the legislative process.

Mr. SCHULTZE. On the margin, that is correct, sir.

Mr. CURTIS. But the administration was taking the position last fall that anything that Congress had said they were bound by as if the administration didn't participate in the legislative process and, as if the President didn't sign these bills, because he does sign these bills.

On this business of classifying things as uncontrollable let me illustrate another example. You have an increased interest rate on bonds that is uncontrollable. Yet what if we repealed the 4¼-percent ceiling on long-term bonds? I am satisfied that our interest bill would be reduced considerably.

Mr. SCHULTZE. I am not, but that is all right. I am not arguing for or against it.

Mr. CURTIS. Well, now, the Secretary of the Treasury certainly advocated that we repeal it, and he did so on the grounds of efficiency and ability of the Federal Government to better handle its debt.

Mr. SCHULTZE. Oh, that is true.

Mr. CURTIS. All right. Then in the process of better handling it that includes being able to cut down the interest bill. I am satisfied that there would be very few people who would disagree that we could not cut back our interest bill if we would come in with this kind of reform.

Mr. SCHULTZE. Mr. Curtis, I guess you found one who would argue that you could not, certainly not in the immediate year ahead. You might in the long run.

Mr. CURTIS. I think you would be able immediately to cut back. I don't know whether you could say substantially, but it should be possible to immediately be able to ease the amounts of interest that we are paying.

But I am only directing attention to what I call one of the cruxes of our discussion here of what are controllable items and what are not. I think there are very few items in this budget, which includes the carryover balances as well as the new authority to spend, that are not controllable.

Remember, I said I thought there would be as much as $20 to $30 billion in the budget where the power to spend was around $260 billion, which it was. You had suggested I think that we were only talking probably in the range of $10 to $15 billion if I remember.

Mr. SCHULTZE. Probably less; but all right.

Mr. CURTIS. Probably less. However, it would be different if you use the criteria that I am now suggesting, and as I listen to you I think you are agreeing that these items are controllable. The difference lies in the matter of policy. The administraiton as a matter of policy, and I respect the difference on policy, doesn't want to control them, but they are arguing that they can't control them which is the point

I am trying to get out. They can control them, but as a matter of policy this administration does not choose to control them.

Would you agree that that is really the difference?

Mr. SCHULTZE. No, sir.

Mr. CURTIS. You wouldn't?

Mr. SCHULTZE. No, sir; I would not. If you want to use your definition of controllability, I am sure that you could by changing any given law—for example, you could repeal social security or you could do a lot of other things. You could abrogate or cancel contracts, technically speaking.

Mr. Curtis, in that sense I would presume that there is no expenditure which is uncontrollable.

Mr. CURTIS. All right. Now let's deal with the specific. In World War II as a matter of policy the administration, the President, cut back on all public works.

Mr. SCHULTZE. We are cutting back on just about all public works this year.

Mr. CURTIS. I understand. All I am trying to point out is that was a policy. I am not necessarily advocating such a policy. I am trying to discuss what is the crux of the difference.

The administration as a matter of policy has said, serious as the dollar situation is, serious as the problems of inflation are, serious as high interest rates are, serious as the balance of international payments is, that the remedy does not lie in changing policy in regard to the spending level.

Mr. SCHULTZE. No, sir; that——

Mr. CURTIS. The administration could change it but it isn't that serious, it says. But apparently it is serious enough for the administration to come in and say, "We want to solve it by increasing the taxes."

Mr. SCHULTZE. No, sir. What the administration is saying is that it is presenting a budget which has rigorous expenditure controls in it.

Mr. CURTIS. That word "rigorous" is your word.

Mr. SCHULTZE. Yes, sir; I realize that. I am just responding to your words. The budget has rigorous expenditure control in it. It does not admittedly cut out a number of programs of the Federal Government. Obviously it does not. The administration is going forward with some programs. It believes this budget is a balanced approach to the problems facing us.

Looked at in terms of the rate of increase in expenditures, looked at in terms of the relationship of expenditures to our national economy, looked at in terms of the relationship to what I think are legitimately defined noncontrollable expenditures, it is a balanced policy.

Taking into account all of our national and international commitments we believe it is a good balance. In the view of the seriousness of the situation it is a good balance.

Mr. CURTIS. Yes, I know that you and you resist every effort of Congress, at least of this committee in interrogation, to look into these policy judgments so that we could zero in on expenditure policy in detail as well as in the aggregate. I was simply trying to clarify these differences so that hopefully we could go forward and discuss expenditure policy because if we could, then I think we would have the proper solution to our fiscal situation. But this administration as you have ex-

pressed it has said, "We have made the decision that this is a rigorous decision. We have made the decision.

Mr. SCHULTZE. Yes, sir.

Mr. CURTIS. Well, you are the only one that has made such a decision because I sure don't regard this as rigorous and I don't see how the arithmetic can relate to the rhetoric because you have increased the expenditures.

You haven't decreased them. You have increased them considerably over the previous year. You go back to fiscal 1960 and we were spending $77 billion in the administrative budget and here we are spending about $144 billion for this fiscal year.

Mr. SCHULTZE. Interestingly enough, Mr. Curtis, on that same basis the Federal Government is spending a significantly lower proportion of the national income than it was then. This is a larger Nation with larger population and larger workload.

Mr. CURTIS. Yes, and I have seen that entire argument drawn out before and I will say this in response: And so our people are producing more in agriculture, for example, with a less percentage of the population because through advancement of technology and productivity increases fewer people can provide the——

Mr. SCHULTZE. Agree.

Mr. CURTIS. Wait. Well, why doesn't it apply to Government?

Mr. SCHULTZE. It does.

Mr. CURTIS. It doesn't obviously because your argument was that because the country has gotten bigger, therefore Government has to get bigger with it. Agriculture hasn't.

Mr. SCHULTZE. It has, sir. Agriculture output has gotten larger.

Mr. CURTIS. We are talking about the people involved.

Mr. SCHULTZE. Oh, the reason of course, Mr. Curtis, for that in terms of people——

Mr. CURTIS. There is less percentage of GNP because services and other things have come into society's advance.

Mr. SCHULTZE. That is precisely the point of the Federal Government, Mr. Curtis. Let me put the argument in perspective.

In terms of output, agricultural output is a smaller proportion of the national income.

Mr. CURTIS. Exactly.

Mr. SCHULTZE. In terms of output the Federal Government's total expenditures are a smaller proportion of national income outside of Vietnam.

Mr. CURTIS. Well, now, now, now. I am not going to go any further. We have at least got this thing on the record I think, Mr. Schultze.

Mr. SCHULTZE. I would like to have a chance——

Mr. CURTIS. Surely. Surely. Finish your statement.

Mr. SCHULTZE. My point was to describe the distinction, however, in terms of people. As you yourself noted, as agricultural employment percentages have gone down, services as a proportion have gone up in terms of people employed. The Federal Government primarily, not solely, furnishes services. The room for productivity growth in services is not zero, but it is substantially less than is the case in manufacturing.

Mr. CURTIS. I disagree with that, but go ahead.

Mr. SCHULTZE. As a general proposition it has been a historical fact.

Mr. CURTIS. I don't agree with that, but go ahead.

Mr. SCHULTZE. Then there is no use in my going ahead, Mr. Curtis.

Mr. CURTIS. Oh, no; you are entitled to it.

Mr. SCHULTZE. I was simply pointing out that in both cases—agriculture and the Federal Government—outside of Vietnam, the expenditures have gone down relative to national output. In terms of people, the proportion has not gone down in the Federal Government primarily because the Federal Government is furnishing services where the productivity gain potential isn't as great as it is in some other areas.

Mr. CURTIS. This is the kind of dialog in which I wish we were discussing some specific beginning with the Post Office Department as an example of services, where the Government is not doing a very commendable job.

The productivity increases have simply been absorbed by increases in the payroll. This is the dialog that needs development, the expenditure level and expenditure policy. It has been lacking and I fault the Congress for a great deal of the failure to do it, but I am also faulting the Executive for avoiding the discussion as I view it.

The Executive simply says, "We say it is to the interest of the people and, Congress, and don't you examine into whether it is rigorous or not. Let's not get into these specific questions of services in the Post Office Department," or whatever the particular area may be.

Mr. SCHULTZE. I would be glad to discuss that with you.

Mr. CURTIS. Well, we can't do it here obviously. I am simply trying to lay the groundwork where I think we have to develop the dialog if we are going to solve this fiscal problem.

I identify it as trying to do too much too soon based on a very considerable economic growth. Hopefully it will come in the future. You want to put aside the Vietnam war. I wish we could, but you can't in considering these things. That is part of Government services.

Mr. SCHULTZE. No, sir.

Mr. CURTIS. Let me finish the statement. These are the kinds of things that the Federal Government must anticipate, not just the Vietnam blow up but similar occurrences elsewhere. The Federal Government must be prepared to meet these kinds of emergencies instead of being taken by surprise and then use it as an excuse for not coming forward with a better balance in their expenditures and their revenues in a specific year. Here is our fundamental difference or disagreement.

You want to get more money from the people, the private sector. I am suggesting that the Government has to cut back in its services in order to make way, I hope temporarily, for this fiscal crunch we have. I have said if we will cut back on expenditures substantially, and my definition would be not going forward, but holding to an expenditure level of, say, $130 billion in the administrative budget, then I can see where a $5 or $6 billion tax increase on a temporary basis might be very necessary. But we haven't reached that point.

Instead of cutting back to $130 billion as the Joint Economic Committee recommended to the administration last March, you have increased—the words are—to $142 billion. You can call that a rigorous budget and a rigorous expenditure policy, but the arithmetic says the opposite.

Mr. SCHULTZE. Mr. Curtis, I don't know how long to go on with this. I might make one point with respect to Vietnam.

It is precisely because other Government expenditures have declined as a percentage of GNP that with the $25 to $26 billion add on to our expenditures on account of Vietnam we find it necessary to come up and ask for only half of that income in taxes instead of the full amount.

Mr. CURTIS. That is very generous.

Mr. SCHULTZE. I think it is quite a record, Mr. Curtis.

Mr. CURTIS. I couldn't disagree more. The reason you are here is obvious. President Johnson has said the No. 1 problem facing this country is the dollar, and I couldn't agree more. The rhetoric used by the administration in calling to attention the serious situation this country is in is sound. But how can you make such a remark that you have a good record in face of this critical situation we are now in?

Mr. SCHULTZE. I can make it very easily because I think the facts bear it out, Mr. Curtis.

Mr. CURTIS. All right.

The CHAIRMAN. Mr. Herlong.

Mr. HERLONG. Thank you, Mr. Chairman. Yesterday in the Secretary's remarks he quoted Edmund Burke in which the quote said, as I understand, that he would rather displease his constituents than to harm them, a very statesmanlike position and I personally agree with that statement.

But I can agree with it very wholeheartedly because I am not running for reelection. I could also quote another Englishman, the Chancellor of the Exchequer, who just last week stated that "The surest recipe for disaster is the persistent refusal to face unwelcome facts."

And this is what I think our country, the Congress, and the administration, has done for a number of years. We have insisted on continuing to spend more money than we have taken in over the years.

Now, the cuts suggested by the Director of the Budget yesterday that were going to be made were cuts that, obviously, in an election year the Congress is not going to make. The President knows that. He has been accused of a lot of things, but he has never been accused of a lack of political acumen.

But the only thing they left out of this program was a cut in the school lunch program and a cut in congressional salaries and, without talking facetiously, they would fall, politically speaking, in about the same category.

Now, on the other hand, are the things that are added to this program, the full funding of the poverty program, which many people say in some areas, in some cases, is doing more harm than good, the demonstration cities program, the tremendous new housing program. I can say in that connection, where are they going to build all these new units of housing? Florida is probably one of the most rapidly growing States in the United States and we have more foreclosures down there and more overbuilding down there than most any other State in the Union and I suppose it is characteristic that they have overbuilt in a number of these areas. The FHA owns an awful lot of homes they have had to foreclose on and that are empty down there at this time.

We have to continue the beautification program. Tell me why that is absolutely necessary at a time like this?

There is a full-funded job training program of $2,100 million for 500,000 jobs. That is $4,200 a job it is costing us to do it. And suppose you train these people and they do get a job. In certain areas of the country the welfare payments have gone up to such an extent that it isn't economically feasible for a person to get off of welfare. He would have to start with making at least twice the minimum wage in order to justify getting off of welfare, and then if he got off of welfare he would be getting an income that would be taxable as against one that is not taxable at this time.

There is just no inducement for people to get off of welfare. I want to finish my statement and I will be glad for you to comment. The attitude of the Government seems to be encourage people to stay down in these lower brackets.

The very fact that we are exempting those in the first two brackets of income from the effect of this surtax is to me an indication that they want to keep them down below these levels. I do want you to tell me how much would be involved in money as far as cutting out these 17 million taxpayers who would not be affected by this surtax increase.

I understand there are 17 million who wouldn't be affected, but when they get to the third bracket they have to pick up the first and second brackets, too, as well, as I understand.

All of these things indicate the desire to reduce or destroy the incentive to people rather than build it up, and I just can't see why we can't go in here and really cut some of the things in this budget unless it is an indication or a recognition of the fact that the Supreme Court's one-man, one-vote edict has now put control of the country in the metropolitan areas.

The cuts by and large affect the rural areas and the increases in the budget are helping the metropolitan areas. The demonstration cities program is another thing that got through Congress by the skin of its teeth, and how long it is going to last I don't know, but if we carry it out to its ultimate conclusion it is not going to cost billions of dollars; it is going to cost trillions of dollars.

All of these things indicate to me that we have persistently refused to face the fact that you can't continue to spend more money than you take in year after year without paying the preacher.

I am willing to work for and do everything I can to get a tax increase passed, but I agree with what the chairman said at his press conference the other day that if we are going to increase expenditures at the same angle that we increase the income of the Government the space between the two lines is going to be just as wide at the end of this period when this tax is supposed to go off as it is at this time.

Therefore, I don't see how it can be called a temporary tax unless we really do something about stopping some of these new programs that we can do without and have done without through the years.

Now, excuse me for getting on my soap box, but I did want to tell you what my views were and I would hope that something could be done to do some more cutting. I would like to ask you first the question I did a moment ago.

How much is involved in eliminating the first two brackets?

Secretary Fowler. $92 million in 1968. A surcharge on individuals in this calendar year, of 7½ percent, without any exemption would

yield total revenue of $5.3 billion and the cost of the elimination from the surcharge of the 17 million taxpayers is $92 million.

I think that gives you the dimensions of the exemption.

Mr. HERLONG. That is about an average of just a little over $5 per taxpayer?

Secretary FOWLER. Right, sir.

Mr. HERLONG. The only point I want to make, Mr. Chairman, is that I feel sorry for you folks because it isn't your fault. It is the Congress fault and the President's fault for submitting to us these expenditures. They asked for them and we give them to them.

Sometimes we give them even more than they ask for, and we failed last time and then we asked the President to bail us out.

Now we are about to be in the process of failing again this time by spending more money and not holding the line on spending like we ought to do regardless of what they ask for downtown.

I feel sorry for you folks.

Mr. SCHULTZE. Mr. Herlong, let me make it quite clear for the record that I don't want to be split off from the President. I mean in that sense, please don't be sorry for me. I am happy and proud to support the President's budget. That is point No. 1. I understand your point of view and I respect it, but I don't want to be split off, in that sense.

Point No. 2, with respect to the new programs you are talking about or an expansion of existing programs, it seems to me that one of the major expansions in terms of expenditures this year is in the manpower training program. Part of that increase, and I think quite properly, simply funds the program that this committee, again I think quite properly, put in in terms of work incentive and work training programs for those on welfare.

Secondly, about 60 percent of the increase in poverty funds, far more than half of it, will go toward these manpower programs, so it isn't one on top of the other. The big increase in the poverty program will go toward manpower training.

The third point is that these programs on manpower training, far from trying to give people an incentive to stay below the poverty line, are precisely trying to bring them to a position where they are productive themselves, and I think is the essence of what went into this committee's social security bill.

Finally, what we are doing on that one is we are putting great emphasis not on Government-run training programs, but on trying to get these people into industry, in on-the-job training programs, get them on the job.

It costs us money to do that. It is expensive, I will admit, but we think that this is perhaps the most important thing facing us domestically in view of the kind of deliberations this committee went through last year.

That particular program, it seems to me, is quite consistent with everything that this committee has tried to do and with what we are trying to do. I might say with respect to the reductions in funds I happened to list a number, for example, of agricultural programs. There are substantial reductions in the HEW program relating to education, to health, significant reductions in some of the construction programs, so I don't think by any means this is concentrated in the areas you were talking about.

I will admit that a lot of them are politically difficult, but aside from foreign aid and perhaps poverty I haven't seen many programs that you want to cut that aren't politically difficult to cut.

Mr. HERLONG. I do want to say that as far as the public works program the only new start in my district was cut 20 percent and I applaud you for doing it. Maybe the people down home won't like it but I think it is in the interest of trying to bring about some economy that we do this, and I hope you do it to that extent on every one of them throughout the country, but you won't.

On some of them it may not be economically feasible to do it, but I don't think anybody seriously thinks that the Congress is going to vote to make these cuts, the majority of the Congress. I am talking about cuts in the public works programs and some of these other programs.

Mr. SCHULTZE. I don't know exactly what to do about this problem, to be honest. We have held down on-going construction projects to the minimum level that could economically and feasibly be done.

This level obviously varies from project to project. We will propose only a small number of new starts, as we did last year. However, these do get added to.

I admit I am at a loss here myself to suggest a solution.

Mr. HERLONG. I just didn't want any misunderstanding in the air about my position on it and I don't know whether I made myself clear but I just hope that the Congress will measure up to its total responsibility this time. This is all, Mr. Chairman.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Thank you, Mr. Chairman. Mr. Ackley, to make certain that I understood your response to Congressman Broyhill's question yesterday, and I am going to repeat the question: If this bill is passed, what do you anticipate would be the inflation factor in the first year with the surtax bill in?

Mr. ACKLEY. Mr. Collier, I think I said yesterday, and I believe it is correct, that the best judgment we can make of the increase in the overall price level in 1968 above the overall price level in 1967 is something over 3 percent.

Mr. COLLIER. What would it be if you do not have a tax increase?

Mr. ACKLEY. Higher than that, and in my testimony I tried to explain some of the reasons why it is particularly difficult to estimate the rate of inflation in a situation where the economy is pressing against its resources.

Mr. COLLIER. Well, aren't those factors still present even though you have a tax increase?

Mr. ACKLEY. I am sorry. What factors?

Mr. COLLIER. The same pressures that are at work presently. I am talking about the whole gamut of rising labor costs, Government borrowing, the problem of productivity not keeping pace with rising wages. Those are all still present with or without the tax bill, so how does it become a factor that makes any undeterminable figure available for inflation if you don't have a tax bill; yet you can anticipate it with the tax bill even though these factors are still at work?

Mr. ACKLEY. I will try to clarify my thinking on that, Mr. Collier. There are obviously a great many cost pressures built into the economy as the result of what has been happening to prices and wages and, as

you suggest, we are having and we will continue to have in the period immediately ahead wage increases that well exceed the gains in productivity.

Now, that is a continuation of a pattern of the excessive wage increases that got started in the latter half of 1965 and during 1966.

Up to that time wage increases generally had been keeping pace with productivity and unit labor costs were very stable. In manufacturing they actually had been declining slightly. You had a slight down trend.

What happened in late 1965 and 1966 to get this new pattern of wage increases started was that an increase in the total demand for goods, and therefore for labor, pushed hard on labor markets. It created too much demand for labor relative to the supply. It increased the bargaining power of unions relative to that of employers and we got this higher pattern of wage increases established.

It came about, in other words, through too much demand.

Now, once you get that established it tends to roll on. What we want to avoid it seems to me, is another bulge of too much demand which will push the unemployment rate down too fast, will again strengthen the bargaining position of labor relative to management, will again get a further acceleration of this wage-price spiral, and that is the difference that we are talking about.

If we can avoid that bulge of too much demand in the year ahead then we have some prospect of gradually working this pattern of excessive wage increases back down to a reasonable level which would be consistent with price stability.

Mr. COLLIER. The anticipated 3-percent-plus factor that you mentioned would certainly anticipate the bulge coming.

Secretary FOWLER. Mr. Collier, could I add one word to this?

Mr. COLLIER. Surely.

Secretary FOWLER. I think it is very important to emphasize the direction in which you are going as distinct from the pure question of magnitude. It is very simple to say, "Well, regardless of what we do about the tax increase we are going to have a price increase in the calendar year 1968." That is not the end of the argument. That is the beginning.

The question is in what direction are prices and wages going to be moving at the end of 1968 as you go into 1969, and if you have reversed the direction in which they are moving, spiraling up, so that they have turned around and, while they haven't come back to anything like a normal and acceptable pattern, they are moving in the right direction, you have accomplished a very, very great deal.

Mr. COLLIER. I understand this and you have laid the ground work for the next question I was going to ask. That is this: That in order to reduce that factor and the direction, which amounts to about a point and a half, what would the surtax have to be. Why is 10 percent a magic number?

If this is indeed the economic aim of this bill then what surtax increase would be necessary to get the figure at about 1 to 1½ percent, which would be a lot healthier rate of inflation than 3 percent plus.

Mr. ACKLEY. I don't think any rate of inflation is healthy and I think our objective ought to be, and is, to create an economic environment in which we can look forward essentially to stable prices. But

to try to answer your question, obviously you can stop a wage-price spiral by drastic enough restraints on the economy.

Back in the late 1950's we had a wage-price spiral going and it took really two recessions to stop it completely. You can stop it, and almost in its tracks, by sufficient deflation of demand. This will create enough unemployment and enough slack in markets so that producers are hungry for sales and bid against each other by cutting prices. But you will have lots of unemployment.

The kind of economic program we are trying to present is one which will avoid any increasing pressure on demand, which will maintain unemployment rates at approximately their present levels, and this implies a slowing down of the spiral and a movement back to stability without having to go through the agony of a recession.

Mr. COLLIER. Are you suggesting if we had a larger surtax increase that we would go into recession?

Mr. ACKLEY. Certainly we could find a tax increase that would be big enough to do that.

Mr. COLLIER. In other words, why is 10 percent a magic figure? Apparently it is regarded as a magic number by those who set this down. I don't think this figure is magic.

I am not suggesting it isn't a figure, but why is it?

Mr. ACKLEY. I don't think there is any magic to it. Some economists who have studied the outlook think that 8 percent is enough. Some of them think we need more than 10 percent. Our judgment based on the outlook as best we can assess it is that a 10-percent surcharge is about consistent with the maintenance of an expansion of the economy, in line with an expansion of our labor force, that won't put any new pressure on our resources but will maintain healthy growth and utilization of the labor power that we have.

Mr. COLLIER. That leads to my next question again and that is this: In 1966 we had the tight money situation which dried up the mortgage market. The Federal Government in addition to borrowing for its debt management went to the money market for about $8 billion, that is, $8 billion in terms of the amount of money borrowing required to meet the deficit which was then about a $8 billion deficit, $8 billion plus.

At the end of this fiscal year the deficit is going to be by the most optimistic estimates $18.5 billion. The anticipated inflation factor of 3 percent plus would be about the same as it was in 1966.

How then are we going to avoid with a 10-percent surtax a tight money situation such as developed in 1966 if all of these factors are as I have stated them?

Mr. ACKLEY. I don't know whether I am the proper one to answer that but let me kick it off. In the first place, as Chairman Martin indicated yesterday, it is not only what the situation currently is in the money market that affects interest rates, but the prospects, and the prospects under this program are for a substantial reduction in the deficit as we move into fiscal 1969.

That I think is very important in determining what pattern of interest rates will emerge. These folks in the money market have to look ahead and think what future rates will be and that affects what interest rates will be today.

There were of course in 1966 a number of unusual factors in the money market, including the policy which the Federal Reserve had to

follow and did follow of trying to slow down the growth of credit in order to keep the inflation from getting any worse than in fact it was.

With the proper degree of fiscal restraint and with a pattern of healthy growth and not frantic or exuberant growth the Federal Reserve could presumably—one hopes—avoid the necessity for the kind of crunch that was created by its policy and by the markets' reaction to its policy in 1966.

But I think perhaps Chairman Martin ought to answer that.

Mr. MARTIN. I would just add, Mr. Collier, that we should keep in mind the size of this deficit. As Secretary Fowler has mentioned earlier here, it is important that we reverse the trend that we have. We are facing a budget deficit for 1968 of $19.8 billion, and it is very important to us that we get this deficit into more manageable proportions than it is at present.

I don't believe we are going to have a recurrence of the tight money of 1966, but we are still wrestling with this problem of inflation. In the third and fourth quarters of this year price rises have accounted for nearly half of the increase in GNP.

I think it is essential that we reverse this and I come again to the deficit.

Mr. COLLIER. I think it is essential too and I think we all realize this, but in the event that this surtax bill should become law and in the future event that there was not a reversal of this trend, and indeed it is possible that this surtax is not the answer—there are just too many other factors at work too many other things at work, and it could not be the answer—assuming it was not. I think we have to look this far ahead. Hence what would then be the next step to be taken if the surtax became law and the inflationary rate grows beyond what the economists predict it will since we don't know what it is going to be.

No one knows what the situation is going to be without the surtax. Then certainly we have to conclude that the 3-percent-plus estimate, if the tax bill is passed, could be inaccurate, and I believe it could.

Now, what would be the next step if it doesn't get to the hard problem of inflation and you now have a tax bill in effect which has other impacts on the economy? Then it seems to me there should be some thought given to an alternative.

What would that alternative be?

Secretary FOWLER. Mr. Collier, let me make an initial comment on that and then ask Chairman Martin to pick up from there.

I think you don't view this tax proposal in the vacuum, as being the only thing that is being addressed to this problem. What we are trying to find here is the appropriate mix of tax policy, of monetary policy, in the Federal Reserve System, and of expenditure policy in terms of the size and magnitude of expenditures and the projection of the rate of increase of expenditures. So we are trying to find a combination of those three important elements that will reverse these trends which we have developed in the discussion in the last 2 days, the trend that has been characteristic since fiscal 1966 of an ever-increasing budget deficit. This in large measure—there can be differences of view of how large—but in large measure, this is a result of a fact that we are carrying on a war which has increased in its financial dimensions to the point that it is now about a $25 billion a year operation. To reverse this trend which Chairman Ackley has been describing

in the price area, this spiral which you want to move back in the other direction is the problem. I don't think that we take the view that the passage of this tax act is the only thing that is to be done to deal with this problem.

What we are really saying is that we think these other methods—the expenditure control to the degree that we have been able to do it in the last 3 or 4 months of last year, following the hearings before this committee and the President's message—the application of monetary policy on the part of the Federal Reserve Board—won't be successful in meeting this price problem without the tax increase. We need to put the three elements together, expenditure control, appropriate monetary policy, and this tax increase.

We think that the mix of fiscal and monetary measures is much more appropriate to the situation than just to try and do it, you might say, alone with the degree of expenditure control that we have been able to bring to bear in the last 6 months and with the monetary policy.

Now, this is still not the end of the story and I think in the President's message, certainly in the discussions of the balance-of-payments problem, we couple with this management, you might say, of our own internal economy other measures such as a more effective voluntary program of wage-price restraint than has characterized the last year.

These are all components of a rounded program which is addressed both to the problems of the domestic economy as we see them and the interrelated problems of the international financial picture.

Mr. MARTIN. I can't add anything to that, Mr. Collier, other than to say that monetary policy should be appropriate to whatever conditions develop. It is our conviction, our hope, that a program of this sort that puts emphasis in the first place on an anti-inflationary move toward getting the budget into more manageable proportions and also stresses the need for doing something on the wage-cost-price front, where obviously we have had a gulf between productivity and wage settlements, along with appropriate monetary policy, is the soundest way that we can meet the current situation.

We would hope we would not have to have a resumption of the tight money policies of 1966.

Mr. COLLIER. Just one final question. In the November 29 and 30 hearings, both Director Schultze and Secretary Fowler said the President was prepared to establish a task force to look at all priorities on spending.

Has this task force ever been appointed?

Mr. SCHULTZE. Not yet, sir. We are prepared to do it. To be quite frank, we have been so busy trying to come up with the 1969 budget and with some significant, we believe, longrun program reforms in that budget that we haven't gotten to that other point. But, as I indicated then, we are prepared to do it.

We have been, as I say, pretty well preoccupied with actually trying to take specific actions now, but I would agree that longer run actions are also needed.

Mr. COLLIER. I would hope, recognizing the schedule which you have, that the establishment of this task force would not be too long in coming because if ever we needed it seems to me that it is right now. I think that one of the real problems that all of us face is that when

you attempt to cut a program that is a well-meaning program, the public consensus is "Well, you are against the whole program."

These programs, as you gentlemen know, embrace so many different programs within them that somebody should do a review within all the agencies of Government to determine not what broad programs get priority, but really the programs within those programs that can be eliminated.

In the poverty area, for example, there have been programs that have not been successful and yet at the time that the authorization appropriation bill was up everyone sought to speak in terms of cutting the Headstart program, which is an excellent program and which I am sure no one in the Congress had any intention of cutting back. I don't think we are ever going to get to the heart of dealing with appropriations in terms of priority unless it is done within the programs and not in terms of taking a broad program and say, "Well, we are going to cut back in this particular field," whether it is poverty or whether it is education.

I think the real job that lies ahead for this task force that the President appoints is to go into the programs within the broad programs and determine which are desirable but not absolutely necessary. This does not mean, in my opinion, cutting back all funds for those programs which are necessary and which are desirable but taking the more successful and sound ones and giving them priority.

Mr. SCHULTZE. Mr. Collier, I fully agree and from what little experience I have had, this is precisely the only way one can get at the problem of looking not at the broad brush picture, you know, education, or health, or poverty, but looking at very specific individual programs, and on that point I fully agree with you, sir.

Mr. COLLIER. I might cite one example, Of all of the fine research programs for which moneys that have been made available in many fields, we still have expended billions of dollars in recent years for research projects which are nothing but dust catchers.

In fact, I can even cite one somewhat expensive project that the study isn't even available to a Member of Congress. It is not in the Library of Congress and it is not even in the library of the university where the project was completed.

I think these are some of the areas where this Commission, when it is appointed, or this task force, should direct its attention.

That is all I have, Mr. Chairman.

The CHAIRMAN. Mr. Gilbert.

Mr. GILBERT. I have one question. It is all encompassing to some extent. Perhaps it has been answered a dozen times here in a dozen different ways.

I represent probably an area that is as diversified as any in the entire country. I find a great deal of difficulty, as I explained to the gentlemen sitting down there, trying to get across to my people the necessity for this surtax, and I would like to know what would happen to our economy in the event we don't have a surtax.

Secretary FOWLER. Well, I think it would require a gift of prophecy that is beyond the computer and the human mind to give you an accurate answer to that. All I can say to you is that it is certainly the unanimous judgment of those of us who are here on this side of the table, and I believe that it is the overwhelminig judgment of most of the knowl-

edgeable participants in and observers of the national economy in the private sector, that the failure to enact this tax will expose the economy in the year and years ahead to risks that, from our point of view and theirs, are unacceptable and, therefore, should not be taken.

This was the conclusion that the President came to last July before sending this mesage up, and certainly he has no desire to offend the broad national constituency to which he is to be responsive presumably in another year.

I think the men who are in charge of business corporations who have responsibilities to their stockhodlers are naturally reluctant to recommend an increase in taxes that means less net profits after taxes to the company, to the stockholders.

I think those that are leaders of labor who have appeared before this committee have somewhat the same sense of concern about their constituency—they don't like to recommend a tax increase unless they feel it is for the good of the membership and for the country.

I think those who study and write and are commentators in this area have a readership constituency. They don't like to be wrong and press burdens upon their constituency or to give bad judgments, and yet from all of those sectors there has come over the past 6 to 7 months a solid conviction that the enactment of this bill is an important and indispensable element in a sound economic and financial policy for the year and years ahead.

It may not get through to the average individual but for whatever the sum total of conventional wisdom and judgment is on these matters I think I fairly presented it to you.

Mr. GILBERT. Thank you, Mr. Secretary.

In New York, for example, the State I represent, or part of the State, the legislature is in session and they contemplate raising taxes also. This, coupled with the fact you have many of your cities and municipalities and local governments that also contemplate raising taxes, is where you get a tremendous amount of resistance because you have one tax levied and another tax levied by different branches of government.

I don't know the answer to it of course, but how do you explain this to your people? Let's say we are now going to be belted, say by the New York State Legislature. Our county is going to raise their taxes. This is the difficulty I think we face, getting this message across. Which has the priority?

Assuming that the average citizen says, "Yes, I am willing to pay my taxes, but I am not willing to pay an increase in my State and I am not willing to pay an increase in my local taxes," and now the Federal Government is asking for an increase. This I think is your major interest, Mr. Secretary.

Mr. MARTIN. I think you have a real difficulty here, Mr. Gilbert, but I think it is true that financial markets both here and abroad now look upon an increase in taxes in the United States as a symbol of whether we are going to really control inflation, and I think that is going to have a long-range impact on the country that is something that we can't just toss off.

I think it is a very important factor and I know that the individual looks at his State and local taxes, but in New York there are a lot of people who are looking at this overall inflation problem also, and

while it is difficult to get this across to people in this country at the moment, it is true that this symbolic aspect of the surtax proposal has assumed real magnitude abroad.

I can assure you that most of the markets abroad today and a great many of the thoughtful people abroad are looking at the United States to see whether we have the will and determination to deal with the inflation that they all recognize is here today.

Mr. ACKLEY. May I make a comment, Mr. Gilbert?

Mr. GILBERT. Yes.

Mr. ACKLEY. It seems to me that if we were to come up to this committee and say if we don't get this tax increase the economy is going to explode in a ruinous inflation, you would have to devalue the dollar tomorrow, and the country would fall apart, we might be more persuasive, but I don't think we would be doing an honest job.

After all, this is a very strong, powerful economy. It can survive a lot of maltreatment and it will probably survive somehow whether we get the tax increase or not.

It seems to me the point is that if we don't get the tax increase there will be some damage done that doesn't have to be done. We will take risks of more serious things, which may not materialize; but they are risks that we ought not to take.

We are not a banana republic. This is the greatest country in the world. We have responsibilities to our people, we have responsibilities to the rest of the world, to manage our affairs sensibly, carefully, responsibility. The proposals that are being made here are proposals which seem to us a necessary part of the kind of responsible management that a great economy ought to have.

The economy is not going to explode if we don't get this tax increase. Some things will happen that ought not to happen, and that we will regret a year later. There are also dangers of even more serious problems.

I don't want to say that these are imminent, but they are serious and we ought not to take the risk. That is the basis of the case as I see it.

Mr. GILBERT. Thank you very much.

Mr. ACKLEY. I think that is a harder case to sell your constituents than to say if you don't pass this tax increase the country is going to hell. It isn't.

Mr. GILBERT. That is the very point I make. It becomes a very difficult case to sell.

Thank you very much.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. Mr. Chairman, I would like to explore a little further with Mr. Martin the last comment he made concerning this symbol that the rest of the world is looking upon our Government now to see what we will or will not do or might not do.

But I am left with the impression that all of a sudden we just got into this problem. Hasn't it been long in coming and haven't the signs been on the road for a long time?

Were you not able to anticipate a number of years ago that sooner or later we would reach this point in time?

Mr. MARTIN. I think we have had quite a bit of warning that it has been coming and I think that our friends abroad have been watching developments here closely. At times when things are going

well they don't pay so much attention to us. When things are not going so well they pay more attention to us, but inflation is not solely a U.S. problem. This is a worldwide problem. Where it impinges on us more than on anyone else is that we are the vehicle currency, the major reserve currency, of the world, and gold and dollars today represent the liquidity of the world.

Therefore, this has come to a head with the devaluation of the pound and placed us in a perspective that we hadn't been in before, but as you rightly say this has been cominig on for some time.

I have been disturbed about the way we have been going for the last year and a half.

Mr. BATTIN. I know that you have known about this problem from the speeches that you have addressed to one group or another. Maybe I could be enlightened and I have made this point before but so far have not yet been satisfied with your answers. Maybe I am just not comprehending.

In 1963 and 1964 when we were discussing a tax decrease we were told then, and I think the facts will bear out, Mr. Secretary, that by decreasing taxation or the rate of taxation that this resulted in an increase in revenues because of increased business activity and plant improvement, more purchasing power in the hands of the consumer, and as a result of it you would have a net gain in revenues.

Therefore to use the syllogism of course, any increase in taxation would have a net loss. I am sure that is not necessarily true, but are we really still not in a position of using tax policy as a basic control of economic activity in the United States?

Is this still the real basic problem?

Secretary FOWLER. Are we not did you say?

Mr. BATTIN. Yes.

Secretary FOWLER. I think that tax policy like most of the other important elements that affect economic policy has its place and has its role. It is not the one lever that you use to mangae the demands in any sense of the word.

As I tried to say earlier in a commentary on a previous question, tax policy is, however, a very important part of the mix of economic policy and at various times has its place and its function to perform.

It particularly has a function to perform in terms of flexibility in a time when there are unusual changes and adjustments taking place in demand, and at a time when the use of flexible fiscal policy and the use of flexible monetary and fiscal policy, are much more desirable alternatives to rely upon than a rigid Government control.

Mr. BATTIN. Well, historically, as I understand it, taxes have been a means of raising revenue with which to support Government activity, not necessarily as a move of the economy in one direction or another. We saw what happened with the suspension and the later reinstatement of the 7 percent investment tax credit as far as its reaction on the economy was concerned. I would like to know whether you feel that an increase in tax rate, even now by this use of the surtax, doesn't have a negative effect.

Somebody is going to not be making as much money, therefore not paying as much tax.

Secretary FOWLER. Sure, it is going to be a restraint on demand and if the tax is not applied it is our judgment on this side of the table

that demand would be excessive and would produce strains that are undesirable. So it is going to have a restraining effect, just as holding down and reducing expenditures will have a restraining effect and it is the prescription if you will, and has been the prescription for 6 or 8 months that having come through the inventory adjustment of the first 6 months of calendar year last year, 1967, it is now timely to apply a degree of fiscal restraint that is represented in this program.

Otherwise the economy runs the danger of achieving an excessive rate of speed—this is not something prospective now we are talking about. We are talking about here at the end of two quarters—in which the rate of growth in GNP has been about half real and about half inflation.

Years ago, to take the other case, after the tax decreases in 1964 and 1965, you had a very substantial rate of increase in your gross national product, but a much larger proportion of it was real and a much smaller proportion of it was in money terms than we have today.

Mr. BATTIN. Then I suppose it will take some explanation from you but I would like as close to a yes or no answer as I can get.

What we are really talking about instead of raising revenues for the purpose of helping to finance the deficit, the basic recommendation that is being made goes more to a cooling off of what could be an overheated economy in the third and fourth quarter of this fiscal year?

Secretary FOWLER. I don't accept, Mr. Battin, the proposition that any one of these reasons that have been advanced here is either separate from or distinct from or the sole reason. They are all an interrelated whole and it has been traditional in past wars to raise a substantial amount of the increased revenues that are necessary in order to fight the war through increased taxes.

This has been characteristic so far as I can tell of tax policy in this country and every other country that one can trace through history and therefore the request that has been made is a traditional one in every sense of the word.

It goes to the very simple and fundamental proposition that to run a deficit 2 years running in the neighborhood of $20 billion, using the old administrative budget formula. At a time when the economy is coming out of this period of adjustment last year and is facing in to a very expansive and indeed exuberant mood this is a very undesirable choice of fiscal policy. So whether you talk in terms of reducing the deficit substantially, whether you talk in terms of the restraint on demand, whether you talk in terms of the balance of payments, whether you talk in terms of going to the money markets to pay for the deficit and thereby creating undue pressures on interest rates and credit, it is all part of the single piece and we don't have here the proposition so far as I can tell of one desire or objective of policy suggesting you go right and another objective of policy suggesting you go left and a conflict between the two.

It seems to me that this program is addressed to all of the key economic objectives that we know anything about.

Now, it may be politically difficult, as Mr. Gilbert has indicated but that so far as I can tell is the only reason for not moving forward and making it a part of the law.

Mr. BATTIN. I think that is the point you made before this committee on prior occasions. However I would have to add one other

application to the formula you are talking about during a wartime situation and that is control of wages and prices.

You had that. You had it in the Korean war. You had it in World War II.

Secretary FOWLER. And we have sought and continued to seek a tax increase because we believe that the right way to do it is to use flexible fiscal and monetary policy and to avoid placing on the domestic economy the paraphernalia of controls that have been characteristic of previous engagements.

Mr. BATTIN. I admire you for that stand. The question is though whether in trying to get this mix into proportion to get the job done that you are anticipating, whether or not pressures won't continue to be great on not only our own domestic scene but internationally to try to get the job done.

A few other things here. There was no mention of it in the state of the Union message. I was just curious thinking of the work ahead for this year. Is it contemplated that at some later time this year we are going to be talking about a tax reform bill?

Secretary FOWLER. Well, I am sure that we will have occasion, but I would like since this question has been raised to focus a little bit on the mechanics of the problem to the extent that it is related to this question we have in front of us.

If the committee undertook to consider significant reforms as a means of raising revenue, of meeting the problem we are facing here today, it is just not plausible that they would be enacted and become effective to be applied to the 1967 incomes; that is, the year that is already closed. Thus there would be no revenue gain in the fiscal year 1968.

In fact, if past experience is any indicator, the committee would want to have public hearings and there would be a rather lengthly drawn out process of consideration not only of the views of the administration, but of many private citizens and groups affected, and similarly in the other body, and I should doubt very much that any legislation could be passed before mid to late summer if previous experience is any indicator. In that process Congress would have very great concern about making the changes applicable in the year 1968.

If they don't come into effect until calendar 1969 there wouldn't be any significant revenue impact until the next fiscal year, 1970. I think when you dig into these matters you will find, as previous committees have, that taxpayers will have made long-term financial commitments based on existing tax law and the process of reform is frequently accompanied by transitional provisions which look to a phasing of the full impact. Therefore, I don't believe the instant reform is any way of meeting the short-term fiscal problem to which we are addressing ourselves today.

Mr. CONABLE. Would the gentleman yield on that point for just a minute?

Mr. BATTIN. Yes.

Mr. CONABLE. There is an element of political strategy involved in this, Mr. Secretary. I think you are well aware that a great many of the liberals in the House have taken the position that they are not going to pile a greater burden on what they consider to be an inequitable tax structure already and it seems to me that we are going to

have to at least have some assurance on tax reform or at least that there will be pressure for tax reform from the executive branch in the forseeable future before we can persuade many of these gentlemen to change their minds on a possible tax increase.

Whether they are using reform as a subterfuge or not, it is something that has been talked about a great deal in connection with this surtax.

Secretary FOWLER. I am very cognizant of that, Congressman Conable, and I think it is a good observation and I shall certainly want to do everything that we can do to meet that point of view by providing proposals and recommendations for tax reform this year.

I want to leave it, however, to the judgment of the committee as to the appropriate calendar and I have just indicated to you that I don't believe that mixing the two things in a single bill is really feasible except at the expense of delaying the action on these proposals beyond a point that would be desirable.

Mr. CONABLE. I thank you.

Mr. BATTIN. Just one last question. Again it goes back to this question of tax policy and economic policy. I don't want to misquote you, Mr. Secretary, but what you are really saying as I have interpreted it is we are talking about the need for it as being not only a mix to perhaps increase revenues to pay for the additional cost of sustaining at the present time, but it is also part of a program to literally slow down or cool off what appears to be at this point an economy that will overheat in the next calendar year.

Is that a fair statement?

Secretary FOWLER. I think that is thoroughly acceptable.

The CHAIRMAN. Mr. Watts.

Mr. WATTS. I just want to make one comment. I listened to Secretary Fowler's statement about reform and I would assume that you would have two rather difficult tasks to perform and that it is not a very smart idea to mix them together.

Secretary FOWLER. That is correct, sir.

Mr. WATTS. Thank you.

The CHAIRMAN. Mrs. Griffiths.

Mrs. GRIFFITHS. Thank you, Mr. Chairman. I must say, Mr. Secretary, I am not really very impressed by the arguments as to the business men and labor of this country. In my judgment, the large businesses of the country and the large labor unions of the country have already insulated themselves against anything we are going to do on a tax increase.

But if there is anybody's advice I am really not interested in at all it is the advice of European bankers. If I had done as badly as European bankers have done over the last 100 years I wouldn't even think about advising anybody else.

In my opinion the advice that ought to be carried back to Europe is for them to make themselves into a nation with one government, one money, one trade union, bring England into the common market, and go about the business of becoming a rich and powerful nation.

In my opinion the United States is the model on which they should model themselves and what they are really asking us to do, it seems to me is to become poor, to do again for the next 100 years the things they have done for the last 100 and I really don't approve of it.

Thank you.

The CHAIRMAN. Mr. Vanik.

Mr. VANIK. Mr. Chairman, I would like to ask the Secretary what borrowing will Treasury have to contemplate during the first 6 months of 1968. Just the aggregate amount.

Secretary FOWLER. I can't give you a completely precise answer to that. In the 6-month period we are in now we would normally be repaying to the money market $5 billion or thereabouts; in the first 6 months of last year, however, private holdings of all kinds of Federal obligations were reduced by $11 billion, a rather unusual amount. This year the repayment will be less under the best of circumstances and without favorable action on the tax proposals we will have what in effect is a contraseasonal overall Federal credit demand in excess of $3 billion in sharp contrast to the net repayments of other years.

Mr. VANIK. In other words, we are going into the market for 3 billion new dollars.

Secretary FOWLER. At least.

Mr. VANIK. If that is the situation what portion of this can be acquired by the trust funds? I had this question raised last December.

Secretary FOWLER. These figures I am giving you are outside the trust funds. We have taken that into account in the figures I have given you.

Mr. VANIK. You don't tell me what amount will be acquired by the trust funds. In other words, if the trust funds are buying a certain part of the debt, then it is something in excess of $3 billion.

Secretary FOWLER. That is right. If you want it that way I would have to get some additional figures, but I can give it to you on the net demand on the money markets and the trust funds which will be a somewhat different figure.

Mr. VANIK. In other words, you plan to borrow $3 billion plus additional sums that you are borrowing from the trust funds, but you can't tell us about it now.

Secretary FOWLER. That is right.

Mr. VANIK. I raised this question last autumn and the answer was going to be provided in the record and I didn't find it.

Secretary FOWLER. I apologize.

Mr. VANIK. I raised the issue now because this doesn't tell us exactly what you plan on borrowing during the next 6 months. It is going to be $3 billion plus an unidentified amount. Is it going to be $3 or $4 billion from the trust funds?

Secretary FOWLER. We were a little bit handicapped in giving an answer last fall because the social security law was still in the picture but I think we can give you a more precise calculation now of the outlook for the next 6 months with the surcharge and without it.

Mr. VANIK. And you will be able to provide at an early time the precise amount that the trust fund will be borrowing, will be buying, before we conclude these hearings?

Secretary FOWLER. Yes, sir.

Mr. VANIK. I thank you. Mr. Chairman, I just had one other comment that I would like to make with respect to the prospects for the reform legislation.

I have always been interested in tax reform legislation. My only question is, Does the administration's proposal, or will the administra-

tion's proposal, contemplate insofar as you can tell us, Mr. Secretary, any development of additional resources for Treasury, or will they be merely offset reforms?

Secretary FOWLER. The scheme that we have developed in the Treasury is an offsetting scheme, taking revenues from some sectors and areas and providing some balancing brakes to other sectors.

Mr. VANIK. So that you can't give us really any encouragement that the administration's tax reform proposal, whenever it comes, will provide any additional sources of revenue.

Secretary FOWLER. Substitute for this.

Mr. VANIK. No new sources of revenue that we can rely upon.

Secretary FOWLER. It will provide for some new sources of revenue, but at the same time it will include some suggestions that there be some changes made that would take those sources of revenue.

Mr. VANIK. I think that is regrettable because I do think we can pick up some revenue with a good tax reform proposal and I would certainly hope that the administration might give that another look and see if they can't come up with some hope or prospect of increasing Government receipts with tax reform.

Secretary FOWLER. There are, on the other hand, some we think real inequities in the present tax law.

Mr. VANIK. There certainly are.

Secretary FOWLER. Particularly among the poor-income groups, to which the committee and the Congress would want to give some consideration.

Mr. VANIK. I thank the gentleman, Mr. Chairman.

The CHAIRMAN. Are there any other questions?

Mr. Secretary, first of all, let me ask you if you will, for purposes of the record, very briefly summarize the problems to which all of you have addressed yourselves that lead you to believe that a tax increase is necessary.

First of all is the unmanageable deficit.

Secretary FOWLER. That is No. 1.

The CHAIRMAN. That we have in fiscal year 1968 and 1969, as projected?

Secretary FOWLER. Yes, sir.

The CHAIRMAN. The threat of demand-pull type of inflation that you see over the horizon?

Secretary FOWLER. Pressure on the money markets.

The CHAIRMAN. Yes.

Secretary FOWLER. Borrowing rather than taxing.

The CHAIRMAN. Which has an effect upon interest rates, I assume.

Secretary FOWLER. Credit availability.

The CHAIRMAN. The degree of stability in prices that you hope will result that would make its impact upon the problems of balance of payments?

Secretary FOWLER. That's the long-term aspect as far as the balance of payments is concerned. The shorter term is to avoid a sharp increase in demand which would, in view of the propensity of our economy to import in such periods, greatly increase our rate of increase in imports as compared to our rate of increase in exports and thereby immediately diminish the trade surplus.

The CHAIRMAN. Let me congratulate all of you first, if I may, on the manner of your presentation of these arguments that you have made. Very frankly, I think you presented more of a case of existing dangers without a tax bill on this occasion than you have on some past occasions.

The situation to me, though, is somewhat in the form of the trial of a case in a court. Always I think of these types of requests as the Federal Government versus the taxpayer.

In behalf of the taxpayer let me look to some of your arguments, if I may. First, let us look at the economic indicators, Mr. Ackley, that you referred to in your statement, because I want to examine them a little more closely than I think they have been examined up to this point.

I am thinking in terms of a situation since our hearings on the 29th and 30th of November, and I apologize again to the committee and the public for not thinking of asking you at that time to be before us because, you will recall, we had the Secretary of the Treasury, the Director of the Bureau of the Budget, and the Chairman of the Federal Reserve Board.

We had had you here in August and we should have had you then.

Last November when we discussed the state of the economy the three of you who were here I think concurred in most part that what we had was a cost-push type of price rise or inflation rather than a demand-pull type of inflation.

I think it was generally agreed on that occasion that the economy could not be described as booming. Chairman Martin thought he saw, with the advent of the new year 1968, the coming of a demand-pull type of inflation and, I assume, more of a "boomy" situation than we thought existed in November of last year.

In view of this situation, I have spent some little time myself in looking at some of these indicators to see what change I could detect giving rise to proof of the viewpoints expressed in November with respect to what might lie ahead of us.

I started by looking at prices themselves, prices that rose in 1967 through November, and I didn't have access when I was looking at this to the situation in December, but from January through November we did have a price rise of $3\frac{1}{10}$ index points, as I remember.

We had in 1966, for the year as a whole, a price rise of $3\frac{2}{10}$ index points, as I recall. I would assume that for the entire year of 1967 that we perhaps had as much or more of an index point price rise as we had in 1966 because, after the first 3 or 4 months of 1967, we began going at the rate of three-tenths to four-tenths per month.

Did you tell us the other day that you had the benefit of the December figures?

Mr. ACKLEY. Mr. Chairman, the December Consumer Price Index has not yet been released and I don't have it. But the December wholesale price index has been released and we have our own estimate of the December Consumer Price Index.

The CHAIRMAN. Is it another three-tenths or four-tenths?

Mr. ACKLEY. That would be our guess based on what we can see of the individual elements.

The CHAIRMAN. How much would that make it, then, for the year as a whole?

Mr. ACKLEY. There are so many different ways of saying how prices have changed for a year that I think we have to be careful.

The CHAIRMAN. Would it mean more?

Mr. ACKLEY. If one takes the yearly average from 1965 to 1966, the Consumer Price Index went up 2.9 percent. From 1966 to 1967, as we guess what 1967 will be, it is 2.8 percent, practically the same. But if you look at the pattern within the year it is quite different.

Just to put it in terms of quarter years, because these smooth out some of the minor fluctuations, if you take it from the fourth quarter of 1966 to the first quarter of 1967 it is seven-tenths of 1 percent. I am putting all these at annual rates.

From the first quarter to the second quarter it is 2.8 percent. From the second quarter to the third quarter it is 4.2 percent. From the third quarter to the fourth quarter it is about 3½ percent.

For the second half of the year, putting it now in half-year terms, the rate of increase in the Consumer Price Index is about 3.8 percent, in the first half about 2.3 percent.

In other words, there has been a very distinct acceleration within the year. At the end of 1967 prices were increasing at the rate of 4 percent a year, even though when we look back at the annual averages we will see that 1967 showed about the same increase as 1966.

The CHAIRMAN. Well, isn't it a fact that going into the fourth quarter the increase is less than it was going into the third quarter of last year?

Mr. ACKLEY. Well, I don't happen to have those comparisons on my sheet here. It is conceivable.

The CHAIRMAN. I thought you just gave them. Maybe I misunderstood you.

Mr. ACKLEY. Oh, the fourth quarter less than the third?

The CHAIRMAN. Yes; the increase going into the fourth quarter out of the third quarter was less than going into the third quarter out of the second quarter. That is what I was trying to get at.

Mr. ACKLEY. Yes; that is right. I wouldn't make very much of that, Mr. Chairman.

The CHAIRMAN. No; I am not trying to. I am just trying to get information. To say the least, we have had a rather steady climb in prices, have we not, when you look at the totals of 1966 and the totals of 1967?

Mr. ACKLEY. We certainly have.

The CHAIRMAN. But there have been some peculiarities, to say the least, in the performance of the year 1967 in prices compared to 1966. Is that true or not?

Mr. ACKLEY. Yes, indeed. The pattern is one of a very rapid rise in prices during 1966 up through about, say, September, a leveling off up through the middle of the first half, into the first half of 1967, and then a renewed acceleration.

One sees that in all the indexes, not just consumer prices.

The CHAIRMAN. I don't know whether to use the description in talking about price increase, but it is something that happened to the "recovery," as we use it in another sense.

Mr. ACKLEY. Yes. I hate to use the word "recovery" with respect to price increases.

The CHAIRMAN. I say it is not a good word, but we use it in connection with other situations. You referred to wholesale prices during

the year and you do have data for December which I didn't have when I was looking at this earlier.

The index figure in January was 106.2; is that right?

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. And it dropped to 106.1 in November?

Mr. ACKLEY. That is correct. It is revised now to 106.2 rather than 106.1.

The CHAIRMAN. In December the wholesale price then is the same as it was in January?

Mr. ACKLEY. Yes; in November. The December figure as published is 106.7. That is subject to revision.

The CHAIRMAN. To me that is a rather remarkably stable situation. How do we account for it?

Mr. ACKLEY. I think that we have to look behind that overall average, Mr. Chairman. As you know, I am sure, farm prices, and—as a result of farm prices—processed food and feed prices have been declining irregularly over this year.

The CHAIRMAN. Those of us who represent farmers have heard about that.

Mr. ACKLEY. Yes, indeed, and even those who are not representing farmers. More important, I think, is what happened to the rest of the wholesale price index after one eliminates the processed foods and feeds and the farm commodities.

The remainder, which we often call "industrials" for shorthand purposes, has shown a very troublesome and disturbing acceleration during the year.

For example, between the first and second quarters, and again I have reduced them to that for averaging purposes, from the first to the second quarter, wholesale industrial price went up four-tenths of 1 percent, annual rate; second to third quarter 1 1/10 percent, third quarter to the fourth quarter 3 percent, a steady, and I think quite disturbing, acceleration in industrial wholesale prices.

The CHAIRMAN. Mr. Ackley, just for purposes of this record, what elements do you include in wholesale prices? I know we talk about farm prices or food prices. I know we talk about industrial prices. What other prices do we include within the wholesale price index for purposes of this record?

Mr. ACKLEY. The wholesale price index is very comprehensive and in the first place it is limited to goods. There are no services.

The CHAIRMAN. No services in it.

Mr. ACKLEY. No services and there is no construction.

The CHAIRMAN. But all goods are included.

Mr. ACKLEY. At all stages of processing; yes.

The CHAIRMAN. Practically everything is in the wholesale price index that is in the retail price index except for construction and services; is that right?

Mr. ACKLEY. Construction as such isn't really in the retail index, either.

The CHAIRMAN. It isn't in the retail, either; is it? All right, so the main difference is the elimination of services in the wholesale price index and the inclusion of services in the retail price index; is that right? Is that the main difference?

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. Is it the fluctuation within the cost of services that somewhat explains the difference in the stability or lack of stability of wholesale prices and retail prices?

Mr. ACKLEY. I think there are a number of differences not only in coverage but in the relative weights that are given. The weights in the Consumer Price Index are based on relative importance in consumer expenditures and services.

Personal services of all kinds are, of course, quite important in the Consumer Price Index.

The CHAIRMAN. Pardon me for the interruption. What I am getting to, and I don't want to be too long about it, is how do we explain this remarkably stable situation within the wholesale price index and this rather steady increase over the last 2 years in the retail price index?

Mr. ACKLEY. As I indicated, the stability in the wholesale price index has been essentially due to farm products. That has its parallel in the Consumer Price Index in the fact that retail prices of foods have been essentially stable this year with some fluctuations, but their rise has been much less in 1967 than in, say, either of the 2 previous years.

That has tended to hold down the Consumer Price Index just as it has the wholesale price index.

The CHAIRMAN. What was the decline in the course of the year in the index with respect to food?

Secretary FOWLER. Three and a half percent in the wholesale farm and food field, average 1966 to 1967 and 2 percent during 1967.

The CHAIRMAN. All right. The increase with respect to industrials at least, all industrials, as I see it here is about one point.

Secretary FOWLER. One point 5 percent for the year to year, but if you take the last 5 or 6 months, as Mr. Ackley said, in the fifth month ending December industrial prices rose at an annual rate of around 2.9 or 3 percent.

The CHAIRMAN. But it rose from what? 105.8 in January, did it not, to 107 in November? I don't have the figure in December.

Mr. SCHULZE. 107.4.

Mr. ACKLEY. 107.3.

The CHAIRMAN. Point three or four.

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. 107.3. But that doesn't equate to the drop in food prices.

Mr. ACKLEY. It is much more important, has a larger weight in the index.

The CHAIRMAN. I see. You mean there is more of it?

Mr. ACKLEY. That is right.

Secretary FOWLER. May I add one note there, Mr. Chairman?

The CHAIRMAN. Yes.

Secretary FOWLER. Looking ahead just a little bit, in 1968 with this industrial price trend of around 3 percent the average prices could be expected to register the full effect of that trend in the total because the farm and food prices in 1968 are not expected to decline as they did in 1967 and thereby offset the impact.

The CHAIRMAN. Since this is an election year I hope you are right, Mr. Secretary. I don't know that we expected too much in 1967, did we?

Secretary FOWLER. No.

The CHAIRMAN. I don't think we did. Last fall when we were looking at this we noted that the third quarter GNP, Mr. Ackley, was up $16 billion over the second quarter to a level I think of $791 billion. Now we are told that the fourth quarter is also up $16 billion to the level of $807 billion.

I think my figures are right. In other words, would you agree that the increase that first became apparent in the third quarter is continuing at approximately the same rate?

Mr. ACKLEY. Yes, essentially the same rate with one important qualification, and that is that the gross national product in the fourth quarter was dented quite heavily by the impact of the automobile strike which reduced the gain by perhaps a couple of billion dollars.

The CHAIRMAN. Well, yes; I am sure it had its effect, but now let's look on the basis of what we had and even add $2 billion if we want to make it $18 billion for the fourth quarter, an increase of $2 billion over the third quarter.

Let's look now to 1968 as you did for us in your statement and let's see now whether or not we have any evidence as we look ahead to convince us that there will be a more rapid rate of growth, say, in the first quarter of this year over the fourth quarter of last year than we had in the fourth quarter over the third quarter last year.

You anticipate a greater degree of growth I understand in the first quarter this year.

Mr. ACKLEY. Yes, Mr. Chairman.

The CHAIRMAN. Than we had in the fourth quarter.

Mr. ACKLEY. Yes, Mr. Chairman, we do. I would like to point out that one could be disturbed merely by the maintenance of the kind of rate of growth that we have had in these last two quarters.

The CHAIRMAN. Let's look at this for a moment, but go ahead.

Mr. ACKLEY. Certainly in the first quarter there are some special factors of considerable significance. One is the rebuilding of the automobile industry's inventories and, second, the building up of steel inventories which is going to have an important effect on the first quarter in particular.

The CHAIRMAN. I can understand that if I thought that the steel industry would not be able to work out an agreement between management and employment in August of this year that I would begin to try to stockpile some steel from some source. I would enlarge my inventories if I saw that. I would maintain existing orders perhaps or if I thought I was to sell more I would probably enlarge them, but these are sort of self-defeating things.

If I buy more in the first two quarters of the year than I am going to need in my entire year's production then maybe I will buy less in the third and fourth quarters if the strike doesn't actually come into existence.

I say they are things that I don't believe that we have to consider and take them into our overall evaluation, but I don't think we need to make judgments specifically with respect to the effect of an increase of these conditions in inventories, say, for the reason that I mentioned.

I wouldn't want to say that we should have a tax bill just because industry suddenly this year buys in the first and second quarters its steel requirements for the year if it can. We have to think in terms of the entire calendar year and the effect of that kind of an action would bring us into trouble in the third and fourth quarters of the year. So I think what I am getting at is we have to balance this out, and I know that is the way you look at it.

However, is that the primary reason now that you think that the first quarter will be an increase over the fourth quarter and greater than the fourth quarter over the third?

Mr. ACKLEY. Let me comment first that I certainly agree that we ought to be looking at the year as a whole and we certainly ought not to make tax policy or perhaps even monetary policy on the basis of factors as temporary and as ephemeral as these abnormal inventory movements.

Nevertheless, we can't avoid taking account of it because it isn't just an isolated event. When production of automobiles and steel are maintained at a very high level as they will be in order to build up these inventories this raises incomes in the economy and increases spending on other things so that the bulge is not confined just to Pittsburgh and Chicago and Detroit. It spreads through the economy and this creates the kind of conditions which then have some effect also on capital investment expenditures and inventory decisions and certainly on consumer spending in the rest of the year. But let's put that aside and talk about the other factors.

Quite apart from inventories, I think we can expect a continuing rise in other components of our gross national product. Certainly residential construction is going to continue to be a very strong sector unless we don't get the tax increase and monetary policy tightens up and construction is choked off by tight money.

Certainly the demand is there for a higher rate of housing construction than we have been having. Indeed, just on the basis of the starts that are already in place as a result of the high level of starts in the fourth quarter, construction expenditures in the first quarter are going to be higher.

Plant and equipment expenditures, they are certainly on a rising trend. We can go into more detail about that if you wish. But as I noted in my statement yesterday I think the present level of new orders just for machinery and equipment and the level of industrial construction contracts in the fourth quarter already foreshadow this expansion in plant and equipment expenditures next year.

State and local expenditures will be continuing to rise. Federal expenditures, on the other hand, are on something of a plateau for the next quarter or so. That leaves the biggest single element which is consumer spending and with the kind of increase in employment and personal incomes that we have had in the last couple of months, and will be having in this next quarter, certainly we will have a very solid rise in consumer expenditures in the first quarter as well, a larger rise than we had between the third and the fourth quarters.

The CHAIRMAN. Let me ask you this now. You suggested that the growth in the fourth quarter last year would have been greater than $16 billion over the third quarter had it not been for the strike.

Didn't we pas a Federal pay increase retroactively that has added about $4.7 billion total to the fourth quarter over the third?

Mr. ACKLEY. Yes, indeed; that is a factor in the growth of personal income in the fourth quarter.

The CHAIRMAN. About 5.7 I believe you said, total. I wrote it down.

Mr. ACKLEY. Oh, for one month; yes.

The CHAIRMAN. 5.7.

Mr. ACKLEY. But if you spread that over in the quarter——

The CHAIRMAN. I understand that was for 1 month, December. If we add the effect of the strike and take away the effect of the retroactive pay increase from that quarter I wonder whether we did as well in the fourth quarter as we did in the third quarter insofar as increase in gross national product is concerned. These are not repeating items. That is what I am getting at.

Mr. ACKLEY. Well, the higher level of Federal pay is a continuing item.

The CHAIRMAN. Not the retroactive part of it, Mr. Ackley, not the retroactive part.

Mr. SCHULTZE. For the quarter as a whole the statistics wouldn't show any retroactivity. You have a full quarter's pay during that quarter. We just happened to get it all in the last part of the quarter.

The CHAIRMAN. Did we start it October 1?

Mr. SCHULTZE. That is correct.

The CHAIRMAN. That was available in December and so actually the effect on December was not on the quarter.

Let me go to this increase that we have had in our gross national product, Mr. Ackley, in terms of percent, that in the fourth quarter of 1967 it is my understanding that the percentage increase over the fourth quarter of 1966 was about 6 percent? That is in terms of existing prices.

Mr. ACKLEY. That sounds about right.

The CHAIRMAN. But if it had been measured in terms of 1958 prices, it would have been what? About 2.7? I am trying to get at the real product increase.

Mr. ACKLEY. Something like that; yes.

The CHAIRMAN. Now, that isn't what one would consider even normal growth, is it, in real product?

Mr. ACKLEY. No, of course not. When one makes a comparison of the fourth quarter with the fourth quarter of last year one is including in there the first half which was very slow. If you take the last two quarters, the rate of expansion in real terms is about 4½ percent.

The CHAIRMAN. What I am concerned about in asking you the question is do we run the risk of creating a drag on the real output of the economy by trying to take part of the inflationary price increases in the four quarters of 1968? On the other hand, are we just trying to prevent a degree of increase that would be greater than that which has happened in the past rather than to diminish the amount of increase in the future that has occurred in the past?

Mr. ACKLEY. Yes, Mr. Chairman. It seems to me what we have to recognize is that $65 billion annual increase that one gets by doubling the increase in the last two quarters is already an unhealthy rate of increase. It is too large. It is larger than we should have. And one reason the price element in it is so large is simply because demand has increased too much in these last two quarters.

The CHAIRMAN. Is it your thought that the 10-percent surcharge and the other elements of the President's tax request would serve to reduce or squeeze out in the coming quarters of this year some part of that inflationary increase that is attributable to the rises that took place in 1966 and 1967, so that we would not have a 6-percent increase in these quarters based upon that type of calculation, but we would have a percentage increase more nearly related to what we refer to as real product increase?

Mr. ACKLEY. That certainly is the purpose of the fiscal program, to restrain the growth in the dollar value of output. A good part of that restraint would be in the form of reducing the inflation factor, but some of it obviously would be in terms of reducing real output below what it otherwise would have been.

The CHAIRMAN. If we look though at the end of the year 1968, will we have reduced the percentage that is attributable to inflation or will we have reduced the percentage that is attributable to real product increase?

Mr. ACKLEY. As compared with what it otherwise would have been without the tax surcharge, both. We will have reduced both the inflation part and the real growth part but hopefully the inflation part of it more than the real growth part.

The CHAIRMAN. What do you think would be the effect upon the real product part of the reduction? When I look at 2.7 percent I wonder how long we can go forward with just that percentage of real product growth.

Mr. ACKLEY. But that isn't the kind of real product growth we are forecasting, Mr. Chairman.

Secretary FOWLER. Nor is it the kind we have had in the last 6 months. We have had a four and a half percent rate of real growth in the last two quarters of this year.

The CHAIRMAN. You are talking about real product growth.

Secretary FOWLER. Real product growth, and if you add on from the deflator the 3.9 percent in money terms we have been going up at the rate of about 8.4 percent.

The CHAIRMAN. I know, but it took these excesses in the third and fourth quarters, Mr. Secretary, to get to a level of 2.7 in real product growth between the fourth quarter of 1967 and the fourth quarter of 1966.

You have a variation there during the year.

Secretary FOWLER. The situation in the first 6 months was why we were not in here last January asking for the surcharge. In fact, we delayed and came in in August and now because of the last 6 months of the calendar year 1967 when the rate of growth in real terms has been consonant with the capacity of the country, we think. But when you look at it in money terms with the deflator added in we have a rate of growth that, as Mr. Ackley indicated, in the last 6 months is too much.

The CHAIRMAN. Will you pardon me, Mr. Secretary, for my inquisitive nature? I just want to be certain that we don't do what I thought I understood Mr. Ackley to say some time back in response to another question, to control the inflationary situation through the imposition of this tax that we create a higher level of unemployment than we would otherwise have.

Mr. ACKLEY. That is correct.

The CHAIRMAN. Did I misunderstand you?

Mr. ACKLEY. No, that is entirely correct. The kind of forecast we are making of the economy next year is one which would keep the unemployment rate roughly in the area in which it has been for the last couple of years rather than to let it go down to say three and a half percent or below.

The CHAIRMAN. Without the tax bill our unemployment may drop to below 3½ percent?

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. I thought we wanted to dampen demand, Mr. Ackley, because we had a shortage of people qualified to produce.

Mr. ACKLEY. I'm sorry, I didn't understand your question.

The CHAIRMAN. I get lost in this. I thought one of the statements earlier made about the desirability of the tax increase was to dampen down demand.

Mr. ACKLEY. That is right.

The CHAIRMAN. If you dampen down demand, you of course have reduced the need for skilled employees, I assume.

Mr. ACKLEY. Somewhat.

The CHAIRMAN. One of the reasons for dampening demand is that we have a shortage of skilled employees to produce more. Am I going in a circle or am I stating the situation correctly?

Mr. ACKLEY. No, sir; there is a limited quantity of manpower and particularly of high-quality manpower. If you run the economy under sufficient pressure, employers will hire anything that is warm, as was about what happened during World War II, and you will get some further employment that otherwise wouldn't occur. But it is at a price which is greater than I think any of us wants to pay.

I think we have to remember it is not just skilled workers, Mr. Chairman. It is qualified, standard bodies that are capable of production. If one takes the male worker in the prime age category—ages 25 to 54 is usually the way the statistics are kept. This is the prime labor force group for whites and Negroes combined—the unemployment rate of that group in December was 1.7 percent. That's the lowest it has ever been in our history. It was matched in 2 isolated months of the Korean war.

A year ago in December when we thought we had tight labor markets the unemployment rate of males 25 to 54 was 1.9 percent. The average for 1966 was 2.1 percent. It is not only lower than that today; it has averaged well below that for the entire year. We are pressing that particular resource, which is the heart of our labor force, about as hard as you can press it.

You can't get that unemployment rate lower than that except by an excess demand for labor that is going to create pressures all through the economy. If you go full steam ahead you may get the rate for males aged 25–54 down just a little bit more. But this would create labor shortages all around the place. In the meantime you could make some dent in the unemployment rate of teenagers, and, of Negroes whose rate tends to be higher than that of whites, and of women of all ages. But this would be at the cost of creating the kinds of bottlenecks and shortages that give you the inflationary pressures we are trying to avoid.

When we reach that situation, we would face the need for slamming down the brakes very hard. In that case you will create a great deal more unemployment through a recession.

The CHAIRMAN. Then, if we are trying to dampen down somewhat the rate of employment in this country, is it consistent, then, that we conduct all of these various programs of training people for jobs? I am not saying I am against it because our own committee had a very elaborate and extensive training program in connection with the last social security bill, as you know.

How do you reconcile it?

Mr. SCHULTZE. Let me try my hand at that one. It seems to me there are two ways that you can increase employment.

The CHAIRMAN. I just don't like to be a party to doing anything that might tend to increase the unemployment, you understand. I know you don't.

Mr. SCHULTZE. I think we are really working at this from both directions. What you do in a situation with demand pressing very heavily on a limited number of available skilled and semiskilled workers is, on the one hand, try to keep the demand from pressing ahead so fast that you build up inflationary pressures and, on the other hand, provide the kind of training programs which get at your really hard-core unemployed, in order to upgrade them to the point where they can relieve some of the pressures.

So it seems to me, Mr. Chairman, your question is consistent. On the one hand, you want to keep demand from running through the roof, in terms of wage rates. On the other hand, you want to increase the supply of available labor at the very low-employment end, so as to bring them up to the level where they would satisfy the labor demand.

These are quite consistent actions, like two blades of a scissors, trying to achieve the same objective.

The CHAIRMAN. Let me pass on if I may to this matter of retail sales that you referred to, Mr. Ackley. The latest I have is for November. I don't know whether you have it for December yet or not.

Mr. ACKLEY. There is a preliminary figure for December.

The CHAIRMAN. November was 26½ billion, was it not? I had understood December was down to 26.3.

Mr. ACKLEY. Yes, the preliminary for December is 26.3, that's right.

The CHAIRMAN. How do we explain that, because it is my recollection that I always buy more around the 25th of December than I do any other time of the year.

Mr. ACKLEY. These are seasonally adjusted figures, Mr. Chairman.

The CHAIRMAN. I understand. Is that not disturbing to you? It is to me because I don't understand why it should fall in December under November if we are fearful in 1968 of such an increase in demand.

Mr. ACKLEY. It is certainly true, as I tried to indicate yesterday, that consumer spending has been most moderate all this year. We have had a high saving, one that is, I think, difficult to explain.

The CHAIRMAN. I believe that is a little bit of an understatement, Mr. Ackley. Go ahead. I'm sorry.

Mr. ACKLEY. Perhaps I should make a couple of comments by way of preface. First, retail sales are not the only element in total consumer expenditures.

The CHAIRMAN. I know that. I am trying to examine all the elements.

Mr. ACKLEY. Nevertheless, as an index of total consumer expenditures, retail sales have shown less expansion than we might have expected a year ago, given the kind of income growth that we have had. The high saving rate has prevailed all year long. But I think it would be very risky to assume that that saving rate was going to increase still further. If it merely levels off where it has been, then it still means that the additional growth of incomes that we are going to get is going to be spent and is going to be creating additional consumer demand in the year ahead.

The CHAIRMAN. Mr. Ackley, isn't it equally risky to enact the tax bill on the basis that retail sales will climb in 1968 on the basis of the pattern of 1967?

Mr. ACKLEY. I don't think so, Mr. Chairman. I would say that it is very risky not to do so on the basis of all the evidence including the evidence of retail sales.

The CHAIRMAN. In attempting to get some notion of what we can expect in the future on retail sales I have looked at the Bureau of the Census survey on consumer-expected purchases in the period ahead and I know you have. This survey as I recall was released on December 29 or 30 last. It states that—

> Americans may expect to tighten their purse strings somewhat if they expect to buy new cars in the coming months.

That is one of the points I observed in it. Do you have any comment on that, whether they are right or wrong in your opinion.

Mr. ACKLEY. There has been quite a history of surveys of consumer buying intentions. I think they do throw some light on the consumer market. They have certainly not been completely reliable in the past. I think they are a measure of how the consumers are feeling at the time the question is asked.

Certainly the predictions of sales that were based exclusively on buying intentions have not been as useful or reliable as sales predictions which take into account other factors, such as changes in incomes.

Certainly automobile manufacturers are anticipating, and continue to anticipate, a better automobile year in 1968 than they had in 1967.

The CHAIRMAN. At least publicly.

Mr. ACKLEY. Both publicly and privately so far as I am aware.

The CHAIRMAN. I have talked to them off the record. I am not permitted to quote what they have told me.

Mr. ACKLEY. So have I, Mr. Chairman.

The CHAIRMAN. Anyway, this survey shows that the index of expected purchases on new cars has declined from 104.7 in July to 102.2 in October and I assume that is largely attributable to the unavailability of the Ford car at that time. You couldn't buy the Ford.

Mr. ACKLEY. I would assume so; yes.

The CHAIRMAN. But that is contrary, isn't it, to the usual way the situation runs? Don't we always sell more cars in October when the new models come out? I thought we sold more at the beginning of the new models than we did at the tailend of the old models.

Mr. ACKLEY. I wasn't clear what statistics you were using there, whether it is seasonally adjusted or not.

The CHAIRMAN. It is seasonally adjusted. I am sure it is. But the fact that it is seasonally adjusted to 102.2 means less expectation of purchase in October presumably than was the case in July.

I am trying to understand what this survey says.

Mr. ACKLEY. Mr. Chairman, I don't have the survey before me.

The CHAIRMAN. It goes on to point out practically the same thing with respect to other selected durables like furniture, television sets, major household appliances, and so on. I am trying to find out where this demand is going to lead.

Mr. ACKLEY. I am quite happy to go through these sectors one at a time and try to give you any information I may have about them. It seems to me we can't miss looking at the total which is far more important than the individual parts and the total is one in the economy which in the last few months and prospectively is just a very, very strong economy.

I don't care who is doing the buying.

The CHAIRMAN. I want to look at it and see why, how much further it is going in that direction. Could it be that these buying expectations reflect a slight drop in expectations of increased incomes or not?

Mr. ACKLEY. It is conceivable that they may be one factor.

The CHAIRMAN. There must be some explanation for the difference in expectations of people to buy and this rate of savings. I am trying to find out because the enactment of a 10-percent surcharge that is to come out of the incomes of people is one thing so far as dampening down demand.

It is another thing if it is to come out of the savings of people. You would agree with me there? It would come out of both, but if it comes more out of savings than out of income then it does not serve the purpose that we would have in mind apparently.

Mr. ACKLEY. That is correct.

The CHAIRMAN. And I have been questioning to try to find out about this change in behavior on the part of the consumers. I haven't been able to reach any conclusions. I thought maybe I could get some help from you about it. I thought maybe you had the benefit of studies that I had not had access to.

Mr. ACKLEY. We certainly have tried to look at every possibility. There are some reasons one might adduce for the higher saving rate this year. One of them certainly could be the fact that we have had this low level of housing starts and of new home completions, and a lot of purchase of durable goods is associated with equipment of new homes.

It is possible that the introduction of the medicare program has had a one-time effect on saving patterns. Some people's medical bills under both medicare and medicaid are paid. These expenses might otherwise have been paid out of savings or borrowings. The higher rate of increase in college population may have affected the saving rate, too.

There are other reasons given. I think the answer is that no one really knows, Mr. Chairman. There are theories about it, but we don't have an explanation.

Secretary FOWLER. I think you could make a good bet—you would probably have to give odds—that the savings rate was going to go down rather than continue to go up. I think this is the key factor you have to take into account in assessing this outlook on demand. As Chairman Ackley says, the GNP growth in the last two quarters of $16 billion roughly each, which is too much in our judgment to be maintained over a long period ahead.

Any time that saving rate switched from the present unusual high trajectory, whatever the reasons may be, whatever the psychological mix is that causes it, if it shifts back to six and a half percent you would have a $21 billion quarter increase in the rate of GNP which would be intolerable.

The CHAIRMAN. Or five and a half where it normally is.

Secretary FOWLER. That is right.

The CHAIRMAN. It has just been a question on which I have been trying to get some understanding because as I look at the statistics in the first quarter it was about 7.3. In the second quarter it dropped to 6.5. It was 7.0 in the third quarter. Then in the fourth quarter it got to a level of 7½.

I didn't check back into the past but I think you would have to go a long ways back to find a quarter where the savings were as high as 7½.

Secretary FOWLER. I just offer two comments. One, to some extent I guess consumers do tend to treat automobile purchasing as related to savings—I won't say a partial substitute for savings, although you might put it that way—and spending on automobiles has declined, particularly recently, due to the low inventories in car dealers' hands and the other factors that have been mentioned.

The proportion of disposable income that has been spent on automobiles declined from an average of about 6.1 percent in the last 3 years to about 5.4 percent in 1967.

There was also I think the fact that the ratio of currency and demand deposits to disposable income, personal income, reached an alltime low in early 1967 as funds in 1966 were attracted to high yields in the security market and now in 1967 with consumer liquidity having risen at this very high rate one could expect that as distinct from what happened in the last month or two the spending potential is probably very high and therefore I would venture that the bet is that the saving rate is likely to go down rather than to continue up.

Mr. SCHULTZE. Mr. Chairman, let me interject just a little bit on this. It seems to me, that during the last half of the year our gross national product grew at an annual rate of $65 billion, despite a larger economic drag because consumers increased their savings.

Now look ahead. Everything else being equal for the moment, even if consumers continue to increase that saving drag, you could have a performance consistent with what we had in the last two quarters. If consumers merely level off at that higher saving rate, and everything else stayed equal, you would get an increase in the rate of gross national product. Finally, if consumers lower their saving rate you get an even bigger rate of increase in GNP.

To summarize, if this very large increase in the GNP is what you get with an increase in the consumer savings rate, then, almost any way you look at it, in the coming period, only if consumers speed up the increase in their saving rate will this tend to drag down the rate of GNP increase below what you have had.

So almost everything, it seems to me, points to the fact that if you have an economy moving ahead rapidly with that kind of a drag on it, this is even more of a reason to think that the economy is going to move ahead more rapidly in the future.

Secretary FOWLER. You have your minimum wage and your social security increase and outlays and those factors which are going to add some additional pressure on spending potential to this picture.

The CHAIRMAN. I am not arguing about that, Mr. Secretary. I am just trying to find out how much because I have said before that I don't want us to endeavor to correct a situation that may be plaguing the taxpayer, as I mentioned earlier, and just end up by adding a third burden to him, not only having a continuation of interest rates at a high level, prices at a high level, but taxes at a higher level. I am trying to conduct a little bit of a survey into what we are doing to this defendant in this case that I mentioned earlier, and, as I said, I have a bit of an inquisitive disposition. I want to ask you to come back so that I can propound some additional questions about 2 o'clock, if you can come.

I want to talk to others of you other than Mr. Ackley.

Without objection then the committee will adjourn until 2 o'clock.

(Whereupon, at 12:47 p.m., the committee recessed to reconvene at 2 p.m., the same day.)

AFTER RECESS

(The committee reconvened at 2 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

Mr. Schultze, let me revert back to one statement you made this morning.

As I understood you, you were arguing, in response to an inquiry, that the GNP would continue to grow at the rate that it grew in the second half of 1967, even if consumers continued to save at the rate they saved in 1967, or in the fourth quarter.

I am talking about next year. I wonder if I understood you correctly.

Mr. SCHULTZE. Basically, sir; I would modify that just a little bit.

The CHAIRMAN. I was wanting you to.

Mr. SCHULTZE. What I said was that the GNP grew at a $64 to $65 billion annual rate even with the drag of consumers increasing their saving rates; that if you were just looking at the impact of the consumer, all other things being equal—I am not saying all the things would necessarily be equal——

The CHAIRMAN. They could not be.

Mr. SCHULTZE. They might or might not be. The only point I was trying to make is that if the economy was strong enough to have that kind of upward movement with an increase in consumer saving, then even if consumers leveled off their saving rate, you would have to adduce other reasons to explain a slackening or a decline in the economy.

The CHAIRMAN. I was taking into consideration in the fourth quarter inventories had grown at the rate of $9 billion.

Mr. SCHULTZE. That is correct.

The CHAIRMAN. I was anticipating that that kind of buildup in inventory could not continue.

Mr. SCHULTZE. At least not an increase in the buildup.

The CHAIRMAN. That is right. The increase could not continue. Does this not indicate that if consumers continue to save at high rates and inventories continue to accumulate, that they may pile up to such an extent that manufacturers might find it necessary to reduce their rate of production?

Mr. SCHULTZE. Except that, Mr. Byrnes—Mr. Mills——

The CHAIRMAN. That is all right. We are on the same side of the fence, so far.

Mr. SCHULTZE. Sorry about that.

The CHAIRMAN. The slip, or the answer?

Mr. SCHULTZE. I don't think I will answer that question.

To the best of my recollection, during this period in which consumer saving increased and inventories did accumulate, the inventory-sales ratio nevertheless declined. Sales were rising fast enough to more than absorb, if you will, the increase in inventory.

The CHAIRMAN. That is very significant. I know that is the case.

The inventory situation began to build up very late in the year, after, I believe it was, the reversal of what had occurred in the fourth quarter of 1966. I realize that.

While I am on this point, this increase that occurred in the fourth quarter of this year in inventory, to me, was unexpectedly high. Did any of you have in mind ahead of time it would reach that level, on an annual basis, that it did reach?

Mr. ACKLEY. Mr. Chairman, I think one factor that stands out when you look at the inventory change in the fourth quarter is that there was an unusual and very large rise in farm inventories.

The nonfarm inventory component was an accumulation at the rate of $7½ billion, which I would think not far from normal for this kind of situation, but farm inventories rose $1½ billion.

Even within the nonfarm sector, there was an unusually large rise in the inventory of food processors and retailers, which in the fourth quarter rose at an annual rate of $1½ billion (based on October and November data).

I think that this undoubtedly is associated with the large crops this year, and the movement of some of them into processing hands, while some remained on farms.

If you look outside the food processors and farms, things look pretty reasonable, and normal, on the basis of the October and November figure—which are all we have.

Retail automobile inventories managed to rise a little bit, roughly a billion dollars annual rate, after having declined for three quarters, but they were still quite low relative to sales.

We apparently were seeing a little bit of restocking of steel. There is debate in the trade as to how much of this represented simply normal restocking after the earlier using up of inventories, and to what extent it represented the beginning of a precautionary buildup against the possibility of a strike.

Nondurable manufacturing inventories, excluding food, were down in November and December. If you look at the retail level—other than autos—stocks of furniture and appliances were below a year earlier, even though sales were up quite substantially.

You did have at the retail level, as at other levels, a substantial increase in food inventories. Indeed, the increase in retail food inventories in October and November was nearly half the total increase in retail inventory.

Now, that does not suggest the kind of inventory cycle of overstocking that is associated with a poor guess about sales and poor ordering policy.

The CHAIRMAN. There is not enough similarity, then, in your mind, between the inventory buildup in the fourth quarter of 1967 to the inventory buildup in the fourth quarter of 1966 to even remotely indicate the possibility of a down turn in the first quarter of 1968, such as we had in 1967?

Mr. ACKLEY. No, Mr. Chairman; it does not seem to me that the situations are parallel.

If you look at the Department of Commerce survey of manufacturers' inventory intentions, it seems to show that the manufacturers want the kinds of stocks they are building up.

The CHAIRMAN. We had the same kind of indication, though, in the fourth quarter of 1966 about the first part of 1967.

Mr. ACKLEY. I think they are different economic situations. At the end of 1966 production was essentially not growing, and orders were not growing. Here we have had inventories building up in the face of a very sharp expansion in demand all along the line.

Obviously, no one can say with certainty, but it does not appear to us to be the same kind of situation at all. And, obviously, the magnitudes are not at all comparable.

The CHAIRMAN. I wanted to find out if you thought there was any degree of similarity. You have answered my question.

Let us now turn to the production side, really about which we have been talking, in part.

Can you tell me whether or not the economy is under stress insofar as availability of good is concerned?

Last fall we noted that plant capacity utilization was actually declining over the year. I think we established that with our statistics at that time.

The first quarter utilization figure was 87.1 percent, I believe in 1967. The second quarter was 84.9 percent. The third quarter was 84.1 percent. The fourth quarter figure that you gave us I believe was 84.3.

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. Up a little from the third quarter, but still substantially below the first part of the year.

Mr. ACKLEY. Yes, sir.

I think the automobile strike obviously made a big dent there, just as it did in total third quarter manufacturing production.

Our guess on the rate for December was about 85¼ to 85½, so it does seem to have picked up near the end of the year.

The CHAIRMAN. The more recent survey of expected plant and equipment expenditures in the period ahead, made of course by the Securities and Exchange Commission-Department of Commerce, shows expected expenditures in the first two quarters of 1968 as $65.0 and $65.8 billion. That would be up from $62.0 billion in the first quarter of 1967. Am I right?

Now, this suggests in the first half of the year about $3 billion in these expenditures over the fourth quarter level. In terms of the $1 billion increase between 1966 and expected level for 1967, this of course represents a substantial improvement, does it not?

Mr. ACKLEY. Improvement with respect to 1967 levels, yes.

The CHAIRMAN. That is right. However, it does not improve the $6 or $7 or $8 billion increase which occurred in 1964, 1965, and 1966.

Mr. ACKLEY. That is correct.

The CHAIRMAN. Now, the index of industrial product, as you know, increased from I believe the lowest level, was it not, 156.4 in March to 159.3 in November?

Mr. ACKLEY. Right.

The CHAIRMAN. 161.6 in December?

Mr. ACKLEY. That is right.

The CHAIRMAN. This is a significant improvement, when you look at the figures, but in reality it is not very much above December of 1966, which, as I recall, was 159.5.

Mr. ACKLEY. That is correct.

The CHAIRMAN. Is that enough of a variation for us to be disturbed about that situation?

Mr. ACKLEY. I don't know anything to be disturbed about, Mr. Chairman. Manufacturing has made the expected recovery back to its previous level after the dip during early 1967.

The CHAIRMAN. Actually that is the first month, is it not, in 1967, when the production level was higher than in December of 1966?

Mr. ACKLEY. It is the first month certainly in the second half of the year.

The CHAIRMAN. Indicating to me a recovery from the stagnation that appeared earlier in the year.

Mr. ACKLEY. Yes, sir; the index declined two and a half percent during the first half of the year.

The CHAIRMAN. I was thinking of whether or not it was a bad omen as we go into the next year.

Secretary FOWLER. I think one of the commentaries one would make on that is that if you look at it in terms of the speed, the pace of the buildup in industrial production, for the fourth quarter as a whole, the rate of increase was over 6 percent, which was nearly three times as fast as the rate of increase in the third quarter, so there is an increasing tempo.

The CHAIRMAN. But we are still back to where we were, Mr. Secretary.

Secretary FOWLER. But we are moving pretty fast in the upward trajectory again.

The CHAIRMAN. 161.6 over 159.3 in November.

Mr. ACKLEY. I think it is quite relevant in looking ahead to see the orders situation. The durable good orders just came out a couple of days ago—within the last week. They showed a nine-and-a-half-percent increase in manufacturers' new orders for durable goods in December, which is really a pretty fantastic increase following on a very good increase of 2 percent in November. Shipments were up 6.4 percent in December on top of a 6-percent increase in November.

So certainly the trend, as it is foreshadowed by new orders, is strongly upward, and unfilled orders are very high.

I have forgotten whether they are at an alltime peak, but they are very close to it.

The CHAIRMAN. Should we in that connection take into consideration, and find out, how much of it may be strike buying, or what?

Mr. ACKLEY. This obviously is beginning to have some influence, in the case of steel, but if you look at the composition of those new orders which I have here, I think you will be struck by the breadth of the upswing into new orders.

There was no category, except for nonelectrical machinery, which showed an advance of new orders in December of less than 7 percent. It was really all across the board. Steel was up 13 percent, but that clearly did not dominate the picture.

The CHAIRMAN. What is the relationship, Mr. Ackley, between this increase in industrial production and the increase that was noted in the fourth quarter in inventory accumulation? Is it the inventory accumulation that may well account for industrial production increase, or not?

Mr. ACKLEY. They are obviously interrelated. The manufacturers are producing for their own and other people's inventories, and to meet final demands of Governments, businesses, and consumers.

The CHAIRMAN. You do not feel, then, that we can expect in 1968 what I would term a mild increase in industrial production? You think it would be more than what might be described as a mild increase for the entire year?

Mr. ACKLEY. I don't know what a mild increase is.

The CHAIRMAN. A mild increase to me would be 161.6 over 159.5.

Mr. ACKLEY. I would think we would have a substantially stronger and generally continuous rise in industrial production throughout the year.

We certainly don't want to get back to the kind of rate of increase, or level of pressure on our resources, that we had in 1966.

The CHAIRMAN. Of course we don't.

Secretary FOWLER. Mr. Chairman, one additional fact that is relevant is that I think there is a contrast between the inventory buildup in 1966 and the one in the last quarter.

In October–November there has been a lesser growth in finished stocks. In October–November, finished stocks represented about 20 percent of the October–November buildup in manufacturing inventories, compared with about two-fifths of the gain in the final 3 months of 1966. A much lesser amount of it was going into those finished stocks in 1967.

The CHAIRMAN. Are we in agreement, then, the five of us, sort of in confidence, that if a lot of this increase in the first two quarters in industrial production is accounted for by increased inventory, which is caused by the question of whether there is a strike or not later on, that that type of industrial production, if there is no strike, cannot be expected to continue throughout the remainder of the year?

Mr. ACKLEY. I think the general anticipation of people who have studied the year ahead, forecasters in the private community as well as in the Government, is that the best guess would be that the rate of increase might be somewhat faster the first half of the year than in the second.

That is assuming we have a tax increase. I think without a tax increase there is little prospect of a little breathing space after the very rapid increase I am afraid we are going to have—I say afraid, because I don't think it is healthy—in the first half.

I think we ought to be looking at the year as a whole, and the change between the fourth quarter of last year and the fourth quarter of this year. We cannot ignore what goes on in between, but that is where our main focus ought to be.

The CHAIRMAN. Let us turn to the matter of unemployment rates.

Is it not a fact, Mr. Ackley, in spite of the improvement that we

made in November and December over October, that all we did in December 1967, was to get the unemployment rates back to where they were in December 1966?

Mr. ACKLEY. Essentially; yes, sir.

The CHAIRMAN. Would you agree that apart from the price increase which occurred in 1967, most of the economic indicators suggest in the latter part of the year a recovery from relatively weak positions in the forefront of 1967, and we can probably expect a continuation of this in the first part of 1968?

Mr. ACKLEY. If I understand your question—let me answer what I think you are asking.

The CHAIRMAN. In the last half of 1967, we recovered the ground we had lost in the first half of 1967, and that we can expect perhaps to maintain that ground in the first half of 1968.

Mr. ACKLEY. Maintain it relative to the growth in our resources?

The CHAIRMAN. That is right.

Mr. ACKLEY. I think with the tax increase, we can roughly maintain it.

The CHAIRMAN. Without it?

Mr. ACKLEY. As a matter of fact, the tax increase, unfortunately, is not going to be doing very much good for us in the first quarter, at least, but certainly——

The CHAIRMAN. Or probably the second.

Mr. ACKLEY. That is right. If it goes into effect on April 1, it will not have a major impact on the first quarter.

The CHAIRMAN. You know, we acted very expeditiously over here to restore the 7-percent investment credit when we thought it should be restored, but it took a long time for another body somewhere to act on it. I don't know how long it would take for the other body to act on this.

Mr. ACKLEY. I would say in the first quarter, the first half, the rate of increase of the gross national product, unfortunately, will probably be higher than it was in the last half of this year.

The CHAIRMAN. It is the second half I am also concerned about. The tax bill would go through the remainder of this year, if enacted, into the first two quarters of the following year.

I wonder if we could sustain, without a tax bill, this which you anticipate for the second half, and if we do have a tax bill, whether the economy can sustain in the second half what we anticipate is the experience in the first half.

These are the questions in my mind. I know it is asking a lot of anybody to try to advise me on these points.

Mr. ACKLEY. Certainly you are correct that the further we look into the future, the harder it is to be precise and firm in our notions about it.

I think there are several things we know about the second half which are significant. One of them is that Congress built into the legislation for the year a very substantial pay increase the first of July, on top of the one we were talking about a few moments ago.

The CHAIRMAN. And the minimum wage will continue into the second half, as well as operate in the first half.

Mr. ACKLEY. That is right, and social security benefits, which go up the 1st of March, will be beginning to be spent more fully.

From what we can tell about the pattern of Government expenditures, they will be rising somewhat faster in the second half than in the first half.

These certainly are factors of strength.

The CHAIRMAN. You mean Federal Government expenditures?

Mr. ACKLEY. Purchases.

The CHAIRMAN. Purchases of goods, yes. Do you think they will be stronger in the second half?

Mr. ACKLEY. Trying to "price out" on a quarterly basis an expenditure pattern consistent with the budget numbers for the 2 fiscal years, suggests that the rate of increase—which has been very flat in the last quarter—and a little more in the current quarter, will be moving up a bit faster toward the end of the year, still obviously less rapidly than, let us say, from the middle of 1966 to the middle of 1967.

The CHAIRMAN. Mr. Ackley, I congratulate you on the various changes in relationship of a $12 billion takedown to a $12 billion gift in 1964. I thought you handled it quite well.

I guess you concluded that the leaving of the $12 billion in the hands of individuals would have the same effect as the giving of the tax reduction in that amount in 1964.

Mr. ACKLEY. I suggested that the analysis of the problem could be thought of in those terms; yes, sir.

The CHAIRMAN. But only you thought of it in those terms. You don't anticipate the same results?

Mr. ACKLEY. In one major respect, which is that we start today from a very high level of resource use, while in 1964 we started from a very substantial margin of idleness, which we put to work.

The CHAIRMAN. That is right. We had a high level of unemployment at the time, and we were operating on a whole lot less gross national product basis, too. So I doubt that the taking or leaving of the $12 billion now would have quite the stimulating effect.

Mr. ACKLEY. No; percentagewise, it is not nearly as big.

The CHAIRMAN. Would it be half as much, taking into consideration all things?

Mr. ACKLEY. I would think something like that; yes. We say we are in effect taking back roughly half of the tax cut that was given in 1964–65 as a percentage of taxpayers' income.

The CHAIRMAN. That is why I used the 50 percent.

Mr. ACKLEY. In that general range.

The CHAIRMAN. Mr. Martin, let me ask you a few questions, if I may.

Repeatedly the question has been asked of you, if the tax bill is passed, does that create the circumstances wherein interest rates might be less than they have been.

You have, I think correctly, pointed out that you could not make such predictions, or give us any such assurance. You still are not in a position, I am sure, of giving us any assurance that that would be the result.

Mr. MARTIN. That is correct.

The CHAIRMAN. You have said that you thought interest rates would not go as high, perhaps, with the enactment of a tax bill as they might go, or would go, without the enactment of the tax bill.

Have I correctly stated it?

Mr. MARTIN. You have stated it very correctly.

The CHAIRMAN. In making that statement, have you taken into consideration the relationship, in view of our balance-of-payments situation, between interest rates here and interest rates abroad, and can we expect interest rates here, with or without a tax bill, to remain at present levels for the next 12 months, if interest rates abroad continue to climb?

Mr. MARTIN. I think that the balance-of-payments program which the President has announced on January 1, which is appreciated and understood, I think, by most of my counterparts in Europe, will certainly lead them to try to take actions there which will not seriously interfere with what we are trying to do over here.

In other words, I am hopeful that we can have some international cooperation on this that will be helpful.

With due respect to Mrs. Griffiths' comments on international bankers, they are unanimous in believing that we ought to do something to restrain the inflation over here, and one of the things that they are looking at is whether we are going to reduce this deficit by a tax increase, or by a reduction in spending which will substantially reduce the level of this deficit.

I believe that has an impact on interest rates.

The CHAIRMAN. They can cooperate with us all they want to, but the rate of interest that is paid in the countries abroad is going to depend in large respect upon the domestic situation within those countries.

Mr. MARTIN. That is right, but I hope that that situation is such that they can ease monetary policy at this time, and I think there are indications that that is possible.

The CHAIRMAN. I hope that happens, don't misunderstand me, but it must happen, must it not, in order for interest rates to drop here, without endangering any improvement we might make in our balance of payments?

Mr. MARTIN. It would be essential that the President's program be successful.

The CHAIRMAN. Even if it is successful?

Mr. MARTIN. Success in our program need not prevent a drop in their rates in relation to ours.

The CHAIRMAN. What will the President's program with respect to the balance of payments do to improve the domestic situation in any of these countries?

If it succeeds, it will have an adverse impact on Europe by reducing the amount of goods that we buy from them, by reducing the numbers of people who go to those countries to spend our dollars.

Mr. MARTIN. No one regrets more than I do the fact that we have been forced into controls generally, which I think are likely to reduce the levels of income of all of the Western World, including the United States, until we can get out of this bind that we are in. But it is absolutely essential, if we are to maintain the dollar, that we see to it that we are not creating dollars abroad on the scale that we were before through the deficit in our balance of payments.

The CHAIRMAN. I know you intended to answer my question, Mr. Martin, but I don't think you did.

Mr. MARTIN. I can only answer it in that way, Mr. Chairman, because it is not the sort of question that you can answer in categoric terms, not in my judgment.

The CHAIRMAN. If we improve our balance of payments we are going to hurt somebody else's balance of payments, are we not?

Mr. MARTIN. Temporarily.

The CHAIRMAN. I understand that. If we hurt their balance of payments temporarily, we tend to hurt their economy, do we not? We give rise to domestic problems perhaps on their part.

We have no assurance, as I see it, that the passage of this legislation will, by the remotest possibility—maybe we can—enable us to guarantee to the American people that interest rates are not going to continue to rise.

They are going to continue to rise, if they have to rise, as I see it, to keep from further impairing our balance of payments.

Secretary FOWLER. Mr. Chairman, let me try to answer your question.

I think to the degree that there is this impact as a result of our balance-of-payments program on their economy, their answer would be to follow stimulative monetary policy, which would mean a reduction in their interest rates——

The CHAIRMAN. You mean it works over there? It does not work that way over here.

Secretary FOWLER. They are still trying it.

To the degree that there is an impact on their economy, the first response can be in terms of a more stimulative domestic policy, monetary policy, on their part, or, if they prefer, stimulative domestic fiscal policy.

I think what they would turn to more readily is a stimulative domestic monetary policy, which would mean lower interest rates, declining interest rates in Western Europe.

The CHAIRMAN. If it would work there, I wish it would work here.

I am not going back through this thing we went through in November with Mr. Martin. At the time we had a very liberal monetary policy earlier in the year, we had interest rates going higher than they had been in 4 years, and when they began to slow down a little bit, interest rates started to improve slightly.

I get all confused about this.

Secretary FOWLER. I think, though, that the climb in interest rates, the short-term rates, which began in June, began in the longer term rates a few months earlier.

After a period of decline in our interest rates that began last October and November, then bottomed out, and they began to go up because of both the increases in the demand for credit and the expectations on the part of the borrowers that Government demand was going to continue to go up. The prospects of the Federal deficit adding to that demand in the fiscal year 1968 were such as to cause the interest rate levels to move up, despite the very liberal monetary policy that the Federal Reserve was following.

Now, I think in looking ahead, the impact of the fiscal restraint applied here through this tax bill would give the Federal Reserve Board more of an option to follow monetary policies that would in turn lead to a declining interest rate, whereas without the fiscal restraint we are asking for here, they will have very little option to do that.

The CHAIRMAN. Mr. Secretary, I follow you completely, that if there is not sufficient fiscal restraint, there has to be additional monetary restraint. I am sure that that is what has happened, and what would happen. I have no argument about that.

But I see the Chairman of the Federal Reserve Board and his colleagues torn between the two situations. If we do exercise that degree of fiscal restraint, it enables the Federal Reserve Board to enjoy that degree of flexibility that you and I would like to see occur, and they could, from the domestic point of view, bring down interest rates.

They still cannot bring down interest rates if it jeopardizes our balance of payments further, and creates an outflow of American dollars. We have to admit that.

The hope that the economies of Western Europe will be such that they, too, can bring down their interest rates does not give me the sense of security that I want to have before the enactment of a tax bill to solve some of these problems.

Mr. MARTIN. You cannot get that sense of security, Mr. Chairman.

Let me point out that in 1967, an easing of monetary policy in this country did make it possible for the overhang of inventories to be adjusted reasonably rapidly and effectively. This is a continuous movement that we have in the flow of funds.

There is one thing which has disturbed me very much in these hearings, and it is similar to what we were up against when we were talking in November.

If we are going to wait until all these indexes demonstrate that it is clear that we have an uncontrollable boom on our hands, we will never take any policy action until it is too late.

What happened in 1966 was that inflation got ahead of us, and created this overhang of inventory. What disturbs me today more than anything else is that we are heading toward perpetual deficit.

Under the sort of conditions that we have had in recent years, we should have a lesser deficit than we presently have. I don't happen to be among those who think that you can avoid some setbacks at some time in an imperfect world, but we have had a very prosperous economy. We ought to be having at least a lesser deficit than we are having, but it continues to move up on us.

Now, that is impinging on the psychology of markets around the world.

You asked about the seven-and-a-half-percent savings rate. I am not an economist, but I can tell you I think the real reason for it is the uncertainty and the disturbance that there is in the minds of people generally with respect to whether there is going to be any policy to deal with inflation, and the dislocations and disturbances which have occurred can only be put to rest by some positive action being taken.

I happen to think that under these conditions it is very important to do something about this deficit.

I keep coming back to the deficit, because I think this is an all-enveloping psychological element, as well as a practical element.

You cannot take these figures and prove today, any more than we could on November 29, that you will have a boom that is uncontrollable, but you certainly have all the indications of a strong rise in personal incomes and all elements of the economy are tending to move up.

We do not want a consumer spending binge at the moment. I hope we don't get it, but we can have it.

This is a risk we have to face up to. We don't want an investment binge at the moment, but there is a possibility it may come.

The inventory accumulation, which of course was the disturbing thing in the first half of 1967, is beginning to appear. This we have to watch carefully. There you have a valid point.

By and large, you have circumstances here which make it look more and more like we are never going to be able to do anything except have an increasing deficit as a means of propelling the economy forward.

That means that the only way you are going to deal with unemployment is by inflation, and that is not a very safe way to cure unemployment. It is only temporary, in my judgment, when that happens.

The CHAIRMAN. Mr. Martin, as usual, you and I don't disagree when you talk; it is only when I talk. I don't find anything to quarrel with you about in your statement.

I think we waste an awful lot of time, and I have wasted an awful lot of time in this committee today, in talking about the economic reasons for a tax increase or tax reduction. You and I can look and see why we need a tax increase. Is that right?

Mr. MARTIN. That is right.

The CHAIRMAN. You are not an economist, and I am not, either. This is with all due deference to all the economists, but what I am saying is that we know that a deficit of $20 billion is more than we ought to have in a period of this level of employment and economic activity.

It may be that we can finance all of the costs of a war, but we want to bear in mind that it is stated that the cost, dollarwise, of this war is about $25 billion.

It is anticipated by you people and Treasury that you will take in $125-something billion in this coming fiscal year without a tax bill.

I believe that is right, is it not, Mr. Secretary?

Secretary FOWLER. Yes. In terms of the old budget figure, it is $125.7 billion.

The CHAIRMAN. Then the question arises—it has in my mind repeatedly—whether or not the plaintiff in this case comes to the court with hands as clean as they ought to be.

I am being frank when I state it that way. I cannot get my constituents to believe that I have exercised the proper degree of stewardship in the handling of their affairs if we cannot have less deficit here than we project ourselves as having without a tax bill.

Now, what you are talking about is the size of the deficit. You say it is getting to be not unmanageable, but hard to manage.

I have great sympathy with the position that the Secretary of the Treasury is in, having to go to the money markets and try to borrow money in competition with everybody else, trying to manage a debt that is up in the neighborhood of $350, $355, $358 billion. I don't think anybody has any harder job around here than he has, unless it is you, Mr. Martin, trying to decide what kind of monetary policy we need.

I have a great deal of difficulty getting my people to believe that we come to them with clean hands in this respect, that we have done the best we can do, and as a result this deficit cannot be reduced except through the imposition of additional tax on them.

I would like to brush aside all the rest of this, because I still go back to the feeling that prevailed on this committee when I came on it in 1942, that you increase taxes primarily because the Government

needs the revenue, you reduce taxes because the Government has an excess of revenue over spending.

Get away from all these predictions, because I don't think we can pass taxes on the basis of predictions, regardless of how eminent the predictors are. We expect too much of them, and are too critical of them if they don't come out exactly right.

I say that with all respect in the world for my friends who are economists.

We know that it has an effect on our balance of payments. We know in the long run, over a period of years, that a more nearly balanced budget, with prices held, will enable us to have an improved situation in our balance of payments.

We know that if we let prices continue to go and go and go, we not only become less competitive abroad, but we become less competitive here with our rates of duties and our tariffs as they presently are.

So we have a lot of troubles. I have been on the committee since 1942. I came on right after the Revenue Act of 1942. I have sat here every year since World War II, after the beginning of 1943, helping the committee to report a tax bill to the floor of the House to increase taxes and increase taxes and increase taxes.

I sat here during the Korean war. I guess we have raised taxes three separate times on three different occasions.

People don't like tax increases. There is no use kidding ourselves. They did not like them then, necessarily, but I don't recall I ever had any protest about increasing taxes.

But you hear now from people that it is all right to have a tax increase, as soon as we get our house in order.

So, I want to look with you, Mr. Schultze, into whether or not we can make a case to the American taxpayers that we have our house in order, and we have done the best we can do, and that now it is up to them to help us.

We are going to spend in the year 1968, you say, $137.2 billion.

Mr. SCHULTZE. On the old budget; yes, sir.

The CHAIRMAN. I am talking about the old budget. Let us forget the new one. I am not used to it yet.

I am just asking for information now, because if we have done the best we can do, let us tell the American taxpayer we have done the best we can do. Let us get the figures, $137.2 billion.

Has that increased any by participation certificate sales?

Mr. SCHULTZE. Yes, sir. If you add the participation sales to the $137.2 billion, you come out to $142.5.

The CHAIRMAN. $142.5 you gave us this morning?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. Now you are going to sell those. You think there is a good chance you will sell all those participation certificates?

Mr. SCHULTZE. We think there is a good chance. Whether we will sell the full amount, nobody can tell.

The CHAIRMAN. Can you sell most of them?

Mr. SCHULTZE. We think so.

The CHAIRMAN. So, then, we can talk in terms of expenditures, reduced by them, of $137.2?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. We will have revenues of $115-something. Is that right, Mr. Secretary?

Secretary FOWLER. Yes.

Mr. SCHULTZE. $115.6, without allowing for feedback or the tax surcharge.

Secretary FOWLER. $116.2, if you allow for feedback.

The CHAIRMAN. Do you want us to use the feedback, make it $116.2?

Secretary FOWLER. I think that would be the more precise way of doing it.

The CHAIRMAN. Whatever you say.

That is $21 billion of deficit. Is that $21 billion of deficit after we have reduced the previous rate of spending by $4.3?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. That is too much, isn't it?

Mr. SCHULTZE. It is sure too much to run 2 years in a row; yes, sir.

The CHAIRMAN. I am talking about 1 year. I say for this year, if we can do something about it.

Now, let us look over on a comparable basis. Forget your new way translated into your old way. Let us look at 1969. Bearing in mind that on the basis of incomes for 1969 we have reduced with this combination $12.9 billion in revenue——

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. We would spend, you say, $147.5.

Mr. SCHULTZE. $147.4.

The CHAIRMAN. $147.4. Now, that is not reduced by the participation certificates?

Mr. SCHULTZE. Yes, sir, it is; by $4 billion of participation certificates.

The CHAIRMAN. Then if we disregard the participation certificates, we would get $151.4?

Mr. SCHULTZE. That is correct.

The CHAIRMAN. On the other hand, in 1968, we would be at $142.5?

Mr. SCHULTZE. That is correct.

The CHAIRMAN. Now, that is an increase, overall, of what?

Mr. SCHULTZE. $8.9 billion.

The CHAIRMAN. What do you anticipate, without the tax increase, now, other than to continue these excise taxes—we will have to do that on automobile and telephones. Without any big argument we might be able to do some part of what you suggest on corporations, but for the time being, let us drop that out.

Continue your automobile tax and telephone tax as it is now through July 30, 1969, into the fiscal year, for that full fiscal year. What revenue would that give?

Secretary FOWLER. $125.7.

The CHAIRMAN. That is $21.7 deficit?

Secretary FOWLER. Yes, sir.

The CHAIRMAN. Now, does that $125.7 include the feedback as the $116.2 did?

Secretary FOWLER. Yes, it does.

The CHAIRMAN. $125.7 is equivalent, in other words, to $116.2?

Secretary FOWLER. Yes.

The CHAIRMAN. I thought it was more than that.

You have $9½ billion increase in your revenue here without any tax increase?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. You have $9½ billion increase.

Now, I am just talking—this is the thing that has disturbed me, as we look to the American taxpayer and say, "We want more money out of you."

Why is it that we have to eat up practically all of that $9½ billion through greater expenditures that we incur in 1968?

I know you went through all these things. You showed the interest rate going up. You showed we were going to have to spend a billion dollars more on Vietnam. You showed me something else. You also told me that the total of the increase in 1969 over 1968, not taking into consideration the reduction forthcoming, is about $13 billion.

Mr. SCHULTZE. That is on the new budget.

The CHAIRMAN. I am taking about the administrative budget.

Mr. SCHULTZE. Forgetting PC's——

The CHAIRMAN. Forgetting all of it, now. I am talking about what you are actually going to spend.

Is there an increase on the expenditure side of $13 billion, which, of course, has been offset by some reductions in cost in other agencies?

Mr. SCHULTZE. I would say that comparable to the $13 billion increase we worked out on the new budget basis, on the old budget basis it would be nearer $11½ to $12.

The CHAIRMAN. On the old budget?

Mr. SCHULTZ. Excluding PC's on the old budget, $9 billion expenditures on a net basis would be up in 1969.

The CHAIRMAN. Where is the increase, outside of the old administrative budget that is not compensated for by increase in trust fund taxes?

Mr. SCHULTZE. It is compensated for by increase in trust fund taxes.

The CHAIRMAN. You are spending more, Mr. Schultze, for social security, that is true. As you compare the 2 fiscal years, we take in more.

Mr. SCHULTZE. That is correct. That is in the expenditure figure. That is my only point. What you take in is in the expenditure figure.

The CHAIRMAN. Let us start all over again.

In the old type administrative budget, wherein we say we are going to spend $142.5, reduced by $5 billion of PC's down to $137.2. In 1969——

Mr. SCHULTZE. That is right.

The CHAIRMAN. $147.4?

Mr. SCHULTZE. Right, that is $10.2 billion.

The CHAIRMAN. That is also reduced by some——

Mr. SCHULTZE. $4 billion PC's.

The CHAIRMAN. But had you not made any reductions, and then had all the increases that you did work out, which you offset in part by reductions, let us take the increases, now—how much would you have added to this $142.5 figure, or $137.2, after PC's?

Mr. SCHULTZE. $147.4 billion in 1969, if you count no decreases, but only the increases. Is that right?

The CHAIRMAN. $147.4 if you give credit for increases out of this?

Mr. SCHULTZE. But you asked me how much it would be——

The CHAIRMAN (continuing). If there had been no decreases.

Mr. SCHULTZE. That is what I am saying. I am saying an additional $2 billion in this budget.

The CHAIRMAN. Now, Mr. Schultze, let us get that pencil a little sharper. I say, let us get that pencil of yours a little sharper.

These increases, you have more than $2 billion of reductions?

Mr. SCHULTZE. No, sir. In the old administrative budget, there is something on the order of a billion and a half to $2 billion worth of expenditure decreases. There are some additional decreases which don't come in under the old budget.

The CHAIRMAN. In other words, you add about $2 billion, and if there are no reductions at all to the $8.9, which represents the difference in spending level between these two fiscal years, it would be $10.9?

Mr. SCHULTZE. That is right. That is about right, sir.

The CHAIRMAN. We have an increase in taxes, in revenues under existing taxes of $9½ billion. Now, why do we have to eat that up by increased cost in Government?

Don't tell me we cannot avoid it. We all congratulated you when you spent even less money, when we asked you to hold the line in connection with the reduction of taxes from quarter to quarter.

In the 1965 fiscal year, we spent less money than we did in the fiscal year 1964.

Mr. SCHULTZE. Mr. Chairman——

The CHAIRMAN. I am not talking about Vietnam. Spend all you can to get it over with as quickly as you can, so far as I am concerned.

Mr. SCHULTZE. Mr. Chairman, if we had the same defense and pay costs facing us now that we had in 1965, the same defense change and the same pay change, this old administrative budget would go up about $2 billion.

In 1965 there was a $3.7 billion reduction in defense. If we had the same defense, and the same pay, facing us now that we had then, this budget would go up about $2 billion. There was a big reduction in defense expenditures in 1965.

The CHAIRMAN. Mr. Schultze, if we take out the effect of the pay increase, and if we take out the effect of the increase in Vietnam, we take out about $2½ to $3 billion, you would still have $7.9 billion or more of increase, outside of those.

Mr. SCHULTZE. There are two things, Mr. Chairman.

The CHAIRMAN. Don't misunderstand me. You know the high regard I have for you, but, remember, I am the attorney now for the taxpayers in this case, and I am just trying to find out whether or not you and I have done the best job we can do to go to that taxpayer and say, "Here, we want more money out of your pocket."

Mr. SCHULTZE. It seems to me on that basis, Mr. Chairman, the following points are relevant.

First, the country has had to add $25 billion—actually, by 1969 about $26 billion, for Vietnam.

We are not going to the taxpayer to ask him to pay $26 billion extra in taxes. In terms of additional taxes, we are asking him for something less than $10 billion. Let us say in round numbers it is $10 billion, plus extending the excises which are scheduled to go off.

So in terms of increased taxes, we are asking for $10 billion out of the $26 billion. That is point No. 1.

Point No. 2, if you look at the budget, the old budget, exclusive of defense—and there are some defense increases outside of Vietnam, which I will come back to in a moment—but looking at the old budget outside of defense, expenditures excluding the effect of participation sales rose $7½ billion in 1967, $6½ billion in 1968, and $5½ billion in 1969.

That progression has come down substantially. It seems to me that is an important point.

First, we are asking only for 40 percent of the cost of Vietnam, in terms of increased taxes. Secondly, we have significantly reduced the pace of spending, including and excluding defense, over these 3 years. Thirdly, most of the remaining increase is required by such things as interest and pay and public assistance, not new programs.

Where we do have either expansions or new programs, these have been offset by decreases.

Next, what is the taxpayer faced with once the tax bill is passed, for the moment? Is he faced with a temporary tax increase, or is he faced with a tax increase that is going to be built into the system?

If you combine the additional temporary tax and the remaining deficit, that is less than the temporary expenditures on account of Vietnam, so that with Vietnam over, you can both wipe out the temporary tax and reduce the deficit, and then get the deficit down to zero.

So on all three counts, cutting back significantly the rate of increase in expenditures, allowing only those expenditure increases which are built into the system, whether good or bad, at the moment I am not saying, and asking the taxpayer to pay only 40 percent of the cost of Vietnam in terms of new taxes, it seems to me that this makes for a good case.

It is true, Mr. Chairman, we have not absorbed the full increase in Vietnam in other Government expenditures, in the sense that we are coming in for a tax increase.

The CHAIRMAN. I said initially, Mr. Schultze, that I was of the opinion that the American taxpayer would not expect us to do that.

I apologize for interrupting you.

But there is an impression around that somewhere along the line some of us feel that we have the right to increase revenue for the additional cost of the Government.

I took the position at one point in my life—a man in political office is not supposed to be consistent, but I took the position, to say the least, along with the other Members of the House, that if we were going to continually utilize this increment year after year in additional cost of Government, that we were going to return to the taxpayers through periodic reductions in rates that which we did not need.

I know you believe in it, but I say there may be people in other places that do not.

It looks to me like we are just following the pattern here of keeping the benefit of all the increases that the economy produces, and when that is not enough, we are going to ask the taxpayers to pay more, rather than what we did in those days of holding them down, and not letting these things go like the department heads want to do.

You are not the most popular Director of the Bureau of the Budget that we have ever had. I have heard some criticism of you already, that you have held them down.

Mr. SCHULTZE. Not enough.

The CHAIRMAN. Whether we can make the case with the other taxpayers that we have held them down enough is the point I am making right now.

Mr. SCHULTZE. Let me make two other points, if I may.

In the 18 months from now until June 1969 the tax bill which we are proposing, including the extension of excises, will yield some $16

billion in additional revenue, which all four of us feel is urgently needed, from an economic, monetary, and balance-of-payments standpoint.

Now, we can argue, here, legitimately argue, about the rate of Government expenditures in terms of whether we should have cut another $2 or $3 billion or so. I think realistically one can argue that point. Obviously, men can differ on it.

However, it seems to me there is no comparison between that expenditure amount and the $16 billion of taxes involved in this measure.

I am perfectly happy to sit here and argue individual expenditure programs.

The CHAIRMAN. I don't mean to argue with you about it.

Mr. SCHULTZE. I don't mean argue, but discuss.

May I make one other point, Mr. Chairman, on this?

In terms of what this committee was doing in 1964 when it reduced taxes, it never meant—and, obviously, everybody realizes this—to reduce permanently the absolute amount of taxes collected by our tax system. With economic growth, the amount goes up, of course.

The CHAIRMAN. We said the Government cost would go up in spite of a pennypinching Congress, and in spite of the pennypinching Director of the Budget Bureau.

Mr. SCHULTZE. My point is that what really was relevant about that tax cut is that it reduced the percentage of income going into taxes. It did not reduce the absolute amount of taxes, but the percentage of income.

Along with that, it seems to me it is reasonable for this committee to ask, "Have you, over the succeeding years, reduced the percentage of Government expenditures out of total income?"

As I have indicated time and time again to this committee, we have. That goes hand in hand with the reduction in taxes, as a percent of income.

As a matter of fact, using the old budget, expenditures as a percentage of the GNP has been reduced from the neighborhood of 16 percent in 1964 to where it is slightly under 14 percent in the coming fiscal year, excluding Vietnam.

That is precisely the reason we have been able to come before this committee, as you will, defense counsel for the taxpayer, not to ask for the full cost of Vietnam back in taxes, but to ask for only 40 percent of it back in taxes.

Now, Mr. Chairman, if in these last 3 years Federal expenditures, outside of Vietnam, had risen in line with the economy, if that percentage had kept stable, we would have had to be back here asking you not for $16 billion over the 18-month period, but for something nearer $25 or $30 billion over the 18-month period.

It seems to me, looking back to 1964 and the action the committee took, we have, in terms of non-Vietnam expenditures, matched expenditure policy with our tax-cut policy.

We are coming back to this committee, as we have in the past when facing a war, to ask financing for it. But only to ask for financing 40 percent of it in terms of a tax increase.

It seems to me this is a most reasonable case to take to the taxpayer. Not a popular case, but a reasonable case.

The CHAIRMAN. Mr. Schultze, you lost me at one point. I have difficulty in accepting the argument or the view that Government expendi-

tures have to rise, the gross national product has to rise, just as a matter of fact.

Mr. SCHULTZE. I am not saying that. No, sir. I agree.

The CHAIRMAN. I know we always excuse ourselves in our stewardship by trying to point out the Nation's percentage between what we spend, and the total of what we do.

I thought earlier I had suggested that we get away from all this in the economy. We have a deficit. We know we have a deficit, that is excessive for our situation, so we are looking now to see if we can make a case to the American taxpayer that we have handled his business in such a way as to justify his complete acceptance of a tax increase.

That is what we did in the Korean war. We told him we needed it.

In the 1944 calendar year we passed another tax bill in connection with World War II. We demonstrated to the American people that about 82 cents out of very dollar they paid in additional taxes went directly to defray the cost of World War II. About $82 billion was the cost in fiscal year 1945, about $70 billion for all the rest of the Government.

We were rather miserly in taking care of all the requests that were before us at that time on the spending side. But there we had no trouble.

Now our trouble is that we are going to spend $151.4 in total this year, of which about $25 or $26 billion is related to the war in Vietnam.

We have to tell the American taxpayer that we cannot cut our expenditures less than this $125 billion in all the rest of Government, including the remainder of the Department of Defense.

Now, it is on this point, not in relationship to the total gross national product, that I want to see whether or not we can convince this defendant that he should fork over more money.

That is the difficulty, really.

Secretary FOWLER. Counsel, does plaintiff have 2 minutes?

The CHAIRMAN. Yes, I will yield to my colleague at the bar.

Secretary FOWLER. I think to keep matters in perspective that we ought to look back over the course of this trial and see what has been going on while we have been sitting here litigating.

The CHAIRMAN. Pardon me for interrupting you, but let us not hang this defendant, now.

Go ahead.

Secretary FOWLER. Last year there were some who doubted that the economic forecasts that were made were good, and they were not sure that the economy would rise after the slow start in 1967. As we sit here today, the economy has risen by $32.5 billion in the second half of 1967, in contrast with $13 billion in the first half.

Last year there were some who doubted that there would be an inflationary trend in the absence of a tax increase. It is clear that we are in a rising price trend, with consumer prices rising now at a rate of 4 percent in the second half of 1967.

Last year we said we had a balance-of-payments position, especially after the British devaluation, that would be serious. It did become serious. We lost a billion dollars in gold, and we had to resort to a new and a restrictive program in this area, which none of us like.

Last year the committee wanted the 1968 bpdget expenditures reduced, and there was a good deal of talk about $5 billion reduction being the price. The 1968 budget has been operated on and reductions

totaling about $4.3 billion have become effective and are now cranked into the 1968 operation.

Last year the committee then urged that the 1969 budget increases be held to not more than the rate of increase in the 1967 budget over the 1966 budget. This has been done. In the 1969 budget, expenditures, however defined, will rise at a lower rate in 1969 than in 1968 or 1967.

The committee has wanted us to restrict new programs. This has been done.

It has wanted us to cut back existing programs this year, and this has been done.

Now, while this has all been going on, this deficit has been hanging up there around this $21 billion figure for this year. Time has been running, and we have lost $4½ billion in requested tax increase, and the opportunity to reduce the deficit, and the need for Federal borrowing by that amount.

And I think it is a very useful exercise, and I agree with some of the observations that have been made, that this process of program evaluation and the long-term effort to hold down the rate of increase in Government expenditures by careful exercise of priorities is a constant process that ought to be intensified over the years ahead. I have always been for that.

I think we could debate, as Mr. Schultze has said here at length, whether the increase in the existing programs and the 1969 deficit should have been as high as $3 billion, or whether it ought to have been any at all, even though these increases were offset by the reductions in the other programs, but as we keep the trial going on, time is running, and by the tax program, which will bring us over the next 18 months a total reduction of $16 billion in these deficits that are of an unacceptable magnitude, particularly in the tempo of the economy we have.

I do not believe any additional discussion, however profitable it may be for the longrun, about expenditures, is likely to produce in this fiscal year, and in the next fiscal year, anything approaching that amount of reduction in the deficit.

Therefore, coming back to what I think is the basic objective we all have, the thing that all of us must focus on, is that we can do a very meaningful thing in reducing this deficit by this tax bill, and we believe that it will be good for the overall economy, in which the American taxpayer has as deep and profound an interest as he does in his own tax bill.

The CHAIRMAN. I don't want to deprive anybody from saying anything on this point. I will be glad to hear you.

I am just exploring, trying to find out whether or not we can say we have done the best job we can do on the spending side.

If we have, then there is no other way to make up the deficit than through an increase in revenue. If we have not, why we should go back and try again.

You are thoroughly convinced, Mr. Schultze, that this $147.4 billion figure that is in the budget, is the very minimum that it takes to operate this Government?

Mr. SCHULTZE. In my view, yes, sir.

Obviously, different members of the committee are going to have different views on the urgent nature, or lack of urgency, of different spending.

Quite obviously, from the discussions we have had, there is no way for me to stamp a budget and say in a $150 billion budget, counting the P.C.'s, that there is no dime in there that we cannot do without. I obviously cannot do that.

We have gone through this with the idea that tight budgeting does not mean providing no increases, but that where you do have increases, you get some decreases to offset them. Wherever we have expanded a controllable program, we have tried to find decreases to offset it.

The CHAIRMAN. On the whole, Mr. Schultze, is there any dollar increase in 1969 over 1968 in the so-called controllable items that is not offset by some corresponding reductions?

Mr. SCHULTZE. Basically, no, sir.

The CHAIRMAN. You remember in the budget you used to send you always had a figure of $15 or $16 billion controllable items?

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. You said basically——

Mr. SCHULTZE. All I mean by basically, sir, is that there is an increase not offset by decreases in controllable programs in the old budget, but these in turn are matched by increased payments on account of prior contracts, so if you count those, as we did last year, in the noncontrollable category, in the remainder, the increases are offset by decreases.

The CHAIRMAN. Some people tell us, Mr. Schultze, that we are not doing enough in this area, in the area of expenditures.

Did you get a copy of the social security bulletin that came out in 1967, at the end of the year?

Mr. SCHULTZE. I have not seen it.

The CHAIRMAN. They have a very interesting table. It provides up to October 1967, under what they call at the head of this table, "Social Welfare Expenditures on Public Programs," that in the fiscal year 1966–67 there were total expenditures of $100 billion, 238.5 million. Now that is the total. Of that, on the next page, they say the Federal Government spends $54 billion 141.7 million, that State and local governments spend $46 billion 96.8 million.

That includes a great number of things, social insurance, public assistance, veterans' programs, education, housing, social welfare, such as medical research institutions, medicare, school meals, child welfare, special OEO programs, and so on.

Now, that figure has been rising rather rapidly at both Federal and State levels. It has gone up $48 billion-plus in total now since the fiscal year 1959–60. It has gone up almost $77 billion since the fiscal year just prior to the Korean war, 1949–50.

There has to be a limit to what Government can do at any level without getting itself into difficulties, without having the currency question arise abroad, without having some degree of concern at home.

The only thing I say is that we should not try to do more than we have revenue ability to accomplish, and that we should not think that we can dip into the pocket of the defendant in this case and get more money without some other consequences setting in.

We reduced taxes once because we had a stagnant economy. We said we had problems that we had not been able to solve, and we thought the private sector might be able to solve it if we gave it a little bit more profit after taxes, a little more salary or income after taxes.

Now, I believe very strongly that we must guard against, in our rapid desires to solve problems, the creation of a monstrous system here of taxation that serves to kill the goose that lays the golden egg, or serves to skin the lamb that we can shear every year, if we care, but can skin only once.

Maybe that is old fashioned, maybe it is ridiculously out of date. I am sure it is. But I hope that you will take another look at this situation as we look at other legislative matters here for a few days, and tell us whether or not some additional amount of this increment of revenues under existing taxes might be used to reduce this deficit as we go into 1969.

I think if we make a more diligent effort in this area that the taxpayer, even though he may be very reluctant to have the decision against him in this case, would not set out to strike or do something else in the process of having it done to him.

But I do not believe that we have yet established a case that we have done the best we can. I am very frank.

Now you are leaving, I hate to see you leave. All of us on this committee hate to see both you and Mr. Ackley leave.

I know you are going into private occupation, Mr. Ackley is staying on, but the benefit of his good judgment will be lost to us, as far away as he is to be. I know he will be helpful in our relationships in Italy.

Before you all leave, look at this thing again, and see if we have done the best we can, if it has not already gone to the Printing Office.

I apologize for taking so much time.

Are there any further questions?

Mr. Byrnes.

Mr. BYRNES. I would like to make sure that the figures that I have are accurate.

This table you gave us is the administrative budget, Mr. Schultze. If you take the increase in receipts that you anticipate in 1969, your revenues, with the extension of the excises but without the tax increase, would be $125.7.

Secretary FOWLER. Yes, sir.

Mr. BYRNES. Your receipts were $115.8 for 1967?

Mr. SCHULTZE. Right.

Mr. BYRNES. You have an increase of $9.9 billion. From 1967 to 1969, what increase do you anticipate for defense in 1969?

Mr. SCHULTZE. Total national defense would go up $9.4 billion.

Mr. BYRNES. Defense is up $9.4?

Mr. SCHULTZE. Yes. From 1967, yes, sir, $9.4.

Mr. BYRNES. What is your defense figure for fiscal 1969?

Mr. SCHULTZE. Total national defense on the old administrative budget concept are $80.2 in 1969, and $70.8 in 1967. It is $9.4 billion increase, from $70.8 to $80.2.

Now, you understand, Mr. Byrnes, this is what we call national defense, which includes Atomic Energy Commission. That is what we call national defense. That is the total national defense function.

Mr. BYRNES. You do come to a figure of $9.4?

Mr. SCHULTZE. Yes, sir.

Mr. BYRNES. Your receipts are up $9.9?

Mr. SCHULTZE. That is what it looks like; yes, sir.

Mr. BYRNES. You have a sufficient increase in receipts during this

2-year period, 1967 through 1969, which just about equals your defense increases during those periods. Is that right?

Mr. SCHULTZE. In those 2 years; that is correct.

Mr. BYRNES. You can say if you want that the deficit that we have created today is the result of the defense expenditure. Yet, on the other hand, you can also say the increase in receipts have offset additional defense expenditures.

Mr. SCHULTZE. Between those 2 years; that is correct, sir.

Mr. BYRNES. Yes.

Mr. SCHULTZE. My point is that what happens is that the 1967 receipts are particularly high because of the acceleration we had in corporation income tax payments. If you go from 1966, you get a completely different picture, but between those 2 years, you are correct.

Mr. BYRNES. Yes, you are going to have that big bulge of defense cost that came into being in fiscal 1966.

Mr. SCHULTZE. It started up then, that is right.

Mr. BYRNES. Right.

Mr. SCHULTZE. What I am really getting at, between the years 1967 and 1969, you get a small increase in receipts, because of the acceleration in 1967, and you get a relatively small increase in defense, because the big buildup came from 1966 to 1967.

Mr. BYRNES. Really, in a sense we had a tax increase in 1967, to the degree that we imposed an additional burden. Your normal increase in revenues, if you had not had that acceleration in receipts as a base, would have been even higher?

Mr. SCHULTZE. That is right.

Mr. BYRNES. On the other hand, if you look at the increase in defense costs, you get a large portion of the increase between 1966 and 1967. That was the biggest surge. The only reason I raise this point is that it speaks to the question that the chairman has mentioned: How, during a time of war, does the administration recommend escalation of nondefense costs that are in excess of the defense costs in these last 2 years, 1968 and 1969?

That is really what this picture shows. If there had been no increase in nondefense, our revenue increases would take care of, the additional defense costs in those 2 years.

Mr. SCHULTZE. Yes, sir.

Let me also point out something on the other side. Given the fact that there are a number of other program costs, as you know—and our quarrel is really only on the margin—it is quite true that the arithmetic would indicate if you had no increase in other expenditures, the revenues would have taken care of the increase in defense costs.

That statement, however, implies massive reductions in some areas.

Mr. BYRNES. I would like to review what happened during the Korean war. To what degree did we hold the line on the nondefense area as the defense costs went up, and we imposed additional taxes? I think that we held the line quite rigidly on nondefense expenditures, and that is another reason why the public accepted an increase in taxes.

Mr. SCHULTZE. There were really three things involved in that, to my recollection.

I have to look at the minutes, too, but my recollection, Mr. Byrnes, is that for one fiscal year you are correct. I think it was between fiscal 1950 and 1951 that the nondefense expenditures stayed level. As a

matter of fact, I think they went down a bit, because there was a big veterans' payment in 1950 that was not repeated in 1951.

Secondly, in the Korean situation, you had two other kinds of increases, those costs associated with Korea, itself, but, in addition, a very large increase in non-Korean defense expenditures, as we completely rebuilt our whole defense establishment.

Mr. BYRNES. You are talking about the aftermath?

Mr. SCHULTZE. No, between 1950 and 1953 we had very large increases in nonfighting, noncombat defense expenditures.

Mr. BYRNES. The defense budget is all I am talking about. Yet, in the nondefense area, I think you had more stability in nondefense expenditures than we see in the last 2 years.

I think that makes it extremely difficult to accept a tax increase for financing defense now. It raises the question, Is it a tax increase to finance the war, or to finance the increase in nondefense spending? Increased revenues take care of the defense costs.

Mr. SCHULTZE. Except you look at it in another way, which I think is a legitimate way to look at it.

There has been over the last 2 years a $25 billion increase in extraordinary expenditures, Vietnam, and we are asking to finance one-half of that.

Now, surely, if you say the revenues would themselves have taken care of that, yes, sir; that is correct. But it seems to me a much more legitimate way to put it is to look at that $25 billion of extraordinary expenditures, and say that you are asking the American taxpayer to finance half of it.

It is Vietnam which has laid an extraordinary burden on top of the other. We are not asking for all of that added burden.

Mr. BYRNES. You are asking the taxpayer to finance all of it. You are not balancing the budget. I think if you asked for a tax increase for half of the cost, and that balanced the budget, there would be no question about it.

Mr. SCHULTZE. On the other side, Mr. Byrnes, is the sum of the budget deficit, and the temporary taxes are still less than the Vietnam expenditures. In other words, when the Vietnam expenditures go, you have room both to wipe out the deficit and to take the temporary tax off.

Mr. BYRNES. All I am trying to point out is—I think the aspect that worries the chairman, worries me, as I have suggested to you on many occasions—I think it is the part that worries most of the members of the committee, and certainly the American public—is that we do have these unusual expenditures of the Defense Department and of the war, yet look what is happening all through this period to nondefense expenditures, not leveling off, but moving up, and even in the last 2 years moving up in excess of Vietnam, and moving up in excess of the revenue increase.

Mr. SCHULTZE. Nondefense has been moving up in excess of revenue?

Mr. BYRNES. Surely.

Mr. SCHULTZE. I am sorry. Yes, sir.

Mr. BYRNES. Sure, that is a bigger figure than defense.

Mr. SCHULTZE. Yes, you are right.

Mr. BYRNES. That is why we have to focus in and target in on this particular aspect, because I think that is the thing that gives everybody the great concern.

The CHAIRMAN. Any further questions?

Mr. COLLIER. Just one.

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Referring to the colloquy just completed, in the event that the war would end in Vietnam tomorrow, we cannot very well assume, can we, that we immediately would be relieved in any manner of the present increase in the cost of the conflict in Vietnam, by the very nature of the situation there?

We cannot anticipate that this expenditure will be eliminated with the end of the war in Vietnam.

Mr. SCHULTZE. Mr. Collier, let me collect my thoughts for a moment.

In the first place, it is obviously clear that if hostilities ceased, certainly we will not in the next month or two, or the next 6 months, be able to take Vietnam expenditures down to zero.

You are quite right. It takes time. If defense needs are heading down, and you can see where they are going, the tax increase could come off almost immediately.

Of course, there are any number of scenarios that could be played out, as to how the war might end. Any one of them you could foresee, and they are all different, and they do have different expenditures.

What I am saying is, if we did not have the expenditures in Vietnam—and I don't know how long it would take expenditures to move down—but once we did not have them, then we would not need the tax.

Mr. COLLIER. We should not leave any impression, it seems to me, that when the war ends in Vietnam, that this "temporary" tax is then going to be removed.

Mr. SCHULTZE. Again, Mr. Collier, let me say that if there were an end to the war and an end to the military expenditures associated with it, one could look forward to the $25 billion of expenditures dropping, or most of it dropping down. But over what period, I cannot say.

We could then look toward dropping the temporary tax.

I don't think any man sitting here could tell how long it will take to move those expenditures down.

Mr. COLLIER. I can anticipate, I am sure everyone else can, as a practical matter, in the event of that situation, that the preponderance of the problems and obligations that we will be saddled with, even at the termination of hostilities, would make any indication that this was a tax that was going to end with the end of hostilities just something that is not realistic.

Mr. SCHULTZE. I would say there are a number of alternative possibilities. I would not rule out that one.

The CHAIRMAN. Mr. Battin.

Mr. BATTIN. In going over my notes, I forgot to ask Mr. Schultze one question at the time I was interrogating him.

You mentioned a cutting back of two major reactor development programs.

Mr. SCHULTZE. Yes, sir.

Mr. BATTIN. Are you at liberty to specify?

Mr. SCHULTZE. Yes, sir. One is a reduction in—that is in 1968. There are other reductions in the 1969 budget.

That list you have reference to is cutbacks for this year. In turn, those two items refer to, first, the Rover nuclear reactor program, where the program has been reduced from developing a 250,000-pound-

thrust engine to developing a 75,000-pound-thrust engine. It is a reduction in that reactor program.

The other is in what they call the SNAP reactor program, which is a space application of nuclear reactors and radioisotopes.

Those two have been reduced.

Mr. BATTIN. Both related to the space program?

Mr. SCHULTZE. Yes, sir.

Now, in 1969, we have some reductions not related to space in the AEC.

The CHAIRMAN. Are there any further questions?

Mr. Schultze, I understand that you will not be here on the job, probably, when we reconvene after a few days, that you will have taken your position in private practice of economics, or something.

Mr. SCHULTZE. Yes, sir.

The CHAIRMAN. I guess, Mr. Ackley, if we want to get hold of you later on this matter, we will have to contact you in Rome. Do you expect to leave soon?

Mr. ACKLEY. I expect to be here for a few weeks, Mr. Chairman.

The CHAIRMAN. Then we will again see you in your official capacity a little longer than we will Mr. Schultze.

I want to publicly express to both of you the deep satisfaction that I have had on so many occasions in my association with you.

Any differences of opinion I have ever had with you were just opinions, not personalities by any means. I have great respect for the ability of both of you. I certainly hate to see either of you leave your present position.

I will repeat again that I know you will do an excellent job of cementing our relations with our friends in Italy. You are ideally suited for the problems they have there, and I understand you even speak their language well.

Mr. ACKLEY. A little.

The CHAIRMAN. Mr. Secretary, we will want you and Mr. Martin back with us.

Secretary FOWLER. We are the boys that are left behind.

The CHAIRMAN. Taking into consideration that you will be here in the future, Mr. Fowler, you will be ready, will you not, along with others, to present the administration's proposals on the balance of payments?

Secretary FOWLER. Yes, sir.

The CHAIRMAN. If there is no objection, then, we will adjourn until the 5th of February.

Secretary FOWLER. Mr. Chairman, I have one release here that might be of some information.

We get a lot of press inquiries. It occurred to me some of the members might want it. It is a tax table showing the effect of the 10-percent surcharge on the various wage levels, and comparing it with the 1963 tax program.

The CHAIRMAN. Let us put that in in connection with the other material that we inserted at the conclusion of your remarks, if that is agreeable. (See pp. 21, 22.)

The CHAIRMAN. Without objection, the committee adjourns until the 5th day of February.

(Whereupon, at 4 p.m., the committee adjourned.)

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LEGISLATIVE HISTORY

Public Law 90-364
H. R. 15414

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INDEX AND SUMMARY OF H. R. 15414

Feb. 20, 1968	Rep. Mills introduced H. R. 15414 which was referred to House Ways and Means Committee. Print of bill as introduced.
Feb. 23, 1968	House committee reported H. R. 15414 without amendment. H. Rept. 1104. Print of bill and House Rept.
Feb. 29, 1968	House passed H. R. 15414 without amendment.
Mar. 1, 1968	H. R. 15414 was referred to Senate Finance Committee. Print of bill as referred.
Mar. 15, 1968	Senate committee reported H. R. 15414 with amendments. S. Rept. 1014. Print of bill and report.
Mar. 18, 1968	Senator Williams, Del., submitted an amendment to H. R. 15414 to reduce number of employees in Executive Branch.
Mar. 20, 1968	Sen. Javits submitted an amendment to H. R. 15414, to place limitation on Federal expenditures and impose 10 percent income tax surcharge.
Mar. 25, 1968	Senate began debate on H. R. 15414.
Mar. 26, 1968	Senate continued debate.
Mar. 27, 1968	Senate continued debate.
Mar. 28, 1968	Senate continued debate.
Mar. 29, 1968	Senate continued debate.
Apr. 1, 1968	Senate continued debate.
Apr. 2, 1968	Senate passed H. R. 15414 with amendments.
	Both Houses appointed conferees.
May 6, 1968	House received President's message. H. Doc. 305. Print of H. Doc. 305.
May 8, 1968	Conferees met in executive session.

May 9, 1968	Conferees agreed to file conference report.
	Sen. Mansfield requested particulars on area of expenditure reductions.
	Senate Appropriations Committee heard Sen. Long's, La., explanation of proposed budget expenditure reduction of $6 billion
May 29, 1968	House rejected a motion to limit expenditure reduction of $4 billion instead of $6 billion.
June 10, 1968	House received conference report on H.R. 15414. H. Report 1533. Print of conference report.
June 18, 1968	House Rules Committee reported a resolution for consideration of conference report on H. R. 15414. H. Resolution 1220, H. Rept. 1565. Print of resolution and report.
June 20, 1968	House agreed to conference report on H. R. 15414.
June 21, 1968	Senate agreed to conference report on H. R. 15414.
June 28, 1968	Approved: Public Law 90-364
	Conference Committee Print explaining provisions of bill as agreed to in conference.

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 20, 1968

Mr. MILLS (for himself and Mr. BYRNES of Wisconsin) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Adjustment Act of 1968".

(b) AMENDMENT OF EXISTING LAW.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference

shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061 (a) (2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412 (a) (1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251 (a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications)

is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relat-

ing to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its income tax imposed by section 11 or 1201(a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655 (e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment

(if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For pur-

poses of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201 (a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d) (3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before Jan-

uary 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154 (c) (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after

the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an

application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the

estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof "$100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A)".

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302 (c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

90TH CONGRESS
2D SESSION

H. R. 15414

A BILL

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

By Mr. MILLS and Mr. BYRNES of Wisconsin

FEBRUARY 20, 1968
Referred to the Committee on Ways and Means

90TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 1104

TAX ADJUSTMENT ACT OF 1968

FEBRUARY 23, 1968.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. MILLS, from the Committee on Ways and Means, submitted the following

REPORT

[To accompany H.R. 15414]

The Committee on Ways and Means, to whom was referred the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. SUMMARY

This bill continues until December 31, 1969, existing excise taxes imposed with respect to manufacturers' sales of passenger automobiles and with respect to certain telephone services. Thereafter it provides for the gradual reduction and eventual elimination of these taxes. This bill also provides for the acceleration of income tax payments by corporations to place these payments of tax on a comparable basis to that applying in the case of individual taxpayers, including sole proprietors.

While this bill does not increase tax liabilities above those now payable, it is estimated the changes made by this bill will increase revenues by $1.1 billion in fiscal year 1968 and by $3.1 billion in fiscal year 1969. The larger revenues in part are attributable to continuing existing excise tax rates and in part to speeding of the collection of corporate existing tax liabilities. In view of the budget deficits in excess of $20 billion forecast in both 1968 and 1969, without taking into account proposed tax increases, your committee believes that it is inappropriate to allow a reduction in existing excise tax rates. Moreover, it appears to be an appropriate time to complete action to place corporate tax payments on a current basis. At the same time, however, provision

is made for quick refunds for corporations after the end of the year in those cases where their estimated tax payments significantly exceed their tax liability.

The excise tax extension and acceleration of income tax payments by corporations were recommended by the administration. Action on these matters is not intended to prejudice possible future action with respect to other tax changes on which the committee is still reserving judgment.

To simplify compliance for corporations, your committee's bill repeals the present requirement that corporations file a declaration of estimated tax. This does not affect existing payment procedures.

The bill also establishes that a deposit of tax will be considered to be paid on time if it is mailed to a depositary at least by the second day before the due date.

II. GENERAL STATEMENT

The President's budget message estimates receipts and expenditures under the new unified budget, before taking into account the President's proposals with respect to tax legislation in fiscal years 1968 and 1969, at the following levels: [1]

BUDGET TOTALS FOR FISCAL YEARS 1968 AND 1969

[In millions of dollars]

	1968	1969
Receipts excluding effect of tax proposals	152,824	164,951
Expenditures and net lending	175,635	186,062
Deficit	22,811	21,111

These data indicate deficits of $22.8 billion in 1968 and $21.1 billion in 1969.

With prospective deficits of such magnitudes, your committee has concluded that it is inappropriate to permit reductions in the excise taxes to occur in 1968 or 1969 as scheduled by existing law. It also has concluded that this is an appropriate time to remove the remaining disparity in the treatment of individuals and corporations under the current tax payment system.

While your committee is limiting its action in this bill to these proposals of the administration, this is not intended to prejudice possible future action with respect to other tax recommendations which have been proposed by the administration. In view of the fact that the excise tax reductions, in the absence of this bill, would occur on April 1, and the fact that the corporate speed-up to be effective this year must occur before April 15, your committee concluded that it

[1] The administrative budget estimates are as follows:

[In millions of dollars]

	1968	1969
Receipts excluding effect of tax proposals	115,569	122,669
Expenditures	137,182	147,363
Deficit	21,613	24,694

should act now on these recommendations without awaiting any disposition or determination concerning the other recommendations of the administration.

Excise tax extensions

Under present law the 7-percent manufacturers excise tax on passenger automobiles [2] is scheduled to drop from 7 to 2 percent on April 1, 1968, and then on January 1, 1969, to drop to 1 percent. The 1-percent rate under present law is to be a permanent tax. Your committee has concluded that the present 7-percent rate of tax should be continued until 1970.

In its consideration of the Excise Tax Reduction Act of 1965, your committee concluded that reductions in the manufacturers excise tax on passenger automobiles should be enacted in a series of gradual steps to prevent possible dislocations in the industry. As the prices of new cars have an important bearing on the prices of used cars, it was recognized that a sharp reduction in the excise tax on new automobiles might have a severe impact on the used car market. It was also feared that the anticipation by consumers of a substantial reduction in the excise tax rate might delay purchases of new automobiles for a considerable period before the rate reduction actually took place. These considerations are still valid. Therefore, your committee's bill provides for the reduction in the excise tax on passenger automobiles in a series of steps which is to begin on January 1, 1970, and conclude on January 1, 1973, with the repeal of the tax. As indicated previously, under existing law the tax would have been retained at a permanent level of 1 percent.

Your committee has been advised by representatives of the automobile industry that excise tax reductions scheduled for the beginning of the calendar year are less likely to disrupt the normal operations of the industry than reductions scheduled at other times. If buyers defer purchases until the first of the year as a result of reductions scheduled for that time, this will merely shift some sales from the period of brisk activity that normally follows the introduction of new models to the winter months when activity usually is slow. For this reason, your committee's bill schedules successive reductions of 2 percentage points for January 1, 1970, January 1, 1971, and January 1, 1972, and provides for the repeal of the remaining 1-percent tax on January 1, 1973.

Under present law the excise tax on local telephone service, toll service, and teletypewriter exchange service is scheduled to be reduced from 10 percent to 1 percent as of April 1, 1968, and on January 1, 1969, the 1 percent tax is to be repealed. Your committee has concluded that the present 10 percent rate of tax should be continued until 1970.

Your committee's bill provides a schedule of rate reductions for the tax on telephone service comparable to that provided in the case of passenger automobiles; that is, the 10 percent rate on these various types of telephone service is reduced to 5 percent as of January 1, 1970, and is reduced by 2 percentage points a year thereafter until 1973, when the final 1 percent tax is removed.

[2] Passenger automobile chassis and bodies and other chassis and bodies for trailers and semitrailers (other than housetrailers) suitable for use in connection with passenger automobiles.

Current payment of corporate income tax liabilities

Your committee also concluded, in view of the budgetary outlook, that it is appropriate now to complete action designed to place corporations under substantially the same obligations with respect to the current payment of income tax liabilities as those placed upon individuals and unincorporated businesses.

This objective has long been sought by Congress and your committee. Action was taken in each of the revenue acts of 1950, 1954, 1964, and 1966 to place the payment of corporate tax liabilities on more nearly the same basis as that of individuals and unincorporated businesses. The development has been gradual because of a desire to ease possible transitional problems for the corporations involved, but commitment to the objective has not varied.

While large corporations with substantial taxable incomes are now on roughly the same basis as individuals with respect to the timing of estimated-tax payments, important disparities still exist. Individual proprietors and partners are generally required to make estimated tax payments equivalent to at least 80 percent of their tax liabilities in order to avoid additions to tax, but corporations need to make estimated tax payments equal to only 70 percent of any liabilities in excess of $100,000 in order to avoid similar impositions. Even wider differences exist between the treatment of smaller corporations and unincorporated businesses. Corporations whose tax liabilities amount to less than $100,000 are under no obligation to file declarations and make quarterly payments of estimated tax while the owners of unincorporated businesses must do so if their tax liabilities are expected to be as little as $40. Furthermore, while corporations whose taxes are expected to exceed $100,000 are not required to make estimated tax payments based on the initial $100,000 of tax, individuals must make estimated tax payments based on the entire amount of their liability if that liability is expected to exceed $40.

The present system extends a competitive advantage to small- and medium-sized corporations relative to unincorporated businesses by allowing the corporations to defer all, or a substantial portion, of their tax payments until the close of the tax year while requiring unincorporated businesses to pay their income tax liabilities currently. The $100,000 of corporate tax liability which is exempt from the current payment provisions is quite large in relation to the liabilities of most unincorporated businesses. Furthermore, the exemption benefits only a small minority of the Nation's businesses, since most of the latter are unincorporated. Of the 8.6 million businesses with net incomes in 1965, 7.7 million were sole proprietorships or partnerships, leaving only about 900,000 corporations (of these nearly 200,000 were subchapter S corporations whose income is taxed to the individual shareholders rather than to the corporations.)

Placing corporations on the same current tax payments schedule as that of individuals should also prove of benefit to some small corporations who might otherwise fail to make adequate provision for tax payments and find themselves faced with deferred liabilities in a year of low earnings or at the time of liquidation. Many individuals, including owners of unincorporated businesses, find the current payment provisions help them to meet their obligations under the present tax law in the most efficient manner.

For these reasons, your committee's bill raises the percentage of estimated tax liability necessary to be paid currently by corporations from 70 to 80 percent—the percentage applicable to individuals. This change is made fully effective for 1968 tax liabilities. The bill also reduces the exemption from the corporate current payment provisions from $100,000 to $40. This latter change is made effective gradually over a 5-year period beginning with 1968 tax liabilities. This is accomplished by requiring the inclusion in 1968 (in addition to tax liabilities in excess of $100,000) of 20 percent of the tax liabilities below $100,000 which a corporation will eventually have to include, by increasing this to 40 percent for 1969 liabilities, 60 percent for 1970 liabilities, 80 percent for 1971 liabilities, and 100 percent for 1972 liabilities and later years.

Your committee phased in the reduction of the $100,000 exemption for corporate estimated tax payments because it believed that to do otherwise would impose a hardship on many corporations not now required to make quarterly payments of estimated tax and also on those corporations which will be required to make substantial increases in the amount of estimated tax they pay. Your committee's bill provided the 5-year transition period before the new standards of current payment become fully effective to insure that no single corporation experiences undue difficulty as a result of the new requirements.

Another provision of your committee's bill will simplify the estimated tax payment requirements of corporations by repealing the existing requirement that corporations file declarations of their estimated tax. Under the terms of the bill, corporations will not have to complete a form indicating the manner in which they determine their estimated tax payments, but will merely have to make those payments on or before the quarterly due dates.

Your committee made a further change designed to ease the impact of the full current payment system on corporations. It recognizes that applying the system for corporations to estimated tax liabilities above $40 might in some cases result in substantial overpayments by corporate taxpayers if the final results of their operations fall below their expectations in the forepart of the year, since the last estimated tax payment by corporations is required to be made before the end of their tax year. This can result from a widely varying set of circumstances, such as the burning or flooding out of a business, a strike, or a sharp downturn in expected sales. For some of these firms the overpayment of estimated tax may create a cash shortage at the very time the need is the greatest. These corporations cannot obtain a refund of estimated tax under current law until they file their tax returns. However, many corporations have difficulty in filing their returns within 2½ months after the close of their tax year and must ask for a 3- or 6-month extension before filing their returns. This delays still further the time when any overpayment of estimated tax can be refunded to them.

For these reasons your committee has added a provision permitting a corporation to obtain a quick refund of overpayment of estimated tax by filing an application during the period between the end of its taxable year and the time it files its tax return for that year (or the due date of the return if earlier). When these quick refund applica-

tions are filed, the Internal Revenue Service is to make payment within 45 days. The refund in this case is only available with respect to estimated tax payments in excess of tax liability reasonably estimated at that time, and not the 80 percent of estimated tax liability on which the earlier declaration payments may be made. To prevent the use of this quick refund provision where the amounts are small, it is provided that the refund is to be made only where the estimated payments have equaled or exceeded 105 percent of tax liability and the excess payments equal or exceed $200.

Timely mailing treated as timely deposit

At the present time taxpayers who are required to deposit payments of estimated, withheld income, employment, or excise taxes in a designated bank for tax collection purposes must bear the responsibility for insuring that the payment reaches the depository on or before the specified due date. It has been pointed out that this places the responsibility for delays which occur in the delivery of mail on the taxpayer. Taxpayers, particularly those whose headquarters are located at some distance from the depository banks they may wish to use, must mail deposits well in advance of the due date to avoid the risk of an additional tax if there is a delay in the mails. Under legislation passed in 1954, certain documents and claims are held to be filed on time if they were timely mailed. In 1966, this treatment was extended to returns and payments of tax. Your committee has concluded that similar treatment should be provided with respect to deposits of tax. The bill, therefore, provides that a deposit received at the depository bank after the due date will be considered received on or before the due date if it is mailed on or before the second day prior to the due date.

The need for prompt action

The measures proposed in your committee's bill should be enacted promptly. The existing excise tax rates on passenger automobiles and telephone service will fall sharply in about 1 month unless legislative action is taken to prevent the reductions. Furthermore, buyers may begin to postpone purchases of autos in expectation of the scheduled reductions unless congressional action is completed soon. The longer the delay in the action to extend the excise tax rates, the greater is the risk that the volume of deferred purchases will become substantial. Prompt action also is necessary on the provisions regarding the current payment of corporate tax liabilities. These provisions will provide a substantial increase in tax receipts in fiscal year 1968 only if they are enacted in time for corporations to put them into effect before the April 15 and June 15 estimated tax payment due dates for corporations that use the calendar year as their tax year.

Revenue effects

As indicated in the following table, this bill is expected to increase revenue in fiscal year 1968 by $1.1 billion and in fiscal year 1969 by $3.1 billion.

The $800 million increase in receipts from the provisions to accelerate corporate tax payments which is estimated for fiscal year 1968 reflects the combined impact of the increase in the percentage of tax required to be paid currently to avoid an addition to tax and a reduction in the current exemption level. Since the reduction in the exemption level is

to be phased over a 5-year period, receipts in each of the fiscal years 1969 through 1972 will also be increased by $400 million a year. The impact of the increase of 70 to 80 percent in the amount of tax liability which must be paid currently to avoid additions to tax will increase receipts only in fiscal year 1968. The increase in revenue from the excise tax extensions is small in fiscal year 1968 since the extensions apply only for 3 months in this fiscal year.

ESTIMATES OF EFFECT OF THE BILL ON BUDGET RECEIPTS

[In millions of dollars]

	Fiscal year 1968	Fiscal year 1969
Excise taxes—extension of present rates:		
Passenger automobiles	190	1,500
Telephone service	116	1,160
Total, excise extensions	306	2,660
Proposals for corporate estimated-tax payments	800	400
Total	1,106	3,060

Source: The Budget of the U.S. Government, fiscal year 1969.

III. GENERAL EXPLANATION

1. The excise tax on passenger automobiles (sec. 2(a) of the bill and sec. 4061 of the code)

Present law.—As a result of amendments in the Excise Tax Reduction Act of 1965 and the Tax Adjustment Act of 1966, the excise tax on passenger automobiles (imposed on the manufacturer's price) is 7 percent. Before the passage of the Excise Tax Reduction Act, the rate was 10 percent. Under the amendments made by those acts, the rate now is scheduled to fall from 7 to 2 percent on April 1 of the current year, and to a permanent rate of 1 percent on January 1, 1969.

Explanation of provisions.—The bill as reported by your committee substitutes a new timetable for the scheduled reductions in the excise tax on passenger automobiles. In addition, it provides for the repeal of the tax effective January 1, 1973.

The new timetable postpones the scheduled reductions in the excise tax on passenger automobiles for a temporary period. At the same time it tempers the effect that the scheduled reductions would have on consumer purchases—as previously described—by providing for a gradual reduction in rate. Finally, the new timetable provides for the repeal of the tax at the end of the postponement period.

Under the bill, the present 7-percent excise tax on passenger automobiles is to continue until January 1, 1970. On that date the rate is to fall to 5 percent. Further annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, as the rate falls from 5 to 3 percent and from 3 to 1 percent, respectively. On January 1, 1973, the tax rate is to fall to zero. As in the past, refunds are to be paid to dealers with respect to automobiles held in inventory on the date of any rate reduction. The amendment here would provide the following schedule of excise tax rates applicable in the case of passenger automobiles:

	Percent
Before Jan. 1, 1970	7
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

2. The excise tax on communications (sec. 2(b) of the bill and sec. 4251 of the code)

Present law.—Present law imposes a 10-percent excise tax on amounts paid for local and toll telephone and teletypewriter exchange service. Scheduled reductions under the Excise Tax Reduction Act of 1965 and the Tax Adjustment Act of 1966 call for the tax to fall to 1 percent on April 1, 1968, and for its repeal on January 1, 1969.

Explanation of provisions.—The bill as reported by your committee postpones the scheduled repeal of the excise tax on telephone services and teletypewriter service. It also provides for a graduated reduction in the rate before the rate falls to zero on January 1, 1973.

In taking the action described above, your committee continues to recognize, as it stated at the time of the Excise Tax Reduction Act of 1965, "that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system." The committee also recognizes, however, that "while elimination of the tax is desirable * * *, since the tax is an important source of revenue for the Federal Government, reduction should be staged over a period of years."

Under the bill, the scheduled reduction and repeal of the excise tax on telephone services and teletypewriter service generally parallels the scheduled reduction and repeal of the excise tax on passenger automobiles. Thus, the present 10-percent rate is to continue until January 1, 1970, when it is to fall to 5 percent—the same rate then scheduled for the automobile excise tax. Annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, so that the tax rate is to be 3 percent in 1971 and 1 percent in 1972. On January 1, 1973, the tax is to cease. As under existing law, in applying these new rates, bills for services before November 1 of a calendar year are to bear the tax of that year even if the bill for the services is not rendered before the close of the year. As a result the schedule of rates under your committee's bill in the case of these telephone services is as follows:

	Percent
Before Jan. 1, 1970	10
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

3. Repeal of requirement for filing declaration of estimated tax (sec. 3(a) of the bill and secs. 6016 and 6074 of the code)

Present law.—Present law requires a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration of estimated tax in the current year. A corporation subject to the filing requirement also must make payments of estimated tax in the current year. Payments are deposited with authorized banks by using deposit forms provided by the Treasury.

With the shift in 1967 to the collection of estimated tax of corporations through the use of banks as depositaries, the filing of declarations of estimated tax by corporate taxpayers became unnecessary. The declarations formerly were used as a means of identifying and billing the taxpayer but since shifting to the depositary system, the Service supplies the taxpayer with deposit forms for each quarterly payment, which contain the taxpayer's identifying number. The deposit forms provide both the Service and the corporation (through the retention of a stub) with a record of payments and also serve as a reminder to the corporation as to when payments are due.

Explanation of provisions.—Your committee's bill repeals the requirement that a corporation file a declaration of estimated tax. This action is taken because there is no justification for requiring a corporation to continue filing a form which, under present practices, serves no useful purpose. Elimination of the requirement for filing this form will simplify present practices both for the corporate taxpayer and for the Internal Revenue Service. The repeal of the filing requirement, however, does not change the requirements regarding the payments of estimated tax by a corporation.

4. Payment of estimated tax by corporation on tax liability below $100,000 (sec. 3(b) of the bill and sec. 6154 of the code)

Present law.—Provisions added by the Internal Revenue Code of 1954 require a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration and make payments of estimated tax in the current year. A corporation whose estimated income tax (after credits) does not exceed $100,000 is not subject to the requirements; one whose estimated income tax (after credits) does exceed $100,000 is subject to the requirements only to the extent of the excess.

As a result of amendments made by the Revenue Act of 1964 and the Tax Adjustment Act of 1966, estimated tax payments for calendar year corporations are payable in four equal installments on April 15, June 15, September 15, and December 15. In total the payments must equal the amount of the tax shown on the return less $100,000. However, no underpayment, for purposes of imposing an addition to tax, results if the corporation pays 70 percent of this amount.

The code also requires an individual businessman to make a declaration and payments of estimated tax. As contrasted to the $100,000 corporate exemption, however, he has only a $40 exemption. This exemption, moreover, does not apply if his estimated income tax (after credits) exceeds $40. In contrast, as noted above, a corporation subject to the estimated tax payments requirement does not have to pay the first $100,000 of its estimated income tax liability.

A corporation required to make estimated tax payments may avoid an addition to tax for an underpayment, as previously described, if it comes within one of three exceptions. The first exception allows a corporation to pay an amount equal to the prior year's tax reported on its return in lieu of its current year's estimate. A second exception determines the amount payable by reference to the results of the corporation's operations in the prior year but at the current year's income tax rates. The third exception determines the amount payable by reference to the corporation's income in the months preceding the payment; the corporation annualizes this income and must pay 70 percent of

the tax determined on this annualized amount. The $100,000 corporate exemption noted above also applies in the case of each of these exceptions.

Explanation of provisions.—The bill as reported by your committee reduces the $100,000 corporate exemption to $40 over a 5-year transitional period beginning in the current year. It thus removes a competitive tax advantage of operating in corporate form.

Under the bill a corporation is to be required to make payments of estimated tax if its estimated income tax (after credits) exceeds $40. As in the case of the individual businessman, if the corporation is subject to the payments requirement, it must also pay the first $40 of estimated tax liability.

As noted above, the existing $100,000 corporate exemption is to be phased out over a 5-year period with taxable years beginning in 1968. This phaseout, provided to allow a corporation time to arrange its financial affairs to meet the new estimated tax payments requirement, is accomplished by providing a "transitional exemption" during the 5-year period. This transitional exemption is a percentage of the first $100,000 of the corporation's estimated income tax (after credits). This percentage, called the exclusion percentage, falls from 80 percent in 1968 to 60 percent in 1969, to 40 percent in 1970, to 20 percent in 1971, and is eliminated in 1972. Thus, for example, in 1968, a corporation whose estimated income tax (after credits) exceeds $100,000 is to have an $80,000 exemption from the estimated-tax payments requirement; a corporation whose estimated tax is only $60,000 is to have a $48,000 exemption. This is the result of the 80-percent exclusion percentage for 1968. This 80-percent exclusion percentage applies in this regard even though the corporation may substitute its 1967 actual tax for its 1968 estimate in order to avoid an addition to tax.

As a result of this manner of phasing out the existing $100,000 exemption, a corporation whose estimated income tax (after credits) exceeds $40 will pay an increasing amount in estimated tax each year until the end of the transition period. As noted above, thephaseout gives the corporation time to arrange its financing so as to meet the new requirements in an orderly fashion. At the same time the phaseout requires all taxable corporations to begin immediately to pay some of their tax currently.

5. Increase from 70 to 80 percent in liability corporations must pay by estimated tax to avoid additions to tax (sec. 3(c) of the bill and sec. 6655 of the code)

Present law.—Present law imposes an addition to tax if a corporation fails to pay its estimated tax. This addition is at the rate of 6 percent per annum on the amount of the underpayment. An underpayment is the difference between an actual payment and 70 percent of the payment that the corporation would have owed if its estimated tax had been accurately determined; that is, if its estimated tax equaled its actual tax for the year as subsequently shown on its income tax return (determined for this purpose with regard to the $100,000 exemption from the estimated tax payments referred to previously). The 70-percent test applies with respect to each installment payment.

As previously indicated, a corporation may avoid the addition to tax for an underpayment if it comes within one of three exceptions. The first of these exceptions allows a corporation to pay an amount equal to the prior year's tax reported on its return in lieu of its current year's estimate. The second exception determines the amount payable by reference to the results of the corporation's operations in the prior year but applies the current year's income tax rates. The third exception determines the amount payable by reference to the corporation's income in the months preceding the payment.

The last exception noted above, which determines the amount of a payment necessary to avoid the addition to tax by reference to the corporation's income for the months preceding the payment, also has a 70-percent test. Under this exception the corporation may annualize its income for the months preceding an installment payment and determine the tax for the year (above the $100,000 exemption) on this annualized amount. The corporation then may avoid the addition to tax by making an estimated payment equal to 70 percent of the payment it would owe if its estimated tax were the tax on this annualized amount.

As a result of amendments made by the Tax Adjustment Act of 1966, the two 70-percent tests noted above are 80-percent tests in the case of an individual businessman. Before that act raised the percentage test for the individual, the corporate and individual taxpayer had been treated alike in this regard.

Explanation of provisions.—Your committee's bill raises the two 70-percent tests noted above for a corporate taxpayer to 80 percent. This amendment is effective for taxable years beginning in 1968. Thus, under the bill, to avoid an addition to tax, a corporation's estimated tax payments in 1968 must equal 80 percent of the tax liability it shows on its income tax return (determined with regard to the transitional rules explained above for eliminating the $100,000 exemption). Alternatively, if it uses the annualization rule to avoid additions to tax, the payments must equal 80 percent of its tax as determined by annualizing the corporate income for the appropriate months preceding the payment. In the latter case, also, the determination is made with regard to the transitional rules for the $100,000 exemption.

An example will illustrate the interaction of the new 80-percent test and the transitional exemption during the period of the phaseout of the $100,000 exemption:

Assume a corporation has an actual and estimated tax liability in 1968 of $80,000. Its transitional exemption for 1968—80 percent of its estimated income tax liability not in excess of $100,000—is $64,000. The amount it is required to pay thus equals $16,000. As a result, the corporation may avoid an addition to tax if its estimated tax payments equal $12,800 (or 80 percent of $16,000). In 1969, if its income tax remained the same, the corporation's transitional exemption would be $48,000 (or 60 percent of its first $100,000 of estimated income tax liability). The amount it then would be required to pay is $32,000; and the amount it must pay to avoid an addition to tax would be 80 percent of this, or $25,600.

In raising the 70-percent tests to 80 percent, your committee's bill restores the balance between the corporate taxpayer and the individual which existed before the 1966 amendments. Moreover, in

raising the percentage tests (as in phasing out the existing exemption) the bill also brings corporations closer to a full pay-as-you-go basis.

6. Quick refund of overpayment of estimated income tax by corporation (sec. 3(d) of the bill and sec. 6425 of the code)

Present law.—As previously indicated, existing law requires a corporation with an estimated income tax in excess of $100,000 to file a declaration and make payments of its estimated tax in the current year. If the total of these payments exceed the tax shown on the return, the corporation may claim the overpayment as a refund. It may not claim this refund, however, until it files its income tax return for the year. Unlike the individual, who makes his last installment payment after the close of the year, the corporation must complete its payments during the year, and therefore cannot reduce these payments to reflect yearend losses.

Present law generally requires a corporation on a calendar year to file an income tax return by March 15. The corporation may claim automatic 3- or 6-month extensions of time for filing, however, merely by filing requests (but it is required to make payments of proper estimates of tax on the March 15 due date). The result is that a calendar year corporation often does not file its income tax return until sometime in September, more than 8 months after the close of its taxable year. Even then, the Internal Revenue Service may wait another 45 days before refunding any overpayment of tax without paying interest on the overpayment. Thus, a total of 10 months may elapse between the close of the year and the time a corporation receives a refund of an overpayment of tax.

Explanation of provisions.—Your committee's bill allows a corporation to apply for a quick refund or, more technically, an adjustment of overpayment of estimated tax, immediately after the close of its taxable year. A corporation may do so when its current revised estimate of its income tax liability shows that its estimated tax payments exceed its revised estimate by at least 5 percent of the revised estimate and that the excess amounts to at least $200.

The provision for quick repayment which the bill contains is effective for taxable years beginning in 1968.

This provision for quick repayment is somewhat similar to the provision now available for "quickie" refunds resulting from net operating loss carrybacks or carrybacks of investment tax credits. This quick adjustment of an overpayment will make less burdensome the overpayments corporations now may be more likely to make because of the larger portion of their expected tax liability which they will have to pay on a current basis as a result of eliminating the $100,000 exemption and raising the 70-percent test to 80 percent.

Under the bill, the adjustment application must be filed before the date a corporation first files its income tax return (whether or not it subsequently amends the return) or the date for filing its returns (determined without regard to any extension), whichever is earlier. The filing date for corporations is the 15th day of the third month following the close of their taxable year, or March 15 for calendar year taxpayers.

In order to discourage frivolous adjustment applications and applications from corporations which merely want to borrow funds from the Government, the bill imposes (in a new subsec. (g) of sec. 6654

of the code). An addition to tax at an annual rate of 6 percent on a corporation if it requests and receives an adjustment which subsequently is determined to be excessive. This 6-percent amount, as in the case of an underpayment of estimated tax, is not deductible for income tax purposes. The addition to tax is computed from the time of the excessive adjustment to the due date for the tax return (March 15 in the case of a calendar year taxpayer). (The normal interest for late payment at 6 percent applies thereafter.) The computation of this addition to tax is made independently of, and does not affect the computation of, any addition to tax which a corporation may otherwise owe for an underpayment of an installment of estimated tax.

On its application for adjustment, the corporation is to set forth the estimated tax which it paid during the year, the amount of its revised estimated tax liability, the amount of the adjustment which it requests, and such other information as the Secretary of the Treasury by regulations may prescribe. Before making an adjustment, the Internal Revenue Service may make a very limited examination of an adjustment application. The examination is not to prejudice any right of the Service to claim later that the adjustment was improper. The Service may disallow an application when it finds that the application contains material omissions or errors which the Service deems that it cannot correct within the 45-day period allowed it in making an adjustment. If the Service disallows the adjustment, it is expected that the Service will inform the taxpayer of this action. If it allows the adjustment, the Service may first credit the amount of a claimed adjustment against an outstanding tax liability of the corporation before making payment of the balance to the corporation. In this case it is understood that the Service will notify the corporation of the credit.

An adjustment is generally to be treated as a reduction of prior estimated tax payments as of the date of the adjustment. However, for purposes of the provision relating to additions to tax for failure to pay estimated income tax (sec. 6655), the adjustment is to be ignored—that is, treated as if not made—in determining whether there has been any underpayment of estimated income tax and, if there is an underpayment, the period during which the underpayment existed.

7. Timely mailing of tax deposits (sec. 4 of the bill and sec. 7502(e) of the code)

Present law.—The Internal Revenue Service is placing increasing reliance on the deposit method for the collection of taxes and now is collecting about $80 billion a year in this manner. Presently most withheld income taxes, estimated corporate income taxes, and excise taxes are collected in this manner. About 90 percent of the banks in the country are designated as depositaries for this purpose. This allows most taxpayers to hand deliver deposits on the last day prescribed for deposit and avoid any addition to tax that would otherwise result.

Some taxpayers, however, find it more convenient to mail tax deposits than to hand deliver them. This may occur, for example, because a corporation with centralized financial management desires to make deposits with banks in the various communities in which its plants are located. Under the regulations, these deposits which are mailed are not considered as made until received by depositaries. The responsibility for timely mail delivery thus falls on the taxpayers.

This differs from the general rule which treats payments as made when mailed.

Explanation of provisions.—Your committee's bill provides that where a taxpayer mails his tax deposit 2 or more days before the prescribed due date, the mailing is to be considered a timely deposit even though the deposit is received after the due date (but only if it is actually received). Thus, under the bill, the Government, and not the taxpayer, bears the responsibility for timely mail delivery.

Under the bill, the mailing of a deposit 2 or more days before the due date for payment is to be considered as payment only where the taxpayer can establish that he timely mailed the deposit. In the case of a deposit sent by registered mail, the date of registration is to be deemed the date of mailing. The taxpayer, of course, could also establish the date of mailing by other competent evidence.

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Union Calendar No. 431

90TH CONGRESS
2D SESSION

H. R. 15414

[Report No. 1104]

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 20, 1968

Mr. MILLS (for himself and Mr. BYRNES of Wisconsin) introduced the following bill; which was referred to the Committee on Ways and Means

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FEBRUARY 23, 1968

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

A BILL

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Adjustment Act of 1968".

(b) AMENDMENT OF EXISTING LAW.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of. a section or other provision, the reference

shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061 (a) (2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412 (a) (1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251 (a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications)

is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relat-

ing to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its income tax imposed by section 11 or 1201 (a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655 (e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment

(if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For pur-

poses of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201 (a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d) (3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before Jan-

uary 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154 (c) (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after

the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year.

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an

application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the

estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof "$100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A)".

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302 (c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

Union Calendar No. 431

90TH CONGRESS
2D SESSION

H. R. 15414

[Report No. 1104]

A BILL

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

By Mr. MILLS and Mr. BYRNES of Wisconsin

FEBRUARY 20, 1968

Referred to the Committee on Ways and Means

FEBRUARY 23, 1968

Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

SERVICEMEN SHOULD NOT BE REQUIRED TO RETURN TO VIETNAM IN LESS THAN 1 YEAR

(Mr. DEVINE asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. DEVINE. Mr. Speaker, thousands and thousands of American families breathe a sigh of relief when their sons who have served in Vietnam have put in their year and are returned to the United States. Recently, however, American families are learning that a returned serviceman from a combat area, when he is in the United States for 60 days, may be returned back into that area. I just do not think it is fair with the manpower we have in this Nation. So on yesterday I introduced House Concurrent Resolution 664, which provides that unless we are in a declared war, any American serviceman who has served 1 year in a combat area and is returned to the United States, is not required to return to a combat area for a period of 1 year. That will take care of a lot of these boys who have been drafted for just a 2-year period.

CORRECTION OF THE RECORD

Mr. BLACKBURN. Mr. Speaker, on February 21, 1968, when we were considering the gold cover legislation, Mr. PATMAN asked me several questions concerning some comments I made at the time. To be specific, on page H1239 of the CONGRESSIONAL RECORD of February 21, 1968, Mr. PATMAN stated:

> The gentleman stated that in certain countries the citizens thereof could acquire gold through the monetary process. Would the gentleman care to give to me the names of these countries where a private citizen can get gold now?

At that time, I stated that I would happily look into this matter. I now ask unanimous consent to correct the permanent RECORD by inserting the answer to Mr. PATMAN's question.

The SPEAKER. Is there objection to the request of the gentleman from Georgia?

There was no objection.

AGRICULTURAL CENSUS

(Mr. DOLE asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include extraneous matter.)

Mr. DOLE. Mr. Speaker, 1969 will be marked with another census of agriculture, as required by law every 5 years. During that year and through 1970, the Bureau of the Census will deluge farmers throughout the country with detailed questionnaires covering every phase of farm operations.

The proposed survey for next year demands precise figures on such items as the amount of irrigating water and fertilizer used and other production practices and crop yields. The farmer will be required to disclose how much money he owes, how he finances his operation and the equipment he maintains.

As proposed, the questions are so involved and complicated that, in many instances, outside professional help will be required to answer them.

I am concerned about two aspects of this matter.

First, the nature of some of the census questions seems actually invasive. There should be a ceiling on how far the Government is allowed to pry into the personal life of any citizen.

Second, no farmer or other businessman wants to disclose private information concerning his operations. The farmer, for example, should not be asked to tell how much grain he is storing while awaiting a good market price. Divulging such information would put him at a disadvantage to speculators and competitors.

For these and other reasons, I am introducing a bill which would prohibit the use of questions directly relating to production, acreage, operation and financing of any farm or farmer in the agricultural census.

The bill will not restrict legitimate and appropriate Government access to farm information. The Department of Agriculture already secures the needed information through their very extensive surveys and reports.

LEGISLATIVE PROGRAM

(Mr. ALBERT asked and was given permission to address the House for 1 minute.)

Mr. ALBERT. Mr. Speaker, I take this time for the purpose of advising the House that the gentleman from Illinois [Mr. GRAY] will call up the conference report on H.R. 12603, the National Visitors Center Facilities Act, immediately following the conclusion of action on the Tax Adjustment Act of 1968.

SINE DIE ADJOURNMENT

(Mr. COLMER asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. COLMER. Mr. Speaker, I was detained in the committee when the gentleman from Indiana [Mr. MADDEN] read on the floor of the House the resolution which was adopted by the Democratic steering committee with reference to the adjournment of this Congress. I wish to compliment the gentleman. I also wish to compliment the steering committee for taking this action.

Mr. Speaker, it is unthinkable to me that in the situation in which we find ourselves now, with the approaching political conventions, we should not adjourn this Congress sine die prior to the conventions.

I would hate to think about the political speeches and maneuverings that would be made after these conventions, if we came back here after the conventions adjourn. To say the least the atmosphere would not be conducive to the enactment of sound legislation. Last year, the Members may recall, the Committee on Rules adopted a somewhat similar resolution in an effort to get that session of the Congress adjourned. We think that action served well. We have repeated that procedure on several occasions this year. I have also discussed this with the leadership from time to time this year. Therefore the purpose of this statement is to advise the chairmen of the various legislative committees and the House that at a date not too far distant we propose to take action in the Rules Committee to advise the chairmen of these committees that by a certain date they must have their bills before the Rules Committee; otherwise, there will be no action except upon matters of the direst emergency or in procedural matters.

FILING AND RECORDING OF JUDGMENTS OR DECREES IN OFFICE OF RECORDER OF DEEDS OF DISTRICT OF COLUMBIA

Mr. McMILLAN. Mr. Speaker, I ask unanimous consent to take from the Speaker's desk the bill (S. 1227), to provide that a judgment or decree of the U.S. District Court for the District of Columbia shall not constitute a lien until filed and recorded in the office of the Recorder of Deeds of the District of Columbia, and for other purposes, with a Senate amendment to the House amendment, and concur in the Senate amendment.

The Clerk read the title of the bill.

The Clerk read the Senate amendment to the House amendment, as follows:

In lieu of the matter proposed to be inserted by the House engrossed amendment insert:

"SEC. 4. (a) The amendments made by the first section and section 2 of this Act shall apply only with respect to judgments or decrees rendered in, or recognizances declared forfeited by, the United States District Court for the District of Columbia on and after April 1, 1968.

"(b) The amendment made by section 3 of this Act shall apply only with respect to writs of fieri facias issued by the United States District Court for the District of Columbia on and after April 1, 1968."

The SPEAKER. Is there objection to the request of the gentleman from South Carolina?

Mr. HARSHA. Mr. Speaker, reserving the right to object—and I shall not object—I would like to inquire of the gentleman from South Carolina if this amendment in which the House is about to concur provides only that the filing date shall be April 1, 1968, rather than January 1, as passed in the House bill last fall?

Mr. McMILLAN. Mr. Speaker, the gentleman is correct. This bill passed the House on November 20, 1967, but the other body did not act on it in time to meet the effective date therein—January 1, 1968.

The bill provides that every final judgment or decree for the payment of money rendered in the U.S. District Court for the District of Columbia shall constitute a lien on interests in real property and shall be enforceable by execution only when filed and recorded in the Office of the Recorder of Deeds, thus providing the same recordation requirements in the same office as now apply to liens established by final judgments or decrees rendered, and recognizances declared forfeited, by the District of Columbia court of general sessions.

The House amendment to the bill last year made it apply to judgments rendered on and after January 1, 1968.

The Senate yesterday changed this date to April 1, 1968, which will give ample time and notice to all persons concerned as to the recordation requirements, so that they may protect their liens when judgments are secured in the U.S. District Court for the District of Columbia.

The House Committee on the District of Columbia concurs in the Senate amendment.

Mr. HARSHA. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from South Carolina?

There was no objection.

The Senate amendment to the House amendment was concurred in.

A motion to reconsider was laid on the table.

CALL OF THE HOUSE

Mr. HALL. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 42]

Ashley	Diggs	Passman
Ashmore	Edwards, La.	Resnick
Battin	Fulton, Tenn.	Rostenkowski
Berry	Hagan	Roudebush
Bow	Helstoski	Roybal
Brooks	Holland	St. Onge
Brown, Calif.	King, Calif.	Sandman
Button	Kluczynski	Schweiker
Corman	McDonald, Mich.	Selden
Dawson	Mailliard	Teague, Tex.
Dellenback	Morse, Mass.	
Dent		

The SPEAKER. On this rollcall 399 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

CORRECTION OF THE RECORD

(Mr. BURTON of California asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. BURTON of California. Mr. Speaker, I ask unanimous consent that the RECORD of February 28, 1968, be corrected as follows: On page H1490, the third column, the fourth paragraph, the figure of "$750" per month should read "$7.50" per month.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. BURTON of California. I would merely like to add as a footnote to this unanimous-consent request that, though my reputation as a liberal may have preceded me when I arrived in the House, I have not yet advocated that public assistance recipients be given $750 a month, and I therefore felt it would be useful that the RECORD be corrected in that regard.

TAX ADJUSTMENT ACT OF 1968

Mr. MILLS. Mr. Speaker, I move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 15414, to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The SPEAKER. The question is on the motion offered by the gentleman from Arkansas.

The motion was agreed to.

IN THE COMMITTEE OF THE WHOLE

Accordingly the House resolved itself into the Committee of the Whole House on the State of the Union for the consideration of the bill, H.R. 15414, with Mr. HAMILTON in the chair.

The Clerk read the title of the bill.

By unanimous consent, the first reading of the bill was dispensed with.

The CHAIRMAN. Under the rule, the gentleman from Arkansas [Mr. MILLS] will be recognized for 2 hours and the gentleman from Wisconsin [Mr. BYRNES] will be recognized for 2 hours.

The Chair recognizes the gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Chairman, I yield myself 10 minutes.

Mr. Chairman, the key provisions of this bill, H.R. 15414, continuation of the existing excise tax rates on passenger automobiles and telephone service and the acceleration of estimated income tax by corporations, were recommended by the administration. These provisions were part of the package that included the administration's request for a 10-percent surcharge on individual and corporate income taxes. Although the committee has not as yet concluded its consideration of the proposals to raise the individual and corporate income taxes, it has concluded that the proposals in the bill now before the House should be placed before the Congress for prompt consideration.

The Members will recall that the Excise Tax Reduction Act of 1965 provided for the gradual reduction of the manufacturers excise tax on passenger automobiles down to a permanent level of 1 percent. Over the same period, the tax on telephone service was to be reduced and finally repealed. In 1966, after the budget outlook had been altered by the buildup of our forces in Vietnam, the Congress placed a temporary moratorium on the scheduled reductions in these two excise taxes. This moratorium retained the tax on automobiles at the current rate of 7 percent and the tax on telephone service at the rate of 10 percent for a period which ends on March 31, 1968, 1 month from today. If no further action is taken, on April 1 the tax on automobiles will fall to a rate of 2 percent and the tax on telephone service to rate of 1 percent.

Clearly, this is not the time to reduce excise taxes or any other taxes which yield significant amounts of revenue. The budget recently submitted by the President anticipates a budget deficit of $22.8 billion in the fiscal year 1968 and a deficit of $21.1 billion in the fiscal year 1969 if the tax rates already set by existing law are allowed to stand. These deficit figures are measured under the new, unified budget. In terms of the familiar administrative budget, the projected deficits are $21.6 billion in 1968, and $24.7 billion in 1969 based on the same assumptions. Any way you measure it, however, the deficits are altogether too large. A tax reduction in the face of deficits of this size cannot be justified especially since the economy—while it still is not booming to the extent some have suggested it would—nevertheless appears relatively strong and certainly is not on the brink of a recession.

Continuation of the existing excise tax rates alone will forestall a reduction in Federal receipts amounting to $306 million in the current fiscal year, and $2.66 billion in the fiscal year 1969. This combined with the speedup of corporate tax payments will reduce the projected budget deficits, as I just stated, by $1.1 billion in 1968 and $3.1 billion in 1969.

In other words, in the overall or unified budget the deficit would be reduced from $22.8 billion in 1968 by the enactment of this legislation to $21.7 billion. On the basis of the old administrative budget, the deficit in 1968 would be reduced from $21.6 billion in 1968, to $20.5 billion if we enact this bill. In the fiscal year 1969 the unified budget deficit would be reduced from $21.1 billion to $18 billion by the passage of this legislation. The administrative budget deficit for fiscal year 1969 would be reduced from $24.7 billion to $21.6 billion if this legislation is passed.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I am glad to yield to the gentleman from Iowa.

Mr. GROSS. Will this be the result of anticipated added revenue, or an end to the dog chasing its tail?

Mr. MILLS. There is $1.1 billion of additional revenue under the bill in 1968 and $3.1 billion in 1969. If the gentleman will look on page 7 of the report he will understand fully what I am talking about.

In fiscal year 1968 we pick up, by continuing the excise tax on automobiles, $190 million which otherwise would be lost. We get $116 million by continuing the 10-percent tax on telephone services, which otherwise would be lost. Then we get, through the proposal to speed up corporate tax payments, $800 million in that fiscal year. This gives us a total of $1,106 million.

In fiscal year 1969 we get, from continuing the passenger automobile tax at 7 percent, $1.5 billion. We get $1,160 million from continuing the 10-percent tax on telephone service. Then we get, through the speedup of corporate tax payments, another $400 million. This gives us for fiscal year 1969 $3,060 million that we would not get if we did not pass this legislation.

Mr. GROSS. Let me see if I can get this straight. The speedup has to end sometime.

Mr. MILLS. Yes, it does, although we never lose the additional revenue we have picked up in the interval. Over a 5-year period we continue to gain $400 million a year through this transition to full current payment for corporations.

Mr. GROSS. So that the bookkeeping legerdemain ends in about 5 years?

Mr. MILLS. The transition ends in 5 years. The gentleman will remember we started this process for corporations in 1950, and we have continued to make these changes since that time whenever we thought the economy would permit it. It also has helped when we thought we needed revenues, as we need them now.

Mr. GROSS. I thank the gentleman.

Mr. MILLS. In view of the budget deficits in 1968 and 1969, clearly we need to continue these excise tax rates.

It is also clear that action to continue the two excise tax rates must be taken quickly. While the April 1 deadline is still a month away, there is a danger that unless consumers can be sure in advance that current tax rates will be continued, they may begin to defer purchases of new automobiles in expectation of a significant reduction in new car prices on April 1.

The same considerations that apply to the excise tax provisions of the bill also bear on the provisions regarding the acceleration of payments of estimated tax by corporations, the second major provision of this bill. Since 1950, your committee has gradually been converting the system for the payment of tax for corporations to a current payment system. The objective has been to place corporations under the same rules for the current payment of income tax liabilities as apply to the owners of unincorporated businesses, who must compete with corporations. The provisions approved in 1950 were the first of four actions taken to achieve the objective. In each case an attempt was made to enact the provisions at a time when their implementation would not hamper the progress of the economy. Also in each case the transition has been made gradually.

It is appropriate to complete the transition to full current payment for corporations at this time. The action will strengthen the budget and it is unlikely to have an adverse effect on the economy. However, if the current payment provisions are to help us with the deficit in 1968, we must act promptly so that the many corporations using the calendar year can put the new rules into effect on their 1968 payments of estimated tax which begin April 15.

Let me emphasize to the Members of the House that, in reporting this bill, the committee does not intend to foreclose possible future action on the administration's surcharge proposal. The question remains before the committee and no decision has as yet been reached. When a decision will be reached is uncertain. There are too many imponderables. The committee as a whole has taken no action on the surcharge since last October 3 when it adopted a resolution temporarily laying it aside. Since that time we have twice further considered the surcharge proposal but reached no different decision with respect to it.

It might be well, however, for me at this time to restate my position with respect to the surcharge proposal although I believe my position is clear. I believe that any income tax increase should be coupled with actions evidencing firm control over the expenditure side of the budget both in spirit and deed. There have been some improvements taken in this regard but in my estimation not sufficient to yet justify final consideration of tax increases.

There, of course, could be factors which in effect might force the Congress to support tax increases. Let me refer to two of them briefly.

This could occur, for example, if we were to be faced with a substantial acceleration of war expenditures. But this development should convince even more people that you cannot carry on at home as usual while paying for the dollar cost of a war, and thus bring additional retrenchment.

This need for additional taxes could also occur if we were faced with substantial inflationary pressures generated from an excess of demand. But this, too, would make more evident the need for greater expenditure.

So, under either contingency what I am pointing out is that there would still be the need, even intensified as I see it, for the very thing that the Committee on Ways and Means initially pointed out as a corollary to any tax increase.

What we are saying is this: In time of war heretofore we have always as citizens and as government had to tighten our belts just a little bit. I think in order to avoid many, many problems that will plague us through not doing it, ultimately we are going to find that we have to do this same thing for so long as we incur these additional war expenditures.

I am well aware of the fact that prices have been increasing in the last several months and that our gross national product has been increasing. I recognize also that an inventory accumulation process has begun. However, it seems to me that there still is some slack on the demand side of the economy. The latest production index, that for January, is only slightly above that of a year ago, and is actually down slightly from December. Plant capacity utilization is still well below preferred operating rates. And retail sales are not up as much as many expected. New orders for durable goods and machine tools fell in January and the level of housing starts was below the November figure. In short it seems to me that while the economy is strong, the price rises we are getting are still attributable to a cost-push situation, not a demand-pull situation. Under such conditions a tax increase not accompanied by rigorous expenditure control in my view is of questionable value. Our problem occurred because we materially increased our annual rate of spending at a faster pace than revenue increases from enlarged economic activity could occur.

Before leaving this general topic, let me also say a word about our international financial situation. I believe it is essential to maintain the soundness of the dollar. Under present conditions this includes maintenance of the present price of gold and the settling of our international accounts in gold or in the new special drawing rights. I, for one, will watch carefully the interrelationship of these matters to our domestic situation.

To return once more to this bill, while there are a number of factors causing us to postpone our decision on the proposed income tax increase, we do not want them to jeopardize the effectiveness of the proposals in this bill. We must not delay their implementation until the decision on the surcharge can be made. At the same time, we refuse to make a premature decision on the surcharge issue simply because prompt action must be taken on the measures in this bill.

Mr. Chairman, let me turn now to a specific discussion of the features of this bill.

THE EXCISE TAXES

The first provision in this bill concerns the manufacturers excise tax on automobiles. It continues the present 7 percent rate of tax for the remainder of this calendar year and the calendar year 1969. On January 1, 1970, the tax will be reduced to 5 percent. Similar 2-percentage-point reductions will be made on January 1, 1971, and January 1, 1972. Finally, the bill calls for the repeal of the tax on January 1, 1973. Under existing law, the tax would not be repealed but would be retained at a permanent rate of 1 percent.

The schedule of reductions provided for this excise tax was determined after consultation with representatives of the auto industry. A reduction of more than 2 percentage points at any one time might disrupt the industry by causing consumers to defer purchases as the time for the next tax reduction drew near. Furthermore, the market for sales of used cars might be adversely affected if the price of new cars fell significantly as a result of a sharp reduction in the Federal excise tax.

From the industry's point of view, January 1 is the best date upon which to schedule a reduction. Sales are usually brisk in the fall after new models are introduced. Any deferral of purchases from this period of strong sales will not have serious repercussions. Furthermore, the purchases will be deferred until the winter months when sales are traditionally weak.

The bill also continues the present 10 percent tax on local telephone service, toll service, and teletypewriter exchange service until January 1, 1970. Reductions in this tax are coordinated with the reductions in the tax on passenger automobiles. The tax rate will fall to 5 percent on January 1, 1970, to 3 percent on January 1, 1971, to 1 percent on January 1, 1972, and will be repealed beginning in 1973.

CURRENT PAYMENT OF CORPORATE TAX LIABILITIES

The bill will also place corporations on the same current tax payment system as is already applicable to individuals. The two groups are not on the same footing now. Individuals are required to file a declaration of estimated tax and pay equal quarterly installments of the estimated tax if they expect their final tax liabilities to exceed withheld amounts by $40. Corporations, on the other hand, do not have to make current tax payments if their expected tax liabilities are less than $100,000. Even if their liabil-

ities exceed this amount, their current tax payments need only be based on the liabilities in excess of $100,000.

The existing system provides medium-sized and small corporations a tax advantage over sole proprietorships and partnerships. These corporations can defer the payment of as much as $100,000 of Federal tax liability until the year following the tax year, while the proprietorships and partnerships they compete with cannot. The owners of these unincorporated businesses have to make current tax payments based on the entire expected tax liability of the business.

This bill removes this advantage corporations now enjoy by placing them under the same rules as those governing estimated tax payments of individuals. A 5-year transition period is provided, however, so that the shift to the new basis will not cause hardship for those affected. A corporation with $100,000 or more of tax liability will have to lower the present exemption to $80,000 for taxable years beginning in 1968. The exemption will be lowered to $60,000 in 1969, to $40,000 in 1970, to $20,000 in 1971, and eliminated in 1972. Corporations with tax liabilities of less than $100,000 will be asked to pay currently 20 percent of their expected tax liability in 1968, 40 percent of their expected tax liability in 1969, 60 percent in 1970, 80 percent in 1971, and the entire amount, if over $40 in 1972. In this way, all corporations with taxable income will begin to make some form of current payments this year. They will reach a fully current status with respect to these payments in 1972.

On a related matter, the bill provides for a penalty, or, more accurately, an addition to tax, if corporations fail to pay at least 80 percent of the amount they are required to pay under the current payment provisions. At the present time, there is no addition to tax if corporations pay as little as 70 percent of the required amount while individuals have a penalty imposed unless they pay 80 percent of the amount required under the current payment provisions. The penalty for failing to meet the 70-percent test under present law, or 80-percent test under the bill, is computed at the annual rate of 6 percent of the unpaid liability. This is the same percentage that now also applies for underpayments of estimated tax on the part of individuals.

QUICK REFUND OF OVERPAYMENTS

A number of corporations will be required to make current payments of tax for the first time under this bill. Others will have to pay a much larger portion of their tax liability on a current basis. With this more exacting current payment system, it is likely that a number of corporations may inadvertently make substantial overpayments of tax. This may occur because the income they expect at the beginning of the year will not be realized due to some unfortunate experience, such as a fire, flood, or downturn in sales, that occurs toward the end of the year.

Under existing law, it may take quite a while to obtain refunds for these overpayments of estimated tax because refunds cannot be obtained until the tax return for the year is filed. While March 15 is the tax return due date for a calendar year corporation, many corporations find it difficult to complete the extensive preparation required for their tax returns by the due date and therefore must request a 3- to 6-month extension of time in which to file. Any such extension postpones the receipt of a refund. A further postponement may result from the fact that the Internal Revenue Service has 45 days after the filing in which to make a refund without incurring interest charges on the overpayment.

To prevent hardships of the type I have described, the committee has included in the bill a provision for quick refunds of overpayments of estimated tax by corporations. This provision is similar in many respects to existing provisions for quick refunds when there is a net operating loss carryback or a carryback of unused investment credits.

This bill permits a corporation to apply for a quick refund immediately after the close of the taxable year even though it is not ready to file its return at that time. A corporation may file for such a refund if its revised appraisal of its estimated income tax liability indicates that estimated tax payments made previously will exceed the final liability by 5 percent of that liability and by at least $200. When an application for such a refund is filed, the Internal Revenue Service will be required to make the refund based on the excess over the corporation's latest estimate of final tax liability. A refund must be made by the Service within 45 days after the application has been filed unless the application contains material omissions or errors. To prevent a possible abuse under this provision, a penalty or addition to tax, computed at the annual rate of 6 percent, and of the same type as now applies for underpayments of estimated tax, will be made if the refund is later found to have been excessive.

OTHER PROVISIONS

This bill also simplifies compliance with the estimated tax provisions by relieving corporations of the necessity of filing declarations of estimated tax in connection with their quarterly estimated tax payments. Corporations now generally pay estimated tax by depositing the amounts in a bank designated by the Internal Revenue Service and are provided with quarterly deposit forms for this purpose by the Service. These forms provide sufficient records for both the corporation and the Internal Revenue Service. A formal declaration of estimated tax is, therefore, no longer necessary for corporations.

The final provision of this bill assures a corporation that a deposit of tax which is mailed 2 or more days before the due date will be considered paid on time even if the mail delivery should be delayed so that the deposit does not reach the bank until after the due date for the installment. For example, if the 15th of the month is the due date, the deposit must be mailed by midnight on the 13th. This applies to deposits of estimated taxes, withheld taxes, employment taxes and excise taxes. The bill extends the approach already applied in the case of tax returns to cover the mailing of deposits of estimated tax. The bill provides, however, that such a deposit must be mailed 2 days or more before the due date in order to be treated as paid on time since this probably represents the average elapse of time before mail delivery occurs. The bill, therefore, establishes that timely mailing will be considered timely filing without disrupting the timing of the flow of funds into the Treasury. A corporation will continue to be able, of course, to send a representative to make the required deposits in person on the actual due dates.

CONCLUSION

Mr. Chairman, this bill does not increase tax liabilities beyond levels already imposed. It does forestall a reduction in tax rates on two important excise taxes and it accelerates the collection of the corporate income tax to place it on the same footing with the collection of individual income taxes. The actions taken in the bill are appropriate under current economic conditions and in view of prospective budget deficits. Prompt action is essential, however, if the bill is to achieve its objective. I urge the House to give its speedy approval to the bill.

Mr. HALL. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I will be glad to yield to the gentleman from Missouri.

Mr. HALL. Mr. Chairman, I appreciate the distinguished Chairman of the Committee on Ways and Means yielding to me.

I would like to go back for just a minute to what I understand from reading the report and the bill is the removal of the exclusion from small businesses of estimated filing of income tax as a corporate body if their adjusted income is less than $100,000 a year for tax purposes.

Is it true that under those circumstances, there will be in effect not only a moving up, according to the table provided I believe on page 9 of the bill—but also that there very well might be a harsh effect on such small businesses, for practical purposes, during this 5-year period? No one believes that it will ever be removed, perhaps, if we continue under our present assumptions—and that this permanent law would have the effect of doubling the tax on the smaller corporations.

Mr. MILLS. I do not think anything will be done in the case of small corporations which has not already occurred in the case of unincorporated businesses.

Mr. HALL. I just believe that this needs more explanation and I am asking only for such information.

Mr. MILLS. Perhaps I did not go into it enough in my earlier statement.

Let me explain how these two speedup provisions work this way. At the present time corporations are required to pay on a current basis only income tax liabilities in excess of $100,000. In addition, there is no penalty if no more than 70 percent of these liabilities over $100,000 are paid on a current basis.

The bill first of all provides that this 70 percent is to be changed to 80 percent. This occurs immediately and is fully effective for 1968. This is the same percentage of liabilities which must be paid

on a current basis by individuals and sole proprietorships.

The bill also removes the $100,000 exemption over a 5-year period with the result that corporations eventually will have to pay 80 percent of their tax liabilities on a current basis if they have tax liabilities of over $40. As a result, large corporations will have to pay more on a current basis, since the $100,000 exemption will no longer apply to them. In addition, small corporations which presently pay nothing on a current basis will gradually have to pay their taxes currently, as is already true of individuals, sole proprietorships, and partnerships.

The bill provides, however, a 5-year transition period before this $100,000 exemption is completely wiped out. As a result, in 1968 corporations are to have an exemption of 80 percent of their tax liabilities under $100,000. Then, in 1969 this exemption is to be 60 percent, and so on, decreasing 20 percentage points a year until the exemption disappears in 1972. This spreads the additional payments which must be made during this transitional period in a manner which will prevent any substantial increase in current tax payments for corporations in any one year.

Bear in mind two things: under no circumstances are we changing the basic tax liability. That is my first point.

Then bear in mind this: All we are doing with respect to corporations is finally placing them on the same basis that partnerships, proprietorships, and sole proprietorships have been on since we put into effect this more rapid payment of taxes.

So I do not believe it can be said that we are imposing an undue burden upon these corporations, especially in view of the transition period. What we are doing is bringing their current tax payments into line with the identical current tax payments that have been made by sole proprietorships, partnerships and individuals for many years.

Mr. HALL. If the gentleman will yield further, he would confirm the fact that it is not true that the small units, that is, those under $100,000 per annum tax liability, will be assessed in effect at 20 percent surtax, and will have to pay this for a 5-year period under the accelerated plan.

Mr. MILLS. If you want to say that there is some enlargement in their payments during those 5 years, I would have to admit the gentleman is correct, but there has been no increase in their liabilities. If we did not add the speed-up in payments to the existing payments being made in the calendar year 1968 for the taxable year 1967, we would have to forgive some part of the 1967 liability. When we put individuals on a pay-as-you-go basis, we did forgive a part. But when we put the larger corporations on that basis, those with more than $100,000 of tax liability, we did not forgive them anything. But we did space it over a number of years, and we are doing the same thing now, so as not to place an undue burden upon them. Had we said, "Pay 50 percent the first year, 100 percent the second year," then I think we would have been unduly affecting their cash flow.

Mr. HALL. The gentleman weights this simply with the need of the Nation for income, while recognizing that we do have in this accelerated process a surtax on a surtax, so to speak. Is that correct?

Mr. MILLS. Let me put it in a different way. I do not like to take credit for things around here, but it is my recollection that I was the one who started this idea of having corporations pay on an accelerated basis back in the Truman administration. I found I could sell my idea of bringing greater equity in the tax law because at that time they found it improved the budget situation. That may have been the reason they voted it. I do not know. But I have always advocated this, not for the purpose of trying to help the budget, but for the purpose of trying to bring equality of tax payments between the fellow who runs the little corner grocery store and the general grocery across the street that operates in a corporate form. I have never been able to understand why an individual proprietor is called upon to pay 80 percent of his tax within the taxable year—that is if it exceeds $40—and a corporation making a lot more, perhaps, is permitted to pay much or all of its tax over a period in the following year. That is a tremendous advantage to have your money for that length of time when you are in competition with someone else who does not have the use of this money.

And bear in mind that although there are a lot of small corporations, but there are many times more of the individually-owned unincorporated businesses.

Mr. HALL. But the gentleman would agree with me that through the OEO and the SBA we are subsidizing many small corporations that are trying to get into production on a self-sustaining basis, and they are reporting incomes with less than $100,000 a year. So one wonders why we do that on the one hand and now turn around and put a surtax on them on the other.

Mr. MILLS. My friend from Missouri knows that there are many inconsistencies in government rules. I cannot explain all of these inconsistencies. Here, we are thinking in terms of equating tax burdens and the payment of taxes. That is all we had in mind.

Mr. BYRNES of Wisconsin. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. While we are discussing this question, I believe it should be pointed out that I do not know we are doing exact equity as between the small corporation or the small corner proprietorship and the corporate entity, because if we were going to do complete equity, we would forgive three-fourths of 1 year's tax obligation in connection with the speedup, which is what we did with individuals. There is no question that what we are doing here is to bring about consistency, and within 5 years we will have any difference phased out. At that time individuals and corporations will be on a completely consistent basis.

But during this period, a corporate entity under $100,000 will be paying in a sense 120 percent the first year, 20 percent additional the next year, and 20 percent additional the next. In other words, for each year, that corporation will be paying the balance of the prior years' liability plus an additional 20-percent speedup for the current year.

Mr. MILLS. The point I was making is that the percentage is never more than a 20-percent increase in payments. But, when we placed individuals on a current basis we required them to shift over within the first year. Had we not forgiven some part of the existing outstanding liability, we would have put them in the position of paying 200 percent in that year.

Mr. BYRNES of Wisconsin. That is right. The only point I was trying to bring out was that there was a forgiveness when we applied this technique to the individual, the private individual taxpayer.

Mr. HALL. Mr. Chairman, I think the chairman said that in the first place—and this seems inexcusable to me, and although I came on the floor prepared to vote for this bill because of the exigencies of the timing, if we are not allowing that for that buildup, and people are having trouble anyway with the Fair Labor Standards Act and keeping their employees on the payroll, to me it seems utterly inexcusable.

Mr. MILLS. Mr. Chairman, let me point out, that although the speedup accounts for an $800 million tax increase in the first year, $400 million of this results from the change in reporting from 70 to 80 percent. This applies to all corporations. The other $400 million is spread among all corporations, both those that have more than $100,000 of tax and those that have less than $100,000 of tax; so I think it is reasonable for me to say that that the burden of much of this speedup is on the larger corporations.

Mr. HALL. I understand that.

Mr. MILLS. I would hope the gentleman will see that and go along with it.

Mr. HALL. The gentleman has a good legislative record and I appreciate his patience.

Mr. MILLS. I do not recall that there was much testimony before the committee specifically on the speedup. However, I think it is fair to say that one of the organizations which speaks for small business suggested we provide the speedup only with respect to corporations that owe $5,000 or more of tax. I believe that was the point to begin the speedup which they suggested. We in the committee, however, thought that this was the time—as the gentleman from Wisconsin [Mr. BYRNES] points out—place the two types of business—proprietorships and corporations—on the same payment basis.

Mr. HALL. If I may just simply state, I speak not for any one or any group. I speak as president of two corporations that come in this position.

Mr. CURTIS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Missouri.

Mr. CURTIS. Mr. Chairman, I am a little afraid the record is not as clear as the gentleman from Missouri has suggested. The chairman has said—and I would like to emphasize—this has noth-

ing to do with the tax liability. It has to do with when we pay the tax. Look at it this way. If a corporation went out of existence, it would not be paying any more tax at all. It simply would have prepaid its tax or paid it sooner. It has to do with cash flow.

Mr. MILLS. That is right.

Mr. CURTIS. Of course, cash flow is an important item. We placed individuals almost on a pay-as-you-go procedure on taxes long ago. We are trying to do this for corporations. It does have a bearing on cash flow but not on liabilities.

Mr. MILLS. It does, definitely. I mentioned that.

Mr. CURTIS. I know.

Mr. ULLMAN. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Oregon.

Mr. ULLMAN. I believe the record should be clear on one point. Individuals generally were not forgiven a full year's taxes. The fact is that they were forgiven three-quarters of 1 year's tax or $50, whichever was greater. In addition they had to make the transition in a single year. I believe these are important distinctions.

Mr. GROSS. Mr. Chairman, will the gentleman yield?

Mr. MILLS. I am glad to yield to the gentleman from Iowa.

Mr. GROSS. The distinguished gentleman from Arkansas mentioned the price of gold and stated, I believe, that he was opposed to the change, for the present at least, in the price of gold, at $35 an ounce. I have often wondered how the price of gold was fixed in the first place at $35 an ounce. I understand who was in the Executive Office at that time and who issued the Executive order which denied to the American people the right to use gold as a medium of exchange in this country, but I wonder on what basis it was originally fixed at $35 an ounce. I have never been able to find out.

Mr. MILLS. I do not have the historical data readily at hand to answer the gentleman's question.

Mr. Chairman, I urge passage of this bill.

The CHAIRMAN. The gentleman from Arkansas has consumed 31 minutes. The Chair recognizes the gentleman from Wisconsin [Mr. BYRNES].

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Chairman, I support this legislation, primarily because of the fiscal situation in which we find ourselves.

I am pleased to note that we still are phasing out these Federal excise taxes, which I believe is desirable.

As the chairman has pointed out, this other reform, getting all of our society closer to a pay-as-you-go basis on the corporate income tax, as is already true in the case of the personal income tax, is something that we are always looking for. True, it has an immediate advantage to the Federal Government, but we actually are merely speeding up the time when moneys which would eventually come in anyway are to be counted as revenues.

I believe the primary matter before us is to recognize that this measure is inadequate in that it does not get at the basic deficit the administration has for the present fiscal year 1968 or at the deficit projected for the fiscal year 1969.

I wish to say further, even if we were to adopt the President's program for a surtax, bringing in, along with some other things, about $13 billion, this would be inadequate to meet the difficulties which exist in our fiscal affairs.

The Chairman of the Council of Economic Advisers testified that even with the surtax prices will rise about 3 percent. this year. This is an unbearable amount. This has a direct bearing on the serious problem of the international balance of payments. As the domestic inflation rises, it encourages a further increase of imports and a diminution of exports, thus cutting in on the big plus we have had in our international balance of payments; namely, our balance of trade.

It is almost unbelievable that we should be here on a bill involving a billion dollars of revenue when the deficits, as shown in the committee report, in both fiscal years may be $20 billion, and possibly even more.

That is without even thinking of whether or not this Vietnam situation should heat up. As I urged in debating the rule, if the people thought there was a better fiscal way out of this, and if anybody wanted to offer a surtax, they could do it. This was with respect to the thought, which some people had, that it was just the chairman on Ways and Means that was being obstinate in holding it up. Of course it is not. The heavy majority of the Commitete on Ways and Means members, including myself, backed the chairman on this point.

Now I do not want to hit on our deficit problem through our surtax. If it could be offered here, and I think it would be very clear that the House feels about the same way as the Committee on Ways and Means, and I might say that the individual Members of this House pretty accurately reflect the thinking of the American people on this. To those in the administration, who have been saying that it is those of us who cannot stand the heat and do what they say is the right thing, that is, urge a tax increase, and who are saying that the people are wrong and must be directed toward a correction of their ways, I say it is clear that the administration is the one that is in error. The only clear way to hit at this deficit—and they have been told this by every economist and businessman in this field—is to cut expenditures. However, the administration is not going to do it.

As I said yesterday, there is only one thing keeping the people in Europe from really making a run on the dollar by cashing in their $32 billion in claims. The thing holding them back is that they realize there is an election this November. They think that the American people are going to kick out an administration which cannot balance the budget—and not only cannot but will not.

The CHAIRMAN. The time of the gentleman has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield to the gentleman from Missouri 5 additional minutes.

Mr. CURTIS. They not only cannot, but their theory is that this is not necessary.

Now, getting back to this specific problem, I do want to refer to our committee report on page 2 which sets up some of these budget estimates, in order to clarify them just a bit. I am happy that the committee did put in a translation of the budgets of 1968 and 1969 into the administrative budget estimates which we had been following up until this year when the budget was revised and presented in a unified format. The $137 billion expenditures for 1968 must be interpolated because yesterday I referred, and correctly so, to an expenditure level of over $140 billion. The bases for this estimate are in the economic indicators. I simply take the average monthly expenditures so far this fiscal year, and then multiply the average by the number of months. Now, the seeming discrepancy occurs because in this $137 billion they still are counting on using sales of participation certificates to reduce expenditures. In the new budget I am happy to say they are treating participation certificate sales as increased revenue, which is a way of financing increased expenditures. They have not yet actually sold participation certificates in this amount, but actually they are spending at a level of about $142 billion on the administrative budget basis. This does not alter the deficit figure because, if they do sell the participation certificates, then the receipts will reduce the deficit to that extent. The $21 billion figure on the deficit is not in error, but suppose we do not sell the participation certificates. Then the deficit figure would be $25 billion.

Now let us look over at the 1969 column because this needs explanation and it shows the dangers involved in moving to the unified budget.

The administrative budget expenditures, of course, are those that are financed through general revenues. What we are talking about here today in excise taxes and what we are talking about in income taxes go into general revenues. The unified budget includes now in the expenditure column those programs, whose expenditures are in the trust funds, which are not financed through general revenues but are financed through earmarked taxes such as social security, the payroll taxes, and the various excises that have been directed into the highway trust fund.

Now, note how the President, by cutting back on expenditures in the highway trust fund, can actually change the unified budget when he could not change the administrative budget. Last year he said, "Oh, well, we will cut expenditures" and then said "We are going to cut the highway expenditures." My point then was that highway expenditures had no bearing at all on the deficit because these expenditures came out of earmarked funds in the highway trust fund.

Now, with the unified budget, however, if the President cut back on the

highway trust funds by, say, $800 million, then we would actually show a plus $800 million through the trust fund, and create the false impression that somehow or other we have eased the deficit.

This is what is called embezzlement in the private sector, where one starts to use funds that are earmarked for a specific purpose and allows them to be used in another area. The same thing is true in the social security trust fund, because of our increased social security taxes, we are increasing the amount of bonds that we hold in this trust fund; but these funds are earmarked, and we cannot use these for any other purpose.

The CHAIRMAN. The time of the gentleman from Missouri has expired.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 5 additional minutes to the gentleman from Missouri.

Mr. CURTIS. I thank the gentleman for yielding.

As I say, we cannot use these funds in this way, otherwise it violates our policy of trying to figure out carefully, on a long-range basis, the fiscal solvency of the social security system. This is one of the things we count on, we know that is there.

So I just wanted to warn the Members of the House about the dangers involved in these figures. They are all there, and one can dig out what the true facts are, but it does require a little digging.

The net result is that our difficulty today is derived from the deficit. Secretary Fowler, in testifying before the Committee on Ways and Means a few weeks ago, in regard to the administration's package on the balance-of-payments problem, said that the keystone to the administration's program is the surtax.

I said, "If the gentleman will change one word, I will agree with him; that the keystone to the administration's balance-of-payments program, or any program to do something about the balance of payments, is the deficit, then we are in agreement."

I just do not believe that the surtax by itself is any answer without cutting the deficit. We must have a priority in cutting back in expenditures to reduce the deficit. And then once we do that, and see what that package is—because that has an economic impact itself—then look to see whether or not we still would not be well advised to ask for a surtax, and an increase.

Mr. YATES. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I will yield to the gentleman in just 1 moment.

Here is where the chairman states—and I might disagree a little bit, but I respect him for his observation—that even with cutting expenditures the imposition of a surtax might still not be the proper remedy.

What this involves is an estimate of what is the economic picture—is it sufficiently active that a surtax really would cut back on inflationary forces—which right now are still primarily cost-push and not demand-pull.

I do not know the answers. We cannot possibly engage in a fruitful dialog until we look at the package of expenditure cuts. We have not received it. The administration has said that they do not intend to do it—not in so many words—but in their arithmetic.

So I submit it is not the Congress, my colleagues, that have stopped the dialog—it is the administration.

Mr. YATES. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. YATES. Can the gentleman tell the House the amount the deficit as predicted by Secretary Fowler would be cut by the special surtax?

Mr. CURTIS. The deficit they say is around $8 billion for the fiscal year 1969.

Mr. YATES. That is the total?

Mr. CURTIS. Yes.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. MILLS. May I point out this with reference to the administrative budget concept, which I think is what you have in mind.

Mr. CURTIS. Yes.

Mr. MILLS. The tax increase that the administration recommended for the 1969 fiscal year anticipate revenues of $135,587,000,000. Expenditures are $147,463,000,000—which would make a deficit of $11,767,000,000. This assumes the enactment of the administration's 10-percent surcharge and their other revenue proposals.

Mr. CURTIS. The Chairman of the Council of Economic Advisors said that we would still have—and I can see why—over 3-percent inflation.

Mr. YATES. This would leave an $11 billion deficit even with the proposed surtax recommended by the administration; is that correct?

Mr. CURTIS. That is right.

Mr. YATES. If this be true, why then is that not an argument for passing the surtax? How much would the deficit be without the surtax?

Mr. CURTIS. Just add another $9.8 billion.

If you add the other revenue proposals to the surtax itself, it is $13.2 billion.

Mr. MILLS. Let me clarify this point, if I may, since perhaps I may have brought about some degree of confusion here.

It is my recollection that the 10-percent surcharge alone in the course of the fiscal year 1969 would develop about $9.8 billion in revenue. We are proposing to give to the administration a continuation of the excise taxes, and an acceleration in corporate tax payments which amounts to $3.06 billion. Then there are some other user charges. I have forgotten the amount of that, but they are not in this package. But the bulk of what we are talking about it $9.8 billion.

Mr. YATES. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. YATES. I am still not clear on what is proposed. The Secretary of the Treasury testified that there would be approximately an $11 billion deficit if the surcharge were passed and enacted—and based on revenues that it would bring in.

Mr. CURTIS. That is right. Now you add the nearly $10 billion that he would anticipate from the surtax—and if it is not enacted that would be $21 billion.

Mr. YATES. A $21 billion deficit?

Now, without the surtax, then, it is proposed by the committee through the passage of this legislation and through the user tax to reduce perhaps the $21 billion deficit by how much?

Mr. CURTIS. The deficit would be $24.7 billion without the surcharge, the user charges or this bill. The surcharge alone would increase receipts in fiscal 1969 by $10 billion.

Mr. YATES. Then there would still be $10 billion deficit.

Mr. CURTIS. Eleven billion dollars.

Mr. YATES. Eleven billion dollars? If that be true, then why should we not pass the surtax in order to reduce the deficit further?

Mr. CURTIS. Simply because even with that you will end up with over a 3-percent inflation.

So it comes back to what some of the economists—and I would say a better group of them—said, that for every billion dollars that you cut in expenditures, there is a much greater multiplier effect than for a $1 billion increase in taxes.

So part of this is discipline we are trying to impose, to tell the administration to cut and to get expenditures down. This must be a package at least. The first thing is an expenditures cut, and then we can talk in terms of what we might do by way of raising additional revenue.

Mr. YATES. Mr. Chairman, will the gentleman yield further?

Mr. CURTIS. I yield to the gentleman from Illinois.

Mr. YATES. As I understood what the gentleman said, he said there would be an approximate $11 billion deficit even with the surtax, and without it there would be a $21 billion deficit.

Mr. CURTIS. Yes.

Mr. YATES. By passing this measure providing a user tax you still have the $10 or $12 billion deficit without the surtax.

Mr. CURTIS. If we passed this measure, the surcharge and the user charge proposals, we would be down to about $9 billion.

Mr. YATES. With the user tax and with this one.

Mr. CURTIS. Yes; and with the surcharge too.

Mr. YATES. The gentleman has said that this would result in an inflationary figure of approximately 3 percent.

Mr. CURTIS. That is what the administration would estimate.

Mr. YATES. Would you still have this inflationary figure of approximately 3 percent if you were to pass the administration's surtax request in addition to this measure and the user tax?

Mr. CURTIS. We would have it——

Mr. YATES. You would have it without it; would you have it with it as well?

Mr. CURTIS. That is what I am saying. With the surtax you would still have a 3-percent inflation. Without the surtax the inflation would be a great deal more.

Mr. YATES. How much more?

Mr. CURTIS. They could not give us a figure. I asked them.

Mr. MILLS. Mr. Chairman, will the gentleman yield?

Mr. CURTIS. I yield to the distinguished chairman.

Mr. MILLS. The administration spokesman said that if we had the entire package enacted, this total of some $13 billion of additional revenue in the fiscal year 1969, we could expect at least a 3-percent inflation.

Mr. CURTIS. That is correct.

Mr. MILLS. Then they said that if we did not enact the measure, we could expect a slightly higher figure, although they never said how much. Nobody knows that we would have just 3 percent or some approximation of that figure. Bear this in mind—and this is what I think we overlook completely—we had more inflation than that in the time of World War and more inflation in the time of the Korean war, when we had price and wage controls. We did everything we could do in those days, and we enacted a tax bill at least every 12 months. But we still had inflation. Nobody can tell you and nobody can tell me that the passage of a tax bill, when we are spending at these levels, and we have a cost-push situation such as we do now, will necessarily reduce the inflationary rate to any appreciable extent.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield 10 minutes to the gentleman from Virginia [Mr. BROYHILL].

Mr. BROYHILL of Virginia. Mr. Chairman, this bill would postpone and extend any reduction in the excise taxes on telephones and automobiles.

In addition, the bill would remove the exemption of $100,000 which applies to the prepayment of taxes by corporations, thereby requiring the small company to pay its taxes in advance—in equal installments—just as individuals do today.

I hate to see us extend the excise taxes again. Everyone agrees that these taxes are regressive. The sale of new automobiles has been disappointing—and we should not overlook the important role of the automobile industry in our economy. Increased costs due to safety features, increased cost of insurance, increased financing costs, when added together mean that to achieve the same volume of car sales that we had a few years ago will require an additional $3.5 to $4 billion in purchasing power. The car buyers will have to spend $3.5 to $4 billion more this year if the industry is to sell 9 million cars.

I would like to see the industry—and those 9 million potential car buyers—relieved of this tax as quickly as possible. I think that the Federal Government will get more revenue in the long run from an expanding automotive industry.

I come to the hard decision that we must extend the excises only because the administration has lost all control over expenditures. Stopgap measures—no matter how distasteful—must be supported.

For more than a year, while the great tax debate has been going on, the administration has claimed that it is cutting back on expenditures. Yet, when we look at the results of the administration's efforts we find that expenditures for fiscal 1968 have increased by $2.2 billion over the original budget. There has been no cutback.

The administration today proposes to spend $2.2 billion more in fiscal 1968 than was originally proposed in the budget. For fiscal 1969, the administration proposes to spend $10.2 billion more than in fiscal 1968. And I am certain that even those amounts will be increased when we get the supplemental appropriation bills.

It is estimated that normal revenues will increase by about $10 billion this year. Yet, expenditures—wholly unrelated to the war in Vietnam—show an even greater increase. As a result, even with this bill we are still facing deficits for fiscal 1968 and 1969 of more than $20 billion a year back-to-back.

In the face of deficits of over $40 billion in the next 2 years, I am compelled to vote for an extention of these excise taxes. It will not solve the problem, but if we allowed these taxes to expire the deficit would be that much greater.

I also must recognize, in fairness, that the small company should be required to pay its taxes in installments just like the small businessman who is not incorporated. I can certainly see the fairness of treating both the same.

While I must recognize the fairness of this part of the bill, however, I have grave misgivings about the timing. Many of these small companies will have to go out and borrow the money in order to be in a position to pay their taxes in advance. Interest rates are at an all-time high. Money may be tight. I would prefer to see changes such as this adopted at a time when there would be no problem in borrowing funds at more favorable rates of interest.

Finally, as my chairman has stated, this bill is not meant to foreclose consideration of other taxes. But let us be realistic. The action the House is taking today certainly makes it more difficult to enact a surtax.

This bill raises the taxes for the car buyer, it raises the taxes for the telephone subscriber, and in practical effect, it raises taxes for the small company. In its short-term impact, acceleration is no different than an increase in taxes.

Whatever we might call it, this is a tax increase we are voting today. I would find it very difficult to vote for another bill in this Congress—or even later—which would further increase the income tax to be paid by this same group of taxpayers.

I think we must also recognize that this Congress is not the only body which levies taxes. There are State taxes, county taxes, and municipal taxes.

The demands of local governments for schools and public services must be met. I would give them priority over some of these giveaway programs of the Federal Government. I have heard the administration claim that the 10-percent surtax only takes back half of the tax reduction that the Congress enacted in 1965. Not only is this inaccurate, it ignores the fact that if there was any slack—that slack has already been taken up at the local level.

There is another matter, however, which came up in the committee considerations—which in fact consumed a good bit of the time we spent on the discussion of this bill—on which I would like to comment to the House. I am referring to the treatment of depreciation deductions for the various regulated industries in this country. This includes electric companies, gas transmission pipelines, telephone companies, airlines, railroads, and others.

Some of the Federal regulatory commissions have taken a position which to at least some of us appears to be inconsistent and also contrary to the intent of Congress. The problem I am referring to relates to the treatment of depreciation deductions. As all of the members know, present law allows business to take depreciation deductions either on the so-called straight line or slow method—spread out evenly over the life of the property concerned or under one of several rapid depreciation methods which tends to concentrate the deductions in the early part of the life of an asset. This advantage has always been optional with a company. Some take the slow method and some take the fast.

Recently the commissions have been trending toward a requirement which says in effect that for ratemaking purposes we will treat you as if you took the rapid depreciation methods, for purposes of determining the taxes you pay, whether you actually take one of these rapid methods or not. The effect of this is to minimize the tax deduction which the regulated industry can take for purposes of determining the rate or price the utility can charge. However, on the other hand for purposes of keeping the books of the utility the commissions continue to insist that the slow depreciation method be used so that the smallest business depreciation deduction appears as a cost. In other words, there is a tendency on the part of some of the commissions to require the regulated industries to take an inconsistent position obviously designed to minimize costs of these industries. Over the long run this is bound to damage the soundness of these industries and work against the interests of the country as a whole.

The committee is concerned about this problem, however, in large part because requiring these utilities to take fast depreciation for ratemaking purposes when computing their taxes can in effect almost force the regulated industries over on to the fast methods of depreciation. To do so can substantially reduce our revenue take from existing levels. Some material presented in this regard suggests an impact in the next few years of at least $1 billion with larger losses thereafter. Whether this is accurate or reflects the total revenue loss is something that I have not yet had an opportunity to look into. Nevertheless it is clear that this action which the commission apparently are trending toward can have a serious adverse effect on Federal revenues. This, of course, is a matter of great concern today in our present budgetary situation.

The Ways and Means Committee is fully aware of the problem in this area and it is my understanding that this problem will be given attention as soon as the schedule of the committee's work permits. I say this because I think the courts should understand—and I refer

here particularly to the decision in the Alabama-Tennessee case that the so-called silence of Congress on this matter of liberalized depreciation in the case of the regulated industries is not intended to express a congressional point of view but simply has resulted from the necessity on our part to consider other legislation first. I hope that this situation can be corrected in the not too distant future.

I think it is also important to point out that contrary to what apparently was the decision in the Midwestern Gas Transmission case that Congress did not give to the regulatory commissions either the duty or the requirement to substitute its expertise for that of the management of the industry in deciding the type of depreciation to take. Moreover, I cannot believe that Congress intended to require these industries to take slow depreciation deductions in computing all costs except taxes and to take large deductions for this latter purpose alone. This kind of inconsistent position in my estimation was never intended and I hope that it will be possible for the Committee on Ways and Means to analyze this problem in detail in the near future.

Mr. BYRNES of Wisconsin. Mr. Chairman, may I inquire of the chairman of the committee as to whether or not he has any other speakers?

Mr. MILLS. Mr. Chairman, we have no further requests on this side.

Mr. BYRNES of Wisconsin. Mr. Chairman, I yield myself 5 minutes.

Mr. Chairman, I shall be very brief. I think there is nothing to be gained by further discussions with respect to the provisions or details of the legislation.

I believe that has been amply explained by the chairman and in colloquy earlier in the debate.

Fundamentally, we have to recognize that there is no alternative except to do at least what the committee is recommending to the House in this instance. We are in a fiscal mess. We all have to recognize it and acknowledge it.

Even after the bill is enacted, if nothing else happens, the calculations on the basis of the normal administrative budget as presented to us by the executive branch, show a deficit of $20.5 billion for fiscal year 1968, the year we are now in. Even with the enactment of this legislation there will be a deficit of $21.6 billion for fiscal 1969.

Back to back, such deficits, I believe, are not only intolerable: they are irresponsible. But under the circumstances, Mr. Chairman, certainly we should not permit the lapse of revenue that is currently coming in to the Treasury. We certainly should not take action which would have the effect of reducing revenue or income of the Government in the current year and in the following year below the normal sources of revenue of last year.

That, fundamentally, is what this bill does. It merely says that under these circumstances the excise tax rates presently in effect should continue in effect and not lapse, as the present law would provide.

We have had a discussion of the item of the corporate tax. Frankly, this does improve our revenue to some degree. I do not suggest it is important that it be enacted on that basis. I believe it is fundamentally an attempt to bring consistency so far as the payment of tax liability is concerned.

Under these circumstances, Mr. Chairman, as I say, I believe there is no alternative.

I do not recall any disagreement within the committee as to the necessity of enacting this legislation. In fact, I joined with the chairman in the introduction of the bill which the committee instructed be introduced.

Under these circumstances I can only suggest to the House that we enact this bill and that we recognize in doing so we still have before us a serious problem that we cannot ignore. The action on this legislation today does not diminish the urgency of the fiscal problems to which we must address ourselves as this session of Congress this year continues.

Mr. VANIK. Mr. Chairman, by legislation adopted by Congress in 1965 and revised in 1966, the excise tax on passenger automobiles will be reduced from 7 percent to 2 percent on April 1, 1968, and then to 1 percent on January 1, 1969. The excise tax on general and toll telephone service presently at the rate of 10 percent is scheduled to be reduced to 1 percent on April 1, 1968, and repealed completely on January 1, 1969.

At the time these excise taxes were reduced, the principal argument for their elimination was premised on the fact that these were wartime execise taxes and no war condition existed. Since this action by the Congress, the situation has been entirely reversed and the Nation is now confronted with the problem of conducting a major struggle in Southeast Asia in addition to preserving and maintaining our defenses throughout the world. From all indications, these obligations will entail deficit spending possibly in the area of $23 billion in the current fiscal year.

In view of this unprecedented deficit, it is unthinkable that the Congress of the United States should permit tax reductions to take place and increase the size of the deficit.

The reduction of the telephone tax scheduled for April 1, 1968, will result in a Treasury loss of almost $1 billion per year on an annual basis. The reduction of the automobile excise tax will involve a Treasury loss at an annual rate of $1 billion per year which will rise to $1½ billion per year after January 1, 1969.

In view of the deficit it seems extremely ridiculous for the Congress of the United States to permit a $2 to $2½ billion Treasury loss at this time. These excise taxes were originally imposed as wartime necessities. The conditions of that justification are reinstated today. The abatement of these excise taxes can certainly be deferred until world tensions ease and the reduction of military expenditures make it again a feasible action.

It seems to me that prudence at this moment dictates that we in Congress, charged with the responsibility of allocating the burden of our worldwide commitments, recognize the need at this hour for bringing Treasury receipts more in line with the expenditures of our Government. The suspension of the contemplated tax reduction in the telephone tax and the automobile excise tax is a good place to begin.

I hope that this legislation will be adopted.

Mr. MILLS. Mr. Chairman, I have no further requests for time.

The CHAIRMAN. Under the rule, the bill is considered as having been read for amendment.

The bill is as follows:

H.R. 15414

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Adjustment Act of 1968".

(b) AMENDMENT OF EXISTING LAW.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid

pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its income tax imposed by section 11 or 1201(a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof $100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A)".

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and insertiing in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank of trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit,' and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

The CHAIRMAN. Under the rule, no amendments are in order except amendments offered by direction of the Committee on Ways and Means. Are there any committee amendments?

Mr. MILLS. There are no committee amendments, Mr. Chairman.

The CHAIRMAN. Under the rule, the Committee rises.

Accordingly the Committee rose; and the Speaker having resumed the chair, Mr. HAMILTON, Chairman of the Committee of the Whole House on the State of the Union, reported that that Committee, having had under consideration the bill (H.R. 15414), to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, pursuant to House Resolution 1074, he reported the bill back to the House.

The SPEAKER. Under the rule, the previous question is ordered.

The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed.

A motion to reconsider was laid on the table.

GENERAL LEAVE

Mr. MILLS. Mr. Speaker, I ask unanimous consent that those of us engaged in discussion of the bill H.R. 15414 in the Committee of the Whole may be permitted to revise and extend their remarks and include tables and extraneous matter therewith.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

Mr. MILLS. Mr. Speaker, I also ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks on the bill just passed.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

NATIONAL VISITOR CENTER FACILITIES ACT OF 1967—CONFERENCE REPORT

Mr. GRAY. Mr. Speaker, I call up the conference report on the bill (H.R. 12603) to supplement the purposes of the Public Buildings Act of 1959 (73 Stat. 479), by authorizing agreements and leases with respect to certain properties in the District of Columbia, for the purpose of a national visitor center, and for other purposes, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER pro tempore (Mr. PRICE of Illinois). Is there objection to the request of the gentleman from Illinois [Mr. GRAY]?

Mr. GROSS. Mr. Speaker, reserving the right to object, I trust the gentleman will take some time to explain the action of the conferees on this bill?

Mr. GRAY. Mr. Speaker, will the gentleman yield?

Mr. GROSS. I yield to the gentleman from Illinois.

Mr. GRAY. I will be delighted to explain it.

Mr. GROSS. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Illinois?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of February 28, 1968)

Mr. GRAY (during the reading). Mr. Speaker, I ask unanimous consent to dispense with further reading of the statement of the managers on the part of the House, and that I may be permitted to explain the bill as I go along.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Illinois?

There was no objection.

Mr. GRAY. Mr. Speaker, it is a great privilege for your House Committee on Public Works, represented by its conferees, to bring back to the House for final passage the conference report on the disagreeing vote of the two Houses on H.R. 12603, the National Visitors Center Act of 1968. Mr. Speaker, I am indeed proud of both the House and Senate conferees because it took less than 45 minutes to agree on the conference report before you now. The conference report is brought to you unanimously by both the House and Senate conferees on both sides of the aisle.

Mr. Speaker, I want to publicly commend the House conferees for their wonderful cooperation and outstanding bipartisan support on this historic and important piece of legislation. Mr. JONES of Alabama, Mr. KLUCZYNSKI of Illinois, Mr. BLATNIK of Minnesota, Mr. WRIGHT of Texas, Mr. GROVER of New York, Mr. SCHWENGEL of Iowa, and Mr. CRAMER of Florida were all tremendously helpful in

bringing this legislation to a successful conclusion. The distinguished Senators RANDOLPH of West Virginia, JORDAN of North Carolina, TYDINGS of Maryland, and FONG of Hawaii displayed nothing but wonderful cooperation, and their progressive mood is to be admired. I also want to thank Mr. FALLON, chairman of the full Committee on Public Works for his tremendous assistance and cooperation, and, of course, all of us would be lost without the wonderful work of Mr. Richard J. Sullivan, Chief Counsel of the House Committee on Public Works and his able staff including Dorothy Beam, executive staff assistant, Clifton Enfield, minority counsel, Paul Yahrs and Robert May, staff assistants, and Richard Royce, who has done a magnificent job on the Senate side. I also want to thank a great parliamentarian, Bob Monson, of the Legislative Reference Service.

Mr. Speaker, after more than 100 years, we are finally recognizing the millions of American and foreign visitors who come to Washington each year who are hungry to learn about our form of government. This is particularly true of the millions of schoolchildren who come to this great city on what is truly a pilgrimage each year. By providing these facilities, I know that all visitors will now have a better understanding for, and appreciation of, their Federal Government.

The benefits to be derived from this legislation are too numerous to mention in the statement accompanying this conference report. However, I would refer all Members and interested persons to the debate on this legislation when it passed the House. I am sure the constituents of all Members of the House and Senate will be pleased to learn about these facilities that should be available for public use within 18 to 24 months after the President's signature. In that connection, Mr. Speaker, I want to thank the distinguished President of the United States for submitting a special message to Congress on the need for a National Visitors Center, and we have had the full cooperation of both the President and his First Lady, who are vitally interested in seeing that these facilities are provided.

Mr. Speaker, in an effort to conserve time, I will briefly explain the changes between the two bills as passed by the House and Senate, and the final action thereon as agreed to in conference and then have printed in the RECORD the full statement of the managers on the part of the House. Again, let me thank the entire membership of the House for their overwhelming support of this important legislation and I am happy to announce that we have an architect's model of the entire visitors center complex that is very suitable for television programs, photographs, or other similar work if anyone is interested in explaining this proposed facility to the folks back home. We will be delighted to supply any Member with this model upon request.

In closing let me again thank the conferees and the Members of the House for helping us provide this important facility for the general public without the requirement of one dime of Federal funds at the present time. As you know the railroads will put up all the money for the construction of this facility and lease it to the Federal Government.

Mr. Speaker, the first item that was in disagreement in the conference was the number of years that the lease should run between the Washington Terminal Co., the owners of the Union Station, and the Department of the Interior. The House bill called for a maximum of 20 years under the lease arrangement. The other body increased that time to 30 years, and in conference we agreed on 25 years as a maximum time.

The owners of the Union Station do not want to give the Government a lease in excess of 20 years, so the 25 years just gives us a little more negotiating power for the Secretary of the Interior and the owners of the Washington Terminal Co. when they sit down to draw up their lease agreement.

The second item changed by the Senate was the amount of annual lease payments. We felt, with the Vietnam war going on that we should tell the Congress and the people exactly how much the maximum lease payments would be, and the House bill had a ceiling of $3 million per year. The other body took this ceiling off mainly because they felt that the Washington Terminal Co. should pay 100 percent assessed valuation on real estate taxes on the parking facility and the modernization of the existing facility, so the Senate had no limit on the annual lease payments. In going to conference we agreed on putting back a maximum limit on the amount the Secretary could pay on an annual lease basis, and we agreed on a maximum ceiling of $3.5 million per year.

This is a $500,000 increase over the bill passed by the House. I would remind you, this is only a ceiling and not necessarily an increase in costs.

As I said, it was primarily to take care of the next item that I want to talk about. The House bill gave a moratorium on taxes to be collected by the District of Columbia on the parking facilities, and on the $5 million modernization of the Union Station. It was our feeling in the House that since this facility was to be for public use that the Union Station owners should not have to pay taxes on this parking garage and on the modernization of the facilities to be used as a Visitors Center.

The other body felt it might set a precedent for other buildings being built by private capital and being leased to the Federal Government. Therefore, to go the last mile, the conferees agreed to allow the District of Columbia to assess at all of the improvements to be made at the Union Station for this Visistors' Center plus the existing Union Station as it now stands.

So putting it very simply, the District of Columbia will collect taxes on the existing Union Station and the new train station to be built by the Washington Terminal Co. plus on the improvements to be made. This does not mean however, that the District of Columbia should raise the valuation of other Union Station property because of the improvements being made for the Federal Government.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. GRAY. I yield to the distinguished gentleman from Iowa.

Mr. GROSS. Apparently, and correct me if I am wrong, this simply means this increase, and we will say the figure, amounts to $3.5 million, simply means that the Federal Government is going to pay the tax on this property. Is that about right?

Mr. GRAY. I think it would be a correct assessment to say that the Government will be paying taxes on the parking facility and the $5 million modernization, but it is not correct to say that we will be paying taxes on the existing Union Station and on the new train station because this year the Washington Terminal Terminal Co. will pay about $365,000 in taxes to the District of Columbia.

Those taxes will remain approximately the same at no cost to this proposal. They will also build a new train station. They will pay the District of Columbia taxes with respect to this new station at no cost to us.

We must remember that the parking facility and the modernization is being made available to us by the Washington Terminal Co. and they are only going to charge us a 5-percent return on their investment plus exactly what they have to pay for borrowed money to construct the facility. So naturally if taxes are to be assessed there, those taxes will have to be passed on to the Federal Government.

I must remind the gentleman that in charging us a 5-percent return on their investment, this is much less than a private owner would charge the Federal Government for a leased or rented post office or other facility.

The General Services Administration testified before our committee that when we allow private enterprise to build a public building for Government use, they generally figure on the basis of a 10 percent or more return on their investment.

The owners of the Union Station have agreed to let us have this facility for a 5-percent return on their investment plus interest on their borrowed money. So we can pay the District of Columbia these taxes and still be paying much less than if we had to go out in the market someplace and get someone to build this facility for us. That is the first point I want to make.

The second point I want to make is that while we may be paying the District of Columbia—whether it comes out of this lease money or out of some other fund—the more they receive in taxes. The less your people and my people will have to pay toward the Federal payment to the city.

Furthermore, I would like to reiterate what I said a moment ago—that it is still much cheaper than if we just said to someone—Come in and build us a Visitors' Center and lease it to the Government. Because in the long negotiations, we got a 5-percent interest rate on the value of the property which is much less than the going rate.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. GRAY. I am delighted to yield to the gentleman from Iowa.

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 1, 1968

Read twice and referred to the Committee on Finance

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Adjustment Act of 1968".

(b) AMENDMENT OF EXISTING LAW.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference

shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061 (a) (2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412 (a) (1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251 (a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications)

is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relat-

ing to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its income tax imposed by section 11 or 1201 (a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment

(if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For pur-

poses of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201 (a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d) (3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before Jan-

uary 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1) (B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154 (c) (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after

the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an

application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the

estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof "$100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A)".

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302 (c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

Passed the House of Representatives February 29, 1968.

Attest: W. PAT JENNINGS,

Clerk.

90TH CONGRESS
2D SESSION

H. R. 15414

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 1, 1968
Read twice and referred to the Committee on Finance

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued March 13, 1968
For actions of March 15, 1968
90th-2nd; No. 43

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SENATE

1. HOUSING. Received from District Government a proposed bill to establish a revolving fund for the development of housing for low- and moderate-income persons and families in the District of Columbia; to District of Columbia Committee. p. S2912

2. CCC. Received from GAO a report on the examination of financial statements, fiscal year 1967, Commodity Credit Corporation, Department of Agriculture, p. S2912

3. ELECTRIFICATION. Sen. Yarborough commended REA as the "singlemost significant event" in the history of U. S. agricultural development and inserted his remarks before National Rural Electric Cooperative Association. pp. S2919-20

Received from FPC a statement of the views of the Commission relative to Federal acquisition of the Mystic Lake hydroelectric project which the Montana Power Co. owns and operates under a Federal Power Act license. p. S2912

4. COSPONSORS. Sen. Brewster was added as a cosponsor of S. 3158, to repeal the authority for current wheat and feed grain programs, and Sen. Jackson was added as a cosponsor of S. 3157, to establish the Potomac National River in Md., Va., and W. Va. p. S2915

5. TAXATION. The Finance Committee reported with amendments, H. R. 15414, to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations (S. Rept. 1014). p. S2913

6. OCEANOLOGY. Sen. Pell applauded "our national goals in marine sciences" contained in the President's conservation message and urged larger funding for the sea-grant college program. pp. S2922-4

7. COMMITTEES. Agreed to the following resolutions: S. Res. 211, with amendment, to authorize the expenditure of not to exceed $105,000 by the Government Operations Committee to make a complete study of all matters pertaining to the operation of foreign assistance activities by the Federal Government (p. S2943). S. Res. 216, with amendment, to authorize the expenditure of not to exceed $750,000 by the Government Operations Committee to make investigations into the efficiency and economy of operations of all branches of Government (pp. S2941-2). S. Res. 227, with amendment, to authorize the expenditure of not to exceed $85,000 by the Government Operations Committee to make studies as to the efficiency and economy of operations of all branches of the Government with particular reference to research and development programs (p. S2943). S. Res. 247, with amendments, to authorize expenditures of not to exceed $50,000 to continue the Special Committee on the Organization of the Congress through June 30, 1968 (p. S2949). S. Res. 214, with amendment, to authorize the expenditure of not to exceed $115,000 by the Government Operations Committee to make a study for the purpose of evaluating the effects of laws enacted to reorganize the executive branch of the Government (pp. S2930-1). S. Res. 222, without amendment, to authorize the expenditure of not to exceed $75,000 by the Labor and Public Welfare Committee to make a complete study of any and all matters pertaining to migratory labor (p. S2948). S. Res. 241, without amendment, to authorize the expenditure of not to exceed $110,000 by the Judiciary Committee to make a complete examination and review of the administration of the Patent Office (p. S2947). S. Res. 244, without amendment, to authorize the expenditure of not to exceed $46,500 by the Judiciary Committee to make a complete study of all matters pertaining to revision and codification of the U. S. statutes (p. S2947).

Calendar No. 995

90TH CONGRESS, 2d Session | SENATE | REPORT No. 1014

TAX ADJUSTMENT ACT OF 1968

MARCH 15, 1968.—Ordered to be printed.

Mr. LONG of Louisiana, from the Committee on Finance, submitted the following

REPORT

[To accompany H.R. 15414]

The Committee on Finance, to which was referred the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, having considered the same, reports favorably thereon with amendments and recommends that the bill as amended do pass.

I. SUMMARY

The House bill continues until December 31, 1969, existing excise taxes imposed with respect to manufacturers' sales of passenger automobiles and with respect to certain telephone services. Thereafter it provides for the gradual reduction and eventual elimination of these taxes. The committee accepted these provisions without change. The House bill also provides for the acceleration of income tax payments by corporations to place these payments of tax on a comparable basis to that applying in the case of individual taxpapers, including sole proprietors. The committee made two modifications in this latter provision. It also added a provision dealing with the tax treatment of interest on industrial development bonds. Further it added two public welfare amendments to the bill dealing with provisions which were passed by the Senate last year but not accepted in the conference on the Social Security Amendments Act, and one amendment related to the medical assistance (title XIX) program, All of these amendments added by your committee are summariaed below.

Finance Committee amendments.—Your committee modified the acceleration provisions as passed by the House to provide that the speedup of corporate income tax payments generally is not to apply with respect to the tax payable on the first $25,000 of taxable income

85-010—68——1

(generally the level where the surtax exemption applies). In addition, the bill as passed by the House provides for "quickie refunds" in the case of overpayments of estimated tax. The House bill provides that such quickie refunds are not to be available unless the overpayment exceeds 105 percent of the then expected tax liability and also amounts to more than $200. Your committee has raised this limitation to 110 percent and $500.

The committee added an amendment to the bill providing that interest on industrial development bonds, which has been excluded from gross income as interest on a State or local government bond in accordance with the regulations previously in effect and the principles set forth in a series of revenue rulings, is to continue to be exempt from income tax unless otherwise provided by some future The law. Internal Revenue Service is directed to issue ruling letters with respect to these bonds in conformity with the statement indicated above.

Present law sets a limitation on Federal financial participation in the program for aid to families with dependent children, related to the proportion of the child population that could be aided because of the absence from the home of a parent. This limitation is deleted by the committee bill.

The committee bill removes certain provisions contained in present law which affect eligibility of children on AFDC when their father is unemployed. Specifically, the requirement that the father have six calendar quarters of work or have been entitled to unemployment compensation would be removed. In addition, the committee bill would permit a State at its option to make payments for a month in which the father received unemployment compensation. Under present law, receipt of any unemployment compensation would bar assistance for the month.

Under present law, effective January 1, 1968, States with medicaid programs which have not purchased part B medicare coverage (supplementary medical insurance) for those older citizens eligible for medicaid benefits, no longer receive Federal matching payments toward the cost of medical services which would have been reimbursable under part B of medicare had the State, in fact, purchased such coverage. The committee amendment postpones the effective date of the cutoff of Federal funds in such cases to January 1, 1970.

Revenue effect.—While this bill does not increase tax liabilities above those now payable, it is estimated the changes made by this bill as amended by your committee will increase tax collections by about $1 billion in fiscal year 1968 and by about $2.9 billion in fiscal year 1969. The larger revenues in part are attributable to continuing existing excise tax rates and in part to speeding up the collection of existing corporation tax liabilities. The public welfare provisions adopted by your committee will involve payments of $15 million in fiscal year 1968 and $134 million in the fiscal year 1969. The House bill as amended by your committee, therefore, will reduce the deficit by about $1 billion in fiscal year 1968 and by about $2.8 billion in fiscal year 1969.

Reasons for action.—In view of the budget deficits in excess of $20 billion forecast in both 1968 and 1969, without taking into account proposed tax increases, it appeared inappropriate to allow a reduction in existing excise tax rates. Moreover, it appeared to be an appropriate time to take further action to place corporation income tax payments

on a more current basis. At the same time, however, provision is made for quick refunds for corporations after the end of the year in those cases where their estimated tax payments significantly exceed their tax liabilities.

Other House bill provisions.—To simplify compliance for corporations, both the House and your committee's bill repeal the present requirement that corporations file a declaration of estimated tax. This does not affect existing payment procedures.

Both versions of the bill also establish that a deposit of tax is to be considered to be paid on time if it is mailed to a depositary at least by the second day before the due date.

II. GENERAL STATEMENT

The President's budget message estimates receipts and expenditures under the new unified budget, before taking into account the President's proposals with respect to tax legislation in fiscal years 1968 and 1969, at the following levels: [1]

BUDGET TOTALS FOR FISCAL YEARS 1968 AND 1969

[In millions of dollars]

	1968	1969
Receipts excluding effect of tax proposals	152,824	164,951
Expenditures and net lending	175,635	186,062
Deficit	22,811	21,111

These data indicate deficits of $22.8 billion in 1968 and $21.1 billion in 1969.

With prospective deficits of such magnitudes, your committee agrees with the House that it is inappropriate to permit reductions in the excise taxes to occur in 1968 or 1969 as scheduled by existing law. It also agrees that this is an appropriate time to remove disparity in the treatment of individuals and corporations under the current tax payment system. These actions also will undoubtedly aid from the standpoint of our present international financial position.

In view of the fact that the excise tax reductions, in the absence of this bill, would occur on April 1, and the fact that the speed-up of corporation income tax payments must occur before April 15 to be fully effective this year, your committee concluded that it is essential to act now on these recommendations.

[1] The administrative budget estimates are as follows:

[In millions of dollars]

	1968	1969
Receipts excluding effect of tax proposals	115,569	122,669
Expenditures	137,182	147,363
Deficit	21,613	24,694

Excise tax extensions

Under present law the 7-percent manufacturers excise tax on passenger automobiles [2] is scheduled to drop from 7 to 2 percent on April 1, 1968, and then on January 1, 1969, to drop to 1 percent. The 1-percent rate under present law is to be a permanent tax. Your committee has concluded, as did the House, that the present 7-percent rate of tax should be continued until 1970.

Your committee is also in accord with the House that reductions in the manufacturers excise tax on passenger automobiles should be enacted in a series of gradual steps to prevent possible dislocations in the industry. It agrees that the anticipation by consumers of a substantial reduction in the excise tax rate might delay purchases of new automobiles for a period before the rate reduction actually took place. Therefore, the House bill and your committee's bill provide for the reduction in the excise tax on passenger automobiles in a series of steps which is to begin on January 1, 1970, and conclude on January 1, 1973, with the repeal of the tax. As indicated previously, under existing law the tax would have been retained at a permanent level of 1 percent.

Under present law the excise tax on local telephone service, toll service, and teletypewriter exchange service is scheduled to be reduced from 10 percent to 1 percent as of April 1, 1968, and on January 1, 1969, the 1 percent tax is to be repealed. Your committee has concluded, as did the House, that the present 10-percent rate of tax should be continued until 1970.

Your committee's bill and the House bill provide a schedule of rate reductions for the tax on telephone service comparable to that provided in the case of passenger automobiles; that is, the 10-percent rate on these various types of telephone service is reduced to 5 percent as of January 1, 1970, and is reduced by 2 percentage points a year thereafter until 1973, when the final 1 percent tax is removed.

Current payment of corporation income tax liabilities

In view of the budgetary outlook, it appeared appropriate now to take further action to place corporations under substantially the same obligations with respect to the current payment of income tax liabilities as those placed upon individuals and unincorporated businesses.

This objective has long been sought by Congress. Action was taken in each of the revenue acts of 1950, 1954, 1964, and 1966 to place the payment of corporate tax liabilities on more nearly the same basis as that of individuals and unincorporated businesses. The development has been gradual because of a desire to ease possible transitional problems for the corporations involved, but commitment to the objective has not varied.

For these reasons, the House bill and your committee's bill raise the percentage of estimated tax liability necessary to be paid currently by corporations from 70 to 80 percent—the percentage applicable to individuals. This change is made fully effective for 1968 tax liabilities.

The bill as passed by the House also reduced the exemption from the corporate current payment provisions from $100,000 to $40.

[2] Passenger automobile chassis and bodies and other chassis and bodies for trailers and semitrailers (other than housetrailers) suitable for use in connection with passenger automobiles.

The bill as modified by your committee also substantially reduces this exemption for corporations below $100,000. However, your committee believes that it is desirable to maintain a favored position for corporate small business because of its difficulties in obtaining adequate financing. For that reason it has reduced the exemption from the corporate current payment provisions from $100,000 to the level at which the surtax exemption applies, generally, $25,000 of taxable income, or $5,500 of tax. The first $25,000 of taxable income is the amount which Congress previously decided should be exempt from the 26 percent surtax rate applicable to higher incomes. Therefore, deferring tax payments on income below this level is consistent with the existing policy of preferential treatment for these small incomes.

The reduction of the exemption from current payment provisions under your committee's action, as under the House action, is made effective gradually over a 5-year period beginning with 1968 tax liabilities. This is accomplished by requiring the inclusion in 1968 (in addition to tax liabilities in excess of $100,000) of 20 percent of the tax liabilities between $100,000 and $5,500, by increasing this to 40 percent for 1969 liabilities, 60 percent for 1970 liabilities, 80 percent for 1971 liabilities, and 100 percent for 1972 liabilities and the liabilities of later years.

The reduction of the $100,000 exemption for corporate estimated tax payments is phased in because it is believed that to do otherwise would impose a hardship on many corporations not now required to make quarterly payments of estimated tax and also on those corporations which will be required to make substantial increases in the amount of estimated tax they pay.

Another provision of the bill will simplify the estimated tax payment requirements of corporations by repealing the existing requirement that corporations file declarations of their estimated tax. Under the terms of the bill, corporations will not have to complete a form indicating the manner in which they determine their estimated tax payments, but will merely have to make those payments on or before the quarterly due dates.

Your committee also has agreed to a further change designed to ease the impact of the current payment provisions on corporations. It recognizes that applying the new system might in some cases result in substantial overpayments by corporate taxpayers if the final results of their operations fall below their expectations in the forepart of the year, since the last estimated tax payment by corporations is required to be made before the end of their tax year. These overpayments could result from such circumstances as the burning or flooding out of a business, a strike, or a sharp downturn in expected sales. For some of these firms the overpayment of estimated tax may create a cash shortage at the very time the need is the greatest. These corporations cannot obtain a refund of estimated tax under current law until they file their tax returns. However, many corporations have difficulty filing their returns within 2½ months after the close of their tax year and must ask for a 3-or 6-month extension before filing their returns. This delays still further the time when any overpayment of estimated tax can be refunded to them.

For these reasons your committee has endorsed the provision of the House bill which permits a corporation to obtain a quick refund of overpayment of estimated tax by filing an application during the

period between the end of its taxable year and the time it files its tax return for that year (or the due date of the return if earlier). When these quick refund applications are filed, the Internal Revenue Service is to make payment within 45 days. The refund in this case is only available with respect to estimated tax payments in excess of the tax liability reasonably estimated at that time, and not the 80 percent of estimated tax liability on which the earlier payments may be made.

To prevent the use of this quick refund provision where the amounts are small, the bill passed by the House provided that the refund is to be made only where the estimated payments have equaled or exceeded 105 percent of tax liability and the excess payments equal or exceed $200. Your committee concluded that the limits provided in the House bill should be raised to 110 percent of tax liability and a minimum of $500 to insure that the quick refund provision will only be used when the amounts are significant.

Timely mailing treated as timely deposit

At the present time taxpayers who are required to deposit payments of estimated, withheld income, employment, or excise taxes in a designated bank for tax collection purposes must bear the responsibility for insuring that the payment reaches the depositary on or before the specified due date. It has been pointed out that this places the responsibility for delays which occur in the delivery of mail on the taxpayer. Taxpayers, particularly those whose headquarters are located at some distance from the depositary banks they may wish to use, must mail deposits well in advance of the due date to avoid the risk of an additional tax if there is a delay in the mails. Under legislation passed in 1954, certain documents and claims are held to be filed on time if they were timely mailed. In 1966, this treatment was extended to returns and payments of tax. Your committee agrees with the House that similar treatment should be provided with respect to deposits of tax and endorses the provision of the House bill under which a deposit received at the depositary bank after the due date is to be considered received on or before the due date if it is mailed on or before the second day prior to the due date.

Interest on industrial development bonds

The Treasury Department on March 6 announced (in TIR 972) that it was reconsidering its position on the tax-exempt status, under section 103 of the Internal Revenue Code, of interest paid on industrial development bonds. These are bonds issued by, or on behalf of, a municipality or other political subdivision where the bonds are used to finance the purchase and/or construction of a facility to be leased to a private corporation. The bonds in these cases are usually amortized wholly from the rental payments received from the private corporation.

The Treasury Department stated that proposed regulations concerning industrial development bonds would be published which would provide that these bonds would not be considered obligations of a State or local government within the meaning of section 103(a)(1) of the Internal Revenue Code. It was announced that these regulations would apply to bonds sold after March 15, 1968, and the Treasury announced that effective March 15, 1968, it is withdrawing its rulings holding industrial revenue bonds to be exempt. In applying this effective date, it was stated that bonds would be considered sold on

the date when a buyer or underwriter enters into a binding contract with the issuer to purchase the bonds at a fixed price.

The Committee on Finance is concerned that the Treasury Department in taking this action is, in effect, legislating on this subject. It does not believe that a change should be made in the status of the interest on these bonds without specific legislative action on the part of the Congress.

For the reasons indicated above, your committee has added a section (sec. 5) to the bill providing that interest on industrial revenue bonds is to be excluded from gross income under section 103 of the Internal Revenue Code in accordance with the regulations prescribed by the Treasury Department as in effect on March 13, 1968, and in accordance with the principles set forth in three revenue rulings; namely, revenue ruling 54–106, revenue ruling 57–187, and revenue ruling 63–20. In addition, the section provides that the Internal Revenue Service is authorized and directed to issue ruling letters with respect to industrial development bonds in conformity with the position stated above.

The revenue rulings referred to in general provide as follows:

Revenue Ruling 54–106 (C.B. 1954–1, 28) provides that bonds issued by a municipality for the construction of municipally owned industrial plants for lease to private enterprises constitute obligations of a political subdivision within the meaning of what is now section 103(a)(1) of the Internal Revenue Code and that interest on these bonds is exempt from Federal income tax notwithstanding the purpose for which they were issued or the fact that the promise to pay is limited to the revenue to be derived from leasing the property. It is also stated that it is not necessary for this purpose that the obligation be a general one pledging the general credit of the municipality or the use of its taxing power.

Revenue Ruling 57–187 (C.B. 1957–1, 65) holds that interest on bonds issued by an industrial development board formed under a State statute is exempt from Federal income taxes under section 103(a)(1) of the Internal Revenue Code. In this case the bonds were payable only out of the revenue produced by the property in question, the industrial development boards (and the interest on the bonds) were exempt from all State taxes, and upon the dissolution of any such board the title to the property owned by it was to become the property of the municipality in which the board was located.

Revenue Ruling 63–20 (C.B. 1963–1, 24) states that obligations issued by a nonprofit corporation formed for the purpose of stimulating industrial development would be considered issued "on behalf of" a political subdivision for purposes of section 1.103.1 of the income tax regulations where the following five requirements were met:

(1) The corporation must engage in activities which are essentially public in nature;

(2) The corporation must be one which is not organized for profit (except to the extent of retiring indebtedness);

(3) The corporate income must not inure to any private person;

(4) The State or political subdivision must have a beneficial interest in the corporation while the indebtedness remains outstanding and must obtain full legal title to the property upon retirement of the indebtedness; and

(5) The corporation must have been approved by the State or political subdivision and the State or political subdivision must also have approved of the obligations issued by the corporation.

Repeal of limitation on Federal participation in Aid to Families with Dependent Children

The Social Security Amendments of 1967 set a limitation on Federal financial participation in the AFDC program related to the proportion of the child population under age 18 aided because of the absence of a parent from the home. Under the limitation, this proportion is calculated based on the child population in each State on January 1, 1968, and the average monthly number of children dependent because of the absence of a parent during the first calendar quarter of 1968. The limitation becomes effective July 1, 1968.

The House version of the 1967 amendments contained this limitation (though with different dates); the Senate version did not. In the conference the Department of Health, Education, and Welfare presented estimates that the limitation would not reduce Federal participation in assistance payments because of the effect of the work incentive provisions of the amendments, in reducing the number of people on the rolls.

The Department has subsequently revised these estimates, and the President's budget (p. 462) states that assistance payments to about 475,000 AFDC recipients will not receive Federal matching totaling $125 million in fiscal year 1969. It is unlikely that the conference committee would have acted as it did if the members had been aware of the effects now predicted by the Department of Health, Education, and Welfare.

At the same time, there have been other developments which will have a major impact on the AFDC limitation as it applies to some States. Court decisions in a number of States, including Connecticut, Delaware, the District of Columbia, Wisconsin, and Pennsylvania, have forced those States to eliminate eligibility requirements based on length of residence. A court decision in Alabama, and litigation in process in Louisiana, would not permit those States to declare families ineligible for assistance because of the presence of a man in the house who is not married to the mother of the family.

Some 40 States now have requirements based on length of residence; 18 States have man-in-the-house rules. The Department of Health, Education, and Welfare estimates that in the United States as a whole, a range of from 200,000 to 400,000 AFDC recipients might be added to the rolls if all States eliminated the man-in-the-house rule; another 100,000 to 200,000 AFDC recipients could be added to the rolls with the elimination of duration-of-residence related requirements.

If court decisions prohibit these requirements, the unforeseen new recipients will place an additional burden on the States affected. For the most part, there will be no Federal financial participation on their behalf under present law since they will exceed the number of recipients in the first calendar quarter of 1968, the period used in calculating the proportion of the child population affected by the Federal limitation.

For these reasons, the committee again recommends that the limitation on Federal participation be deleted.

Assistance to families with unemployed fathers

Federal participation in assistance to children dependent because of their father's unemployment began in 1961. But the Social Security Amendments of 1967 for the first time authorized a Federal definition of "unemployment," and tied the program to the new work-incentive program established in the same bill.

Two provisions of last year's House bill were deleted in the Senate but restored in conference. The first of these provisions requires that in order to qualify for assistance on the basis of unemployment, a father must meet certain tests of prior attachment to the labor force. While the committee does not wish to encourage irresponsible marriages, it believes that no one needs the advantages of the work and training programs more than the man who has a wife and children but has no significant history of employment. The committee bill returns to last year's Senate bill by not including work attachment requirements.

The second provision of present law prohibits the payment of assistance (with Federal participation) to a family when the father receives any amount of unemployment compensation during the same month. Since the unemployment compensation may be for only a small part of the month, a family's income could be far below the State's standard of need and still the family would be ineligible for federally aided assistance.

The committee bill returns to last year's Senate bill under which the choice as to whether unemployment compensation payments can be supplemented is left to the States.

Medical assistance (medicaid)

Public Law 90–248 extended the period during which States could elect to cover under part B of medicare those aged cash assistance recipients eligible for medicaid. States now have until January 1, 1970, to make such election rather than the January 1, 1968, date which obtained under prior law. Aged persons not receiving cash assistance but eligible for medicaid were also authorized to be included in a State's "buy-in" group as well as those persons who first go on medicaid rolls after 1967.

Public Law 90–248 further provided that there would be no Federal matching toward the States' share of buying-in for those medicaid eligibles who were not also cash assistance recipients.

Additionally, the new law prohibits, effective January 1, 1968, the payment of Federal matching funds under title XIX toward the cost of services which would have been covered under the supplementary medical insurance program had a State purchased such coverage for its medicaid eligibles. For example, a medicaid eligible in a State with a title XIX program is operated on in a hospital. The surgeon's charge would have been a covered service under part B of medicare had the State enrolled this recipient in part B. However, inasmuch as the State did not so elect, the surgeon's fee is payable wholly from State funds—no Federal matching is available toward that expense as would ordinarily be payable toward a title XIX medical vendor payment.

The basic purposes of the above provisions are to encourage employment of a uniform mechanism—part B of medicare—in the governmental programs designed to cover medical costs of older people and

to assure the broadest possible participation of older persons in the supplementary medical insurance plan.

The general revenues of the Federal Government bear a substantial portion of the total part B premium cost for both welfare and nonwelfare participants. Effective April 1968, this amounts to a Federal share of $4 monthly of the total $8 monthly premium cost for each participant in the program. In view of this general revenue contribution, the Congress did not find it appropriate to authorize additional Federal payment toward the $4 per person cost incurred by a State in buying-in for medically needy persons. However, the Congress did find it appropriate to continue Federal matching payments under title XIX toward the $4 monthly cost incurred with respect to eligible individuals who are also cash assistance recipients.

The committee amendment would not alter any of the objectives of the buy-in. It would simply postpone to January 1, 1970, the date when Federal matching payments would no longer be payable for medical services which could have been covered under part B of Medicare had a State elected to buy-in for its title XIX eligibles.

There are several sound reasons for this postponement:

1. States which did not buy in did not have a reasonable opportunity to do so following enactment of a law which, in effect, makes the buy-in virtually mandatory. Public Law 90–248 was not signed by the President until January 2, 1968, and yet the cutoff of Federal matching became effective January 1, 1968.

2. Postponement until January 1, 1970, coordinates the operation of the buy-in restriction with the effective date of two other related requirements. Under present law, States are required to have title XIX programs by that date or forfeit Federal matching for all of their medical assistance programs. Further, as has been noted, under Public Law 90–248, States have until January 1, 1970, to elect to buy in part B coverage.

3. Delay of the cutoff of matching for medical services which could have been covered under the buy-in will also avoid penalizing those States which elected to participate in title XIX prior to January 1, 1970. In contrast, States which delay entry into title XIX and which do not purchase part B coverage can continue to receive Federal matching for vendor payments made in behalf of aged recipients under titles I and XVI—despite the fact that those same services could have been covered under part B of medicare. The committee amendment thus treats the 50 States equally and equitably.

4. Delay of the Federal matching prohibition until January 1, 1970, will also provide a reasonable opportunity for those States which have not bought-in to seek necessary approvals and appropriations from their legislatures. Orderly budgeting and administration will be enhanced by the additional time provided under the committee amendment.

The need to allow an adequate opportunity for consideration of the buy-in by State legislatures is further underlined because legislatures will undoubtedly want to consider this question in the context of the limitations on eligibility and other modifications to title XIX included in Public Law 90–248. The matter of the buy-in is not necessarily separable from these other title XIX considerations.

The need for prompt action

The measures proposed in the House bill and your committee's bill should be enacted promptly. The existing excise tax rates on

passenger automobiles and telephone service will fall sharply at the end of this month unless legislative action is taken to prevent the reductions. Furthermore, buyers may begin to postpone purchases of autos in expectation of the scheduled reductions unless Congressional action is completed soon. The longer the delay in the action to extend the excise tax rates, the greater is the risk that the volume of deferred purchases will become substantial. Prompt action also is necessary on the provisions regarding the current payment of corporate tax liabilities. These provisions will provide a substantial increase in tax receipts in fiscal year 1968 only if they are enacted in time for corporations to put them into effect before the April 15 and June 15 estimated tax payment due dates for corporations that use the calendar year as their tax year.

Revenue effects

As indicated in the following table, this bill is expected to increase tax receipts in fiscal year 1968 by $986 million and in fiscal year 1969 by $2,940 million.

The $680 million increase in receipts from the provisions to accelerate corporate tax payments which is estimated for fiscal year 1968 under the bill as amended by your committee reflects the combined impact of the increase in the percentage of tax required to be paid currently to avoid an addition to tax and a reduction in the current exemption level. Since the reduction in the exemption level is to be phased over a 5-year period, receipts in each of the fiscal years 1969 through 1972 will also be increased by $280 million a year. The impact of the increase of 70 to 80 percent in the amount of tax liability which must be paid currently to avoid additions to tax will increase receipts by $400 million only in fiscal year 1968. The increase in revenue from the excise tax extensions is small in fiscal year 1968 since the extensions are to apply only for 3 months in this fiscal year.

It is estimated that the public welfare amendments approved by your committee will increase Federal payments by $15 million in the fiscal year 1968 and $134 million in the fiscal year 1969.

The bill as amended by your committee will, therefore, reduce the deficit in fiscal year 1968 by $971 million and will decrease the deficit in fiscal year 1969 by $2,806 million.

The bill as approved by the House would have increased fiscal year 1968 receipts by $1.106 billion and fiscal year 1969 receipts by $3.060 billion.

ESTIMATES OF THE EFFECT ON BUDGET OF H.R. 15414 AS AMENDED BY THE FINANCE COMMITTEE

[In millions of dollars]

	Fiscal year 1968	Fiscal year 1969
a. Increase in receipts:		
Excise taxes—Extension of present rates:		
Passenger automobiles	190	1,500
Telephone service	116	1,160
Total, excise extensions	306	2,660
Proposals for corporate estimated tax payments	630	280
Total revenue provisions	986	2,940
b. Increase in expenditures: Public welfare provisions	15	134
c. Net reduction in deficit	971	2,806

III. GENERAL EXPLANATION OF EXCISE CHANGES AND ACCELERATION PROVISIONS, ETC.

1. The excise tax on passenger automobiles (sec. 2(a) of the bill and sec. 4061 of the code)

Present law.—As a result of amendments in the Excise Tax Reduction Act of 1965 and the Tax Adjustment Act of 1966, the excise tax on passenger automobiles (imposed on the manufacturer's price) is 7 percent. Before the passage of the Excise Tax Reduction Act, the rate was 10 percent. Under the amendments made by those acts, the rate now is scheduled to fall from 7 to 2 percent on April 1 of the current year, and to a permanent rate of 1 percent on January 1, 1969.

Explanation of provisions.—Both the committee and the House substitute a new timetable for the scheduled reductions in the excise tax on passenger automobiles. In addition, it provides for the repeal of the tax effective January 1, 1973.

The new timetable postpones the scheduled reductions in the excise tax on passenger automobiles for a temporary period. At the same time it tempers the effect that the scheduled reductions would have on consumer purchases—as previously described—by providing for a gradual reduction in rate. Finally, the new timetable provides for the repeal of the tax at the end of the postponement period.

Under the bill, the present 7-percent excise tax on passenger automobiles is to continue until January 1, 1970. On that date the rate is to fall to 5 percent. Further annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, as the rate falls from 5 to 3 percent and from 3 to 1 percent, respectively. On January 1, 1973, the tax rate is to fall to zero. As in the past, refunds are to be paid to dealers with respect to automobiles held in inventory on the date of any rate reduction. The bill provides the following schedule of excise tax rates applicable in the case of passenger automobiles:

	Percent
Before Jan. 1, 1970	7
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

2. The excise tax on communications (sec. 2(b) of the bill and sec. 4251 of the code)

Present law.—Present law imposes a 10-percent excise tax on amounts paid for local and toll telephone and teletypewriter exchange service. Scheduled reductions under the Excise Tax Reduction Act of 1965 and the Tax Adjustment Act of 1966 call for the tax to fall to 1 percent on April 1, 1968, and for its repeal on January 1, 1969.

Explanatiou of provisions.—Both the committee and the House bills postpone the scheduled repeal of the excise tax on telephone services and teletypewriter service. It also provides for a graduated reduction in the rate before the rate falls to zero on January 1, 1973.

In taking the action described above, your committee continues to recognize, as it stated at the time of the Excise Tax Reduction Act of 1965, "that the tax on local and toll telephone service and teletypewriter exchange service is undesirable as a permanent feature of our excise tax system." The committee also recognizes, however,

that "while elimination of the tax is desirable * * *, since the tax is an important source of revenue for the Federal Government, reduction should be staged over a period of years."

Under the bill, the scheduled reduction and repeal of the excise tax on telephone services and teletypewriter service generally parallels the scheduled reduction and repeal of the excise tax on passenger automobiles. Thus, the present 10-percent rate is to continue until January 1, 1970, when it is to fall to 5 percent—the same rate then scheduled for the automobile excise tax. Annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, so that the tax rate is to be 3 percent in 1971 and 1 percent in 1972. On January 1, 1973, the tax is to cease. As under existing law, in applying these new rates, bills for services before November 1 of a calendar year are to bear the tax of that year even if the bill for the services is not rendered before the close of the year. As a result the schedule of rates under the House bill and your committee's bill in the case of these telephone services is as follows:

	Percent
Before Jan. 1, 1970	10
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

3. Repeal of requirement for filing declaration of estimated tax (sec. 3(a) of the bill and secs. 6016 and 6074 of the code)

Present law.—Present law requires a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration of estimated tax in the current year. A corporation subject to the filing requirement also must make payments of estimated tax in the current year. Payments are deposited with authorized banks by using deposit forms provided by the Treasury.

With the shift in 1967 to the collection of estimated tax of corporations through the use of banks as depositaries, the filing of declarations of estimated tax by corporate taxpayers became unnecessary. The declarations formerly were used as a means of identifying and billing the taxpayer but since shifting to the depositary system, the Service supplies the taxpayer with deposit forms for each quarterly payment, which contain the taxpayer's identifying number. The deposit forms provide both the Service and the corporation (through the retention of a stub) with a record of payments and also serve as reminder to the corporation as to when payments are due.

Explanation of provisions.—Your committee's bill and the House bill repeal the requirement that a corporation file a declaration of estimated tax. This action is taken because there is no justification for requiring a corporation to continue filing a form which, under present practices, serves no useful purpose. Elimination of the requirement for filing this form will simplify present practices both for the corporate taxpayer and for the Internal Revenue Service. The repeal of the filing requirement, however, does not change the requirements regarding the payments of estimated tax by a corporation.

4. Payment of estimated tax by corporation on tax liability below $100,000 (sec. 3(b) of the bill and sec. 6154 of the code)

Present law.—Before the amendments made by the Revenue Act of 1950, a corporation had the option of paying its entire tax on the

15th day of the third month following the close of its taxable year or of paying one-fourth of its tax on that date and the balance in equal quarterly installments on the 15th day of the third, sixth, and ninth months following the month of the first installment. The amendments made by the 1950 Revenue Act provided for an acceleration of the installment payments of tax liability over a 5-year transitional period. As a result, at the end of the transitional period, a corporation had to pay either all or one-half of its tax on the 15th day of the third month following the close of its taxable year; if it elected to pay only one-half of its liability at that time, it had to pay the balance 3 months later.

Provisions added by the Internal Revenue Code of 1954 now require a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration and make payments of estimated tax in the current year. A corporation whose estimated income tax (after credits) does not exceed $100,000 is not subject to the requirements; one whose estimated income tax (after credits) does exceed $100,000 is subject to the requirements only to the extent of the excess.

As a result of amendments made by the Revenue Act of 1964 and the Tax Adjustment Act of 1966, estimated tax payments for calendar year corporations now are payable in four equal installments on April 15, June 15, September 15, and December 15. In total the payments must equal the amount of the tax shown on the return less $100,000. However, no underpayment, for purposes of imposing an addition to tax, results if the corporation pays 70 percent of this amount.

A corporation required to make estimated tax payments may avoid an addition to tax for an underpayment, as previously described, if it comes within one of three exceptions. The first exception allows a corporation to pay an amount equal to the prior year's tax reported on its return in lieu of its current year's estimate. A second exception determines the amount payable by reference to the results of the corporation's operations in the prior year but at the current year's income tax rates. The third exception determines the amount payable by reference to the corporation's income in the months preceding the payment; the corporation annualizes this income and must pay 70 percent of the tax determined on this annualized amount. The $100,000 corporate exemption noted above also applies in the case of each of these exceptions.

Explanation of provisions.—The bill as reported by your committee provides for a reduction in the present $100,000 corporate exemption from the estimated taxpayments requirement. As in the past, your committee again is providing for a 5-year transitional period in this regard. At the end of the transitional period, the corporate exemption from the estimated taxpayments requirement is to be the same as the exemption which the corporation enjoys under existing law from the corporate surtax; that is, the corporation (unless it is a member of an affiliated group, which is to divide one exemption among its members) is not to be required to make estimated taxpayments with respect to its first $25,000 of estimated taxable income (or its first $5,500 of estimated tax liability). In addition, under an amendment made by your committee, only if a corporation's estimated income tax exceeds $5,500 by at least $40 is it to be required to make estimated

taxpayments. The House bill would have reduced the present $100,000 exemption to $40 over a 5-year transitional period.

Under the bill the substitution of the new surtax exemption for the existing $100,000 corporate exemption is to be phased in over a 5-year period with taxable years beginning in 1968. This phasein, provided to allow a corporation time to arrange its financial affairs to meet the new estimated tax payments requirement, is accomplished by providing a "transitional exemption" during the 5-year period. This transitional exemption is a percentage of the difference between the first $100,000 of the corporation's extimated income tax (after credits) and $5,500 (or a smaller amount in the case of multiple surtax exemptions). This percentage, called the exclusion percentage, falls from 80 percent in 1968 to 60 percent in 1969, to 40 percent in 1970, to 20 percent in 1971, and is eliminated in 1972. An example will illustrate how the new surtax exemption and the transitional exemption are to apply.

Assume that in 1968 a corporation has a tax liability of $100,000. The corporation in this case does not have to make estimated tax-payments with respect to the first $5,500 of its estimated tax liability. In addition, it does not have to make estimated tax-payments with respect to its transitional exemption. In 1968, this exemption is 80 percent of the difference between the corporation's $100,000 of estimated tax liability and its $5,500 exemption. Thus, in this case the corporation's transitional exemption is $75,600 (or 80 percent of $94,500). The corporation, therefore, must make estimated tax-payments of $18,900 ($100,000 minus $75,600 minus $5,500). In 1969, when the transitional exemption is to fall to 60 percent, the corporation's estimated tax-payments, if its income remains the same, are to equal $37,800 since in that year the corporation's transitional exemption is to be $56,700 which together with its $5,500 exemption accounts for the aggregate exemption of $62,200.

As a result of the above described manner of phasing out the existing $100,000 exemption and substituting the new surtax exemption in its stead, a corporation whose estimated income tax (after credits) exceeds $5,500 is to pay an increasing amount in estimated tax each year until the end of the transition period. As noted above, the phasein gives the corporation time to arrange its financing to meet the new requirements in an orderly fashion. At the same time the phasein requires all corporations whose estimated tax exceeds $5,500 to begin immediately to pay some of their tax currently.

5. Increase from 70 to 80 percent in liability corporation must pay by estimated tax to avoid addition to tax (sec. 3(c) of the bill and sec. 6655 of the code)

Present law.—Present law imposes an addition to tax if a corporation fails to pay its estimated tax. This addition is at the rate of 6 percent per annum on the amount of the underpayment. An underpayment is the difference between an actual payment and 70 percent of the payment that the corporation would have owed if its estimated tax had been accurately determined; that is, if its estimated tax equaled its actual tax for the year as subsequently shown on its income tax return (determined for this purpose with regard to the $100,000 exemption from the estimated tax payments referred to

previously). The 70-percent test applies with respect to each installment payment.

As previously indicated, a corporation may avoid the addition to tax for an underpayment if it comes within one of three exceptions. The first of these exceptions allows a corporation to pay an amount equal to the prior year's tax reported on its return in lieu of its current year's estimate. The second exception determines the amount payable by reference to the results of the corporation's operations in the prior year but applies the current year's income tax rates. The third exception determines the amount payable by reference to the corporation's income in the months preceding the payment.

The last exception noted above, which determines the amount of a payment necessary to avoid the addition to tax by reference to the corporation's income for the months preceding the payment, also has a 70-percent test. Under this exception the corporation may annualize its income for the months preceding an installment payment and determine the tax for the year (above the $100,000 exemption) on this annualized amount. The corporation then may avoid the addition to tax by making an estimated payment equal to 70 percent of the payment it would owe if its estimated tax were the tax on this annualized amount.

As a result of amendments made by the Tax Adjustment Act of 1966, the two 70-percent tests noted above are 80-percent tests in the case of an individual businessman. Before that act raised the percentage test for the individual, the corporate and individual taxpayer had been treated alike in this regard.

Explanation of provisions.—Your committee's bill and the House bill raise the two 70-percent tests noted above for a corporate taxpayer to 80 percent. This provision is effective for taxable years beginning in 1968. Thus, under the bill, to avoid an addition to tax, a corporation's estimated tax payments in 1968 must equal 80 percent of the tax liability it shows on its income tax return (determined with regard to the transitional rules explained above for reducing the $100,000 exemption to $5,500). Alternatively, if it uses the annualization rule to avoid additions to tax, the payments must equal 80 percent of its tax as determined by annualizing the corporate income for the appropriate months preceding the payment. In the latter case, also, the determination is made with regard to the transitional rules for reducing the $100,000 exemption.

An example will illustrate the interaction of the new 80-percent test and the transitional exemption during the period of the phasein of the $5,500 exemption:

Assume a corporation, as in the example above, has an estimated tax liability of $100,000 in 1968. As the result of its surtax exemption and its transitional exemption, the corporation is required to make estimated taxpayments of $18,900 in that year (as explained above). Thus, it may avoid an addition to tax if it pays only $15,120 (or 80 percent of $18,900). In 1969, when the corporation's transitional exemption is to fall to 60 percent, the corporation's required estimated taxpayments, if its estimated taxable income remains the same, are to equal $37,800. It may avoid an addition to tax in that year if it pays only $30,240 (or 80 percent of $37,800).

In raising the 70-percent tests to 80 percent, the bill restores the balance between the corporate taxpayer and the individual which

existed before the 1966 amendments. Moreover, in raising the percentage tests (as in phasing out the existing exemption) the bill also brings corporations closer to a full-pay-as-you-go basis.

6. Quick refund of overpayment of estimated income tax by corporation (sec. 3(d) of the bill and sec. 6425 of the code)

Present law.—As previously indicated, existing law requires a corporation with an estimated income tax in excess of $100,000 to file a declaration and make payments of its estimated tax in the current year. If the total of these payments exceeds the tax shown on the return, the corporation may claim the overpayment as a refund. It may not claim this refund, however, until it files its income tax return for the year. Unlike the individual, who makes his last installment payment after the close of the year, the corporation must complete its payments during the year, and therefore cannot reduce these payments to reflect yearend losses.

Present law generally requires a corporation on a calendar year to file an income tax return by March 15. The corporation may claim automatic 3- or 6-month extensions of time for filing, however, merely by filing requests (but it is required to make payments of proper estimates of tax on the March 15 due date). The result is that a calendar year corporation often does not file its income tax return until sometime in September, more than 8 months after the close of its taxable year. Even then, the Internal Revenue Service may wait another 45 days before refunding any overpayment of tax without paying interest on the overpayment. Thus, a total of 10 months may elapse between the close of the year and the time a corporation receives a refund of an overpayment of tax.

Explanation of provisions.—Your committee's bill and the House bill allow a corporation to apply for a quick refund or, more technically, an adjustment of overpayment of estimated tax, immediately after the close of its taxable year. Under the House bill a corporation could do so when its current revised estimate of its income tax liability shows that its estimated taxpayments exceed its revised estimate by at least 5 percent of the revised estimate and that the excess amounts to at least $200. Under your committee's bill, the corporation can do so only if its estimated taxpayments exceed its revised estimate by at least 10 percent and the excess amounts to at least $500.

The provision for quick repayment which the bill contains is effective for taxable years beginning in 1968.

This provision for quick repayment is somewhat similar to the provision now available for "quickie" refunds resulting from net operating loss carrybacks or carrybacks of investment tax credits. This quick adjustment of an overpayment will make less burdensome the overpayments corporations now may be more likely to make because of the larger portion of their expected tax liability which they will have to pay on a current basis as a result of reducing the $100,000 exemption and raising the 70-percent test to 80 percent.

Under the bill, the adjustment application must be filed before the date a corporation first files its income tax return (whether or not it subsequently amends the return) or the date for filing its returns (determined without regard to any extension), whichever is earlier. The filing date for corporations is the 15th day of the third month following the close of their taxable year, or March 15 for calendar year taxpayers.

In order to discourage frivolous adjustment applications and applications from corporations which merely want to borrow funds from the Government, the bill imposes (in a new subsec. (g) of sec. 6655 of the code) an addition to tax at an annual rate of 6 percent on a corporation if it requests and receives an adjustment which subsequently is determined to be excessive. This 6-percent amount, as in the case of an underpayment of estimated tax, is not deductible for income tax purposes. The addition to tax is computed from the time of the excessive adjustment to the due date for the tax return (March 15 in the case of a calendar year taxpayer). (The normal interest for late payment at 6 percent applies thereafter.) The computation of this addition to tax is made independently of, and does not affect the computation of, any addition to tax which a corporation may otherwise owe for an underpayment of an installment of estimated tax.

On its application for adjustment, the corporation is to set forth the estimated tax which it paid during the year, the amount of its revised estimated tax liability, the amount of the adjustment which it requests, and such other information as the Secretary of the Treasury by regulations may prescribe. Before making an adjustment, the Internal Revenue Service may make a very limited examination of an adjustment application. The examination is not to prejudice any right of the Service to claim later that the adjustment was improper. The Service may disallow an application when it finds that the application contains material omissions or errors which the Service deems that it cannot correct within the 45-day period allowed it in making an adjustment. If the Service disallows the adjustment, it is expected that the Service will inform the taxpayer of this action. If it allows the adjustment, the Service may first credit the amount of a claimed adjustment against an outstanding tax liability of the corporation before making payment of the balance to the corporation. In this case it is understood that the Service will notify the corporation of the credit.

An adjustment is generally to be treated as a reduction of prior estimated taxpayments as of the date of the adjustment. However, for purposes of the provision relating to additions to tax for failure to pay estimated income tax (sec. 6655), the adjustment is to be ignored—that is, treated as if not made—in determining whether there has been any underpayment of estimated income tax and, if there is an underpayment, the period during which the underpayment existed.

7. Timely mailing of tax deposits (sec. 4 of the bill and sec. 7502(e) of the code)

Present law.—The Internal Revenue Service is placing increasing reliance of the deposit method for the collection of taxes and now is collecting about $80 billion a year in this manner. Presently most withheld income taxes, estimated corporate income taxes, and excise taxes are collected in this manner. About 90 percent of the banks in the country are designated as depositaries for this purpose. This allows most taxpayers to hand deliver deposits on the last day prescribed for deposit and avoid any addition to tax that would otherwise result.

Some taxpayers, however, find it more convenient to mail tax deposits than to hand deliver them. This may occur, for example, because a corporation with centralized financial management desires to make deposits with banks in the various communities in which its

plants are located. Under the regulations, these deposits which are mailed are not considered as made until received by depositaries. The responsibility for timely mail delivery thus falls on the taxpayers. This differs from the general rule which treats payments as made when mailed.

Explanation of provisions.—Your committee's bill and the House bill provide that where a taxpayer mails his tax deposit 2 or more days before the prescribed due date, the mailing is to be considered a timely deposit even though the deposit is received after the due date (but only if it is actually received). Thus, under the bill, the Government, and not the taxpayer, bears the responsibility for timely mail delivery.

Under both versions of the bill, the mailing of a deposit 2 or more days before the due date for payment is to be considered as payment only where the taxpayer can establish that he timely mailed the deposit. In the case of a deposit sent by registered mail, the date of registration is to be deemed the date of mailing. The taxpayer, of course, could also establish the date of mailing by other competent evidence.

IV. CHANGES IN EXISTING LAW

In the opinion of the committee, it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of subsection 4 of rule XXIX of the Standing Rules of the Senate (relating to the showing of changes in existing law made by the bill, as reported).

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Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

[Report No. 1014]

IN THE SENATE OF THE UNITED STATES

MARCH 1, 1968

Read twice and referred to the Committee on Finance

MARCH 15, 1968

Reported by Mr. LONG of Louisiana, with amendments

[Omit the part struck through and insert the part printed in italic]

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE, ETC.

(a) SHORT TITLE.—This Act may be cited as the "Tax Adjustment Act of 1968".

(b) AMENDMENT OF EXISTING LAW.—Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference

shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061 (a) (2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412 (a) (1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251 (a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications)

is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relat-

ing to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its ~~income tax imposed by section 11 or 1201(a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40~~ *estimated tax for such taxable year can reasonably be expected to be $40 or more.*

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, ~~and~~

"(ii) the amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for the taxable year, and

"~~(ii)~~ *(iii)* in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

~~"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (2)) multiplied by the lesser of—~~

~~"(A) $100,000, or~~

~~"(B) the excess determined under paragraph (1) without regard to such clause (ii).~~

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would

have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201 (a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d) (3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, ~~and~~

"(ii) the amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for the taxable year, and

"~~(ii)~~ *(iii)* in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

~~"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by the lesser of—~~

~~"(A) $100,000, or~~

~~"(B) the excess determined under paragraph (1) without regard to such clause (ii).~~

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the the excess determined under paragraph (1) without regard to classes (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of

carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) ~~5~~ *10* percent of the amount esti-

mated by the corporation on its application as its income tax liability for the taxable year, and (B) ~~$200~~ *$500*.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation

seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

~~(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof "$100,000 amount under section 6154(c)(2)(A) and section 6655(c)(2)(A)".~~

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"(v) surtax exemption, and one $100,000 amount under section 6154(c)(2)(A) and section 6655(c)(2)(A), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax."

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "sec-

tion 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302 (c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the

reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 5. INTEREST ON INDUSTRIAL DEVELOPMENT BONDS.

(a) EXCLUSION FROM GROSS INCOME.—Until otherwise provided by law hereafter enacted, interest on obligations which are so-called industrial development bonds shall be excluded from gross income under section 103 of the Internal Revenue Code of 1954 in accordance with—

(1) the regulations prescribed under such section by the Secretary of the Treasury or his delegate, as in effect on March 13, 1968, and

(2) the principles set forth in Revenue Ruling 54-106 (CB 1954-1, 28), Revenue Ruling 57-187 (CB 1957-1, 65), and Revenue Ruling 63-20 (CB 1963-1, 24).

(b) RULINGS.—The Secretary of the Treasury or his delegate is authorized and directed to issue ruling letters with respect to so-called industrial development bonds in conformity with the provisions of subsection (a).

SEC. 6. AMENDMENTS TO TITLE IV OF THE SOCIAL SECURITY ACT.

(a)(1) Section 403(a) of the Social Security Act is amended by striking out "(subject to subsection (d))" in the matter preceding paragraph (1) thereof.

(2) Section 403(d) of such Act is repealed.

(b)(1) Section 407(b)(1)(A) of the Social Security Act is amended by adding "and" at the end thereof.

(2) Section 407(b)(1)(B) of such Act is amended by striking out ", and" at the end thereof and inserting in lieu thereof "; and ".

(3) Section 407(b)(1)(C) of such Act is repealed.

(c) Section 407(b)(2)(C) of the Social Security Act is amended by striking out "such child's father" and all that follows and inserting in lieu thereof "such child's father is not currently registered with the public employment office in the State."

(d)(1) Subsection (c) of section 407 of the Social Security Act is amended to read as follows:

"(c) Notwithstanding any other provisions of this section—

"(1) a State plan may, at the option of the State,

provide for denial of all (or any part) of the aid under the plan with respect to a dependent child as defined in subsection (a) to which any child or relative might otherwise be entitled for any month if the father of such child received unemployment compensation under an unemployment compensation law of a State or of the United States for any week any part of which is included in such month, and

"(2) expenditures pursuant to this section shall be excluded from aid to families with dependent children (A) where such expenditures are made under the plan with respect to any dependent child as defined in subsection (a), (i) for any part of the 30-day period referred to in subparagraph (A) of subsection (b)(1), or (ii) for any period prior to the time when the father satisfies subparagraph (B) of such subsection, and (B) if, and for as long as, no action is taken (after the 30-day period referred to in subparagraph (A) of subsection (b)(2)), under the program therein specified, to refer such father to the Secretary of Labor pursuant to section 402(a)(19)".

(2) Subsection (d) of section 407 of such Act is repealed.

(3) Section 203(b) of the Social Security Amendments of 1967 is repealed.

SEC. 7. AMENDMENT TO TITLE XIX OF THE SOCIAL SECURITY ACT.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.

Amend the title so as to read: "An Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, and for other purposes."

Passed the House of Representatives February 29, 1968.

Attest: W. PAT JENNINGS,

Clerk.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

[Report No. 1014]

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 1, 1968

Read twice and referred to the Committee on Finance

MARCH 15, 1968

Reported with amendments

standards of conduct for Members of the Senate and officers and employees of the Senate, which was ordered to lie on the table and to be printed.

AMENDMENT NO. 617

Mr. MILLER submitted an amendment, intended to be proposed by him, to Senate Resolution 266, supra, which was ordered to lie on the table and to be printed.

AMENDMENTS NOS. 618 THROUGH 621

Mr. ALLOTT submitted four amendments, intended to be proposed by him, to Senate Resolution 266, supra, which were ordered to lie on the table and to be printed.

AMENDMENT NO. 622

Mr. CASE (for himself and Mr. CLARK) submitted an amendment, intended to be proposed by them, jointly, to Senate Resolution 266, supra, which was ordered to lie on the table and to be printed.

AMENDMENT NO. 623

Mr. CLARK (for himself, Mr. CASE, Mr. SPONG, Mr. MORSE, and Mr. HATFIELD) submitted amendments, intended to be proposed by them, jointly, to Senate Resolution 266, supra, which were ordered to lie on the table and to be printed.

AMENDMENT NO. 624

Mr. CLARK submitted amendments, intended to be proposed by him, to Senate Resolution 266, supra, which were ordered to lie on the table and to be printed.

AMENDMENT OF INTERNAL REVENUE CODE OF 1954, TO ALLOW A CREDIT AGAINST INCOME TAX TO INDIVIDUALS FOR CERTAIN EXPENSES INCURRED IN PROVIDING HIGHER EDUCATION—AMENDMENTS

AMENDMENT NO. 625

Mr. HARTKE submitted amendments, intended to be proposed by him, to the bill (S. 835) to amend the Internal Revenue Code of 1954 to allow a credit against income tax to individuals for certain expenses incurred in providing higher education, which were refused to the Committee on Finance and ordered to be printed.

EXCISE TAX RATES—AMENDMENTS

AMENDMENTS NOS. 626 THROUGH 628

Mr. WILLIAMS of Delaware submitted three amendments, intended to be proposed by him, to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, which were ordered to lie on the table and to be printed.

ENROLLED BILLS SIGNED

The PRESIDING OFFICER announced that on today, March 18, 1968, the President pro tempore signed the enrolled bill (H.R. 14743) to eliminate the reserve requirements for Federal Reserve notes and for U.S. notes and Treasury notes of 1890, which had previously been signed by the Speaker of the House of Representatives.

NOTICE OF HEARING ON NOMINATION OF OTTO KERNER, OF ILLINOIS, TO BE U.S. CIRCUIT JUDGE, SEVENTH CIRCUIT

Mr. EASTLAND. Mr. President, on behalf of the Committee on the Judiciary, I desire to give notice that a public hearing has been scheduled for Tuesday, March 26, 1968, at 10:30 a.m., in room 2228 New Senate Office Building, on the nomination of Otto Kerner, of Illinois, to be U.S. circuit judge, seventh circuit, vice, Win G. Knoch, retired.

At the indicated time and place persons interested in the hearing may make such representations as may be pertinent.

The subcommittee consists of the Senator From Connecticut [Mr. DODD], chairman, the Senator from Michigan [Mr. HART], and the Senator from South Carolina [Mr. THURMOND].

NOTICE OF HEARINGS ON INTEREST RATE CEILINGS

Mr. PROXMIRE. Mr. President, on Friday, March 29, the Subcommittee on Financial Institutions will hold hearings on S. 3133, a bill to extend for 2 additional years for the authority of the appropriate supervisory agencies to regulate the maximum rate of interest paid on time and savings deposits. On that same day, the subcommittee will also hold hearings on S. 2923, a bill to extend for 2 years the authority of the Federal Reserve banks to purchase U.S. obligations directly from the Treasury.

On Monday, April 1 and Tuesday, April 2, the Subcommittee on Financial Institutions will hold hearings on S. 3001, a bill which requires the appropriate supervisory agencies to issue regulations on security measures.

On Wednesday, April 3, the subcommittee will hold hearings on S. 2959, a bill to increase insurance of savings and loan accounts and bank deposits of public units.

All of the preceding hearings will take place in room 5302 of the New Senate Office Building, beginning at 10 a.m.

Persons wishing to testify on any of the above bills should contact Mr. Kenneth McLean, professional staff member, Committee on Banking and Currency, room 5306, New Senate Office Building.

TWO-PRICE SYSTEM ON GOLD

Mr. LONG of Louisiana. Mr. President, over the weekend I noticed that monetary authorities of a number of nations, cooperating with the United States, met and agreed to what is called a two-price system on gold. I am personally happy to see this arrangement, based on the press accounts I have seen up to this point. It is the kind of arrangement which I have suggested makes good sense as a first step in meeting the crises facing a great number of nations with regard to the gold problem.

In my opinion, if it had been made clear that the major trading nations of this world have no interest in buying any more gold for monetary purposes or for other purposes, those who venture in the gold hoarding business and those who have undertaken to make a run on the gold supply of the United States and other trading nations would find that their speculation was a bad mistake and they would stand to lose their money.

I think that those who wish to speculate in that fashion should take a risk. Our policy with respect to buying and selling should be such that those who buy great amounts of gold in excess of their needs, to store it under the mattress or to bury it in the ground, should face the prospect of very heavy losses. I would prefer to see the price go far below $35 an ounce. When the United States and other trading nations take the attitude they have enough gold for the purposes in mind, and have no interest in buying any more, it would seem to me that we could look forward to the day when the price would come down to less than $35 an ounce.

I favor a program where the United States no longer buys gold at $35 an ounce so that speculators would take the risk that gold is not worth speculating in as a commodity.

The ACTING PRESIDENT pro tempore. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that I may proceed for 3 additional minutes.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. LONG of Louisiana. When it comes to trading with friendly nations, or nations which are joined with us in a cooperative undertaking, it might be desirable if we were to say that we recognize $35 an ounce as the price of gold already on hand.

Mr. BENNETT. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield to the Senator from Utah.

Mr. BENNETT. Mr. President, I would like to comment briefly on the remarks of the distinguished Senator from Louisiana with regard to the gold situation.

I was happy to see that in the agreement reached over the weekend these seven central bank heads agreed definitely that there would be no purchase of gold at any price by any of the central banks. They also agreed that if any central bank, either among them or outside, sold any of its monetary gold in the free market, that bank would be cut off to any future access to gold held by these seven central banks.

As far as its effect on our free market economy is concerned, our American gold miners will now get the benefit of any increase in the price of gold. They will be permitted to sell gold abroad at the higher price if there is any gold sold abroad. But when they sell gold inside the United States, they are subject to the same regulations that were in existence before the agreement was entered into. They can only sell gold into distributing points certified by the Federal Government, and the prohibition against the holding of gold by an American citizen is still in effect.

The world's use of gold in the arts, in industry, and in the dental profession is much less than the amount of gold the speculators have forced into the free market.

It seems to me that the speculators can only continue to sell gold to each other or they can sell it for these commercial and artistic uses and with a lack of ultimate market equal to the amount of free gold in the world now, the free price of gold must fall. How long it would take to get below $35 an ounce I do not know, but I would think there is a very good chance it could go below $35.

What we have done is to buy time in which the trading nations of the free world can reorganize their method of settling their international balances, and we have also drastically cooled off the great excitement. We have not done any damage to the purchasing power of the dollar inside the United States. We have moved to maintain accessibility of the dollar in exchange for other foreign currencies.

I hope the problem will simmer down and that we can get to other long-range plans.

Mr. LONG of Louisiana. Mr. President, I agree with what the Senator has said. I personally voted against the roll back of the gold cover because I wanted as much pressure as possible on this Nation to start doing the kind of thing that was done by this agreement. It seems to me this is a very constructive step toward a solution of the problem.

Mr. BENNETT. If we had not rolled back the gold cover, this step could never have been taken.

The final vote last week was one of the most interesting votes we have cast. It was good that the vote was close, but it would have been tragic if it had gone the other way.

Mr. President, I would like to add one little footnote. I think we must remember that, as a result of the agreement reached over the weekend on gold, we are very definitely now in the hands of our friends. We are dependent on their good nature and their good will to maintain this agreement.

I have a feeling that this agreement was not easily reached, and that they must have attached some conditions and assurances. It is pretty obvious to guess that one of those conditions was the requirement that we put our domestic fiscal house in order. I think we are a little shortsighted if we look only to the balance-of-payments problem, because that, in part at least, is the result of our internal domestic deficits. The speed with which the administration has begun to move since the weekend to try to get the tax bill through, and the fact that the administration is beginning to talk, now, about reduction in expenses, would indicate to me that we are seeing a classic example of the way that gold can exert a disciplinary effect on a government. I think if we ignore the warning signals, and our friends should decide to withdraw their support of us and withdraw from the agreement made yesterday, we would really be in serious trouble.

I believe we are committed to these foreign countries, these foreign central bankers, on whom the international strength of the dollar depends, to do for us what we should have done internally a long time ago. So, to that extent, we are no longer the masters of our own destiny as far as taxes and expense reductions are concerned.

Mr. President, I yield the floor.

Mr. WILLIAMS of Delaware. Mr. President, I wish to join the Senator from Utah [Mr. BENNETT] in saying that I am pleased we were able to reach this agreement over the weekend with the central banks of Europe.

I agree with the Senator's statement that this action is merely buying time, not only for the central banks to work out a better plan, but also buying time in our country to put our financial house in order.

We should not lose sight of the fact that this crisis was brought about largely as the result of the loss of confidence in the British pound and the American dollar, and this loss of confidence in the dollar has developed from our inability over the last several years to balance our national budget and thereby put our financial house in order, we must come closer to living within our income.

We cannot afford expansion of all of thees domestic programs in the midst of a full-scale war.

Last week's agreement in Washington only lends emphasis to the fact that there must be congressional action at an early date on the two major steps that need be taken before we get to the heart of the problem. The first step is a real reduction in expenditures. The second step is that expenditure reductions must be accompanied by increased taxes. We in Congress and in the executive have no choice except to face up to these problems and take these hard but necessary steps. The sooner it is done the better it would be both domestically and internationally.

I strongly recommend even now, as important as is the measure now pending before the Senate dealing with ethics, that the leadership lay this measure aside and bring up the tax bill and make it the pending business. Certainly we should proceed to write into law a realistic reduction in expenditures; and then second, face up to the question of increasing taxes. If we did that, it would mean that both at home and abroad confidence in our dollar could be restored. This action should be taken before the weekend. The administration, as I understand their position will now go along with reduction of expenditures in return for the tax increase.

There is no reason in the world why the executive and legislative branches working together cannot agree on such a program. The earlier the better. Time is very important right now.

Mr. GORE. Mr. President, I have listened with great interest to the comments of my distinguished colleagues about the threatened collapse of the international monetary system. What was done over the weekend was truly a palliative. This is not to imply that the action taken was unwise. Some action was necessary. It can be only of a temporary nature, however, and only temporarily effective. For a two-price system of gold exchange in the international field is tantamount to putting one's money in two pockets, one good pocket and one with a hole in it. To expect the assets of each pocket to remain on a par would be as realistic as to expect the palliative action to be more than a temporary purchase of time during which, as the senior Senator from Delaware [Mr. WILLIAMS] has said, the United States will have some time to make necessary and advisable accommodation to the international threat.

I cannot concur, however, in what seemed to be the purport of the remarks of the senior Senator from Delaware, that an increase in taxation is the most important part of the necessary action. The distinguished Senator said that the crisis in gold was brought on by loss of confidence in the U.S. dollar.

What caused that?

The loss of confidence in the U.S. dollar abroad springs from a loss of confidence in the quality of American leadership in world affairs as well as at home.

Let us make no mistake about it; the deficit at home is not so important to the confidence of the U.S. dollar as the continuing deficit of our imbalance in international payments. Even that is not so important in shaking the confidence of the world in the quality of U.S. leadership as is the unwise, the dangerous, and the seeming blindness of this country's plunging further and further into the war in Southeast Asia.

Thus, Mr. President, in order to restore confidence in the U.S. dollar, there must be a regaining of confidence in U.S. leadership both at home and abroad.

I stand prepared, as I have been prepared, to vote for a tax increase. Indeed, I opposed the big tax reductions of recent years as well as investment tax credit as being a very unwise step in the direction of our present plight.

I stand ready to increase Government revenue now and to make reductions in expenditures. I so voted in the Finance Committee last week but I stand ready, too, to urge and do now urge the President to seek the earliest possible settlement of the Vietnamese war. That is what is most disturbing of all to the confidence in U.S. leadership which has manifested itself in the loss of confidence in the value of the U.S. dollar.

GOLD OUTFLOW—ANOTHER ARGUMENT AGAINST SURTAX

Mr. PROXMIRE. Mr. President, the gold crisis makes it imperative that Congress not pass the administration's surtax. The surtax would weaken our balance-of-payments position. It would aggravate the gold outflow.

Consider that on February 6, 1964, the then Secretary of the Treasury, Douglas Dillon, told the House Ways and Means Committee that the tax reduction recommended that year by President Johnson would help our balance of payments.

He said it would do so by making American investment more attractive relative to European investment, and help stop the flow of American capital and U.S. gold abroad.

Dillon was right. In the 2 years following the 1964 tax reduction, America's balance of payments did improve.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 18, 1968

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. WILLIAMS of Delaware to H.R. 15414, an Act to continue the existing excise rates on communication services and on automobiles and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: At the end of the bill add the following new section:

SEC. . REDUCTION IN NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) During any period in which the aggregate number of full-time civilian officers and employees (including the full-time equivalent of part-time employment) in the executive branch of the Government exceeds the aggregate number employed on September 20, 1966, no vacancy in any office or position in any department or agency in the executive

branch of the Government resulting from the resignation, retirement, transfer, removal, or death of the incumbent of such office or position shall be filled, except pursuant to a determination of the Director of the Bureau of the Budget (hereinafter referred to as the "Director") under subsection (b).

(b) The Director shall make continuing studies of the personnel needs of the various departments and agencies of the Government during any period referred to in subsection (a), and shall determine which of the vacancies occurring in such departments and agencies may be filled. Such determinations shall be so made that the aggregate number of vacancies filled during any calendar quarter, beginning with the quarter ending June 30, 1968, in the executive branch of the Government, shall not exceed 25 percent of the aggregate number of vacancies occurring during such quarter. The determinations of the Director under this subsection shall be made on the basis of the relative needs of the various departments and agencies for personnel, having in mind the importance to the national health, security, and welfare of their respective functions and activities. Such determinations may be made by such appropriation units or organization units as the Director may deem appropriate.

(c) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to

personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(d) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(e) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending June 30, 1968, a report of his activities under this section.

(f) This section shall not apply to officers and employees in the Department of Defense, the postal field service, and the Federal Bureau of Investigation, to casual employees, as defined by the Director, employees employed without compensation, to offices filled by appointment by the President, by and with the advice and consent of the Senate, or to offices or positions filled by transfer from another position within the same or another department or agency, except that such employees, offices, and positions shall be taken into consideration in determining the aggregate number of officers and employees for the purposes of subsection (a).

(g) Nothing in this section shall supersede or modify

the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

(h) This section shall take effect on April 1, 1968.

SEC. . MORATORIUM ON PUBLIC WORKS PROJECTS.

(a) (1) Notwithstanding any other provision of law, no Federal department or agency shall, during the period in which this section is in effect—

(A) initiate the planning or construction of any public works project (including projects for recreational facilities but excluding projects for highways), or

(B) make any grant to any State or local government agency for initiating the planning or construction of any such public works project.

(2) Upon request of the head of the Federal department or agency concerned, the Director of the Office of Emergency Planning shall investigate a public works project with respect to which paragraph (1) applies for the purpose of determining whether the delay in planning or construction of such public works project required by paragraph (1) will cause irreparable damage to the public health or welfare. If with respect to any planning or construction of any such public works project, the Director determines that such delay will cause such irreparable damage, paragraph (1) shall

cease to apply with respect to such planning or construction effective on the date on which the Director publishes such determination.

(3) The Director shall report, from time to time, the results of his investigations and determinations under paragraph (2) to the President and the Congress.

(b) (1) The Director of the Office of Emergency Planning shall make an investigation of all public works projects (including projects for recreational facilities but excluding highway projects), the planning or construction of which has been initiated on or before the date of the enactment of this Act and is being carried out by a Federal department or agency or by a State or local government agency with Federal assistance, for the purpose of determining what planning and construction on such public works projects can be temporarily halted without causing irreparable damage to the public health or welfare.

(2) Notwithstanding any other provision of law, no Federal department or agency shall—

(A) continue any planning or construction, or

(B) make any grant (or payment of a grant previously made) to any State or local government agency for continuing any planning or construction,

which the Director determines under paragraph (1) can be

so temporarily halted, during the remainder of the period in which this section is in effect beginning with the day after the date on which the Director publishes such determination.

(3) The Director shall, as soon as practicable, report the results of his investigation and determinations under paragraph (2) to the President and the Congress.

(c) This section shall apply during the period beginning on the day after the date of the enactment of this Act and ending on the last day on which the tax required to be deducted and withheld on wages under section 3402 of the Internal Revenue Code of 1954 includes any amount attributable to the tax surcharge imposed by section 51 of such Code.

SEC. . LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures under the budget of the United States (referred to in the 1968 state of the Union address of the President as totaling $186,000,000,000) during the fiscal year ending June 30, 1969, shall not exceed $178,000,000,000, except by those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia.

(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from

such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe.

SEC. . IMPOSITION OF TAX SURCHARGE.

(a) Subchapter A of chapter 1 of the Internal Revenue Code of 1954 (relating to determination of tax liability) is amended by adding at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (b)) for the taxable year specified in the following table:

Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10
1969	5.0	5

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter, in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is

hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) 10 percent of the adjusted tax for the taxable year, in the case of an individual, and 10 percent of the adjusted tax for the taxable year, in the case of a corporation, multiplied by

"(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter (other than by this section, section 871(a), or section 881) for such taxable year, reduced by any credit allowable for such year under section 37 (re-

lating to retirement income) computed without regard to this section.

"(c) AUTHORITY TO PRESCRIBE COMPOSITE TAX RATES AND TABLES.—The Secretary or his delegate may determine, and require the use of, composite tax rates incorporating the tax imposed by this section and prescribe regulations setting forth modified optional tax tables computed upon the basis of such composite rates. The composite rates so determined may be rounded to the nearest whole percentage point as determined under regulations prescribed by the Secretary or his delegate. If, pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for a taxable year, then, notwithstanding section 144(a), in the case of a taxpayer to whom a credit is allowable for such taxable year under section 37, the standard deduction may be elected regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(d) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the date of the enactment of this section—

"(1) in the case of a corporation, so much of any

tax imposed by this section as is attributable to the tax imposed by section 11 or 1201 (a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201 (a) or subchapter L;

"(2) the term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654 (d) (1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after March 31, 1967, and beginning before April 1, 1968; and

"(3) the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655 (d) (1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after December 31, 1966, and beginning before January 1, 1968.

"(e) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244 (a) (2) (relating to deduction with respect to dividends received on the preferred stock of a public utility),

"(2) section 247(a)(2) (relating to deduction with respect to certain dividends paid by a public utility), or

"(3) section 922(2) (relating to special deduction for Western Hemisphere trade corporations),

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(f) WITHHOLDING ON WAGES.—In the case of wages paid after March 31, 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402 (a) or (c)(1)."

(b) Section 963(b) of the Internal Revenue Code of 1954 (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(2) TAXABLE YEARS BEGINNING IN 1963 AND 1968.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

Amdt. No. 628 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. WILLIAMS of Delaware to H.R. 15414, an Act to continue the existing excise rates on communication services and on automobiles and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 18, 1968

Ordered to lie on the table and to be printed

12. PHILIPPINES. Sen. Mansfield highlighted some results which show the "economic progress and political growth" of the Philippines under President Marcos and inserted the text of the state of the nation address by President Marcos. pp. S3065-77

13. MARKETING. Sen. Burdick inserted an address describing wheat producers' efforts in market development. pp. S3078-9

14. CONSUMERS. Sen. Mondale said the amendments to the Federal Meat Inspection Act are an example of the power possessed by the consuming public and inserted an article reviewing the activities of Consumers Union. pp. S3083-4

15. TAX ADJUSTMENT. Sen. Javits submitted an amendment to H. R. 15414, the tax adjustment bill, which "would set new priorities for Government spending to meet the crisis of the cities, provide a 10-percent tax surcharge, and require a net cut in Federal Government expenditures of $4 billion." (pp. S3091-3) Sen. Williams, Del., inserted an editorial claiming a "lack of fiscal restraint" by the administration and urged immediate consideration of the tax adjustment bill (pp. S3061-2). On Mar. 18 Sen. Williams, Del., submitted an amendment to this bill which would provide for a reduction in the number of civilian officers and employees in the executive branch.

EXTENSION OF REMARKS

16. WILDLIFE. Rep. Pickle commended efforts of conservationists to preserve the Attwater prairie chicken. pp. E2067-8

17. OPINION POLLS. Reps. Berry and Eshleman inserted results of questionnaires, including items of interest to this Department. pp. E2073-4, E2085-6

18. FARM BUREAU. Rep. Resnick stated that the American Farm Bureau claims to be the best friend of the American farmer, "However, it chooses the oddest methods of serving him." p. E2074

19. TRADE. Rep. Kelly inserted an article, "Vietnam Slows Down East-West Trade." pp. E2075-6

20. EDUCATION. Rep. Pucinski inserted the text of his address, "Vocational Education--Keystone to Solving Unrest in America's Cities." pp. E2076-9

21. EXPENDITURES; BUDGET. Rep. Bow inserted a summary of American Farm Bureau's recommendations for budget reductions. p. E2082

22. WATER POLLUTION. Rep. Dingell inserted a resolution urging a vigorous and accelerated program to eliminate pollution of Lake Michigan. pp. E2099-2100

BILLS INTRODUCED

23. POLLUTION. S. 3201 by Sen. Muskie and others, to protect the public health by extending for 1 year the provisions on research and assistance for State and interstate planning for solid waste disposal; to Public Works Committee. Remarks of author pp. S3054-5

24. COMMISSION. H. R. 16098 by Rep. Zwach and others, to establish the Countryside Development Commission to study the economic problems of rural America; to Agriculture Committee. Remarks of author pp. H2104-5, H2110-1

25. HOLIDAY. H. R. 16099 by Rep. Baring, to provide that Flag Day shall be a legal public holiday; to Judiciary Committee.

26. CLAIMS. H. R. 16104 by Rep. McClure, to amend section 2412(a) of title 28, United States Code, to make the United States liable for court costs and attorney's fees to persons who prevail over the United States in actions arising out of administrative actions of agencies of the executive branch; to Judiciary Committee. Remarks of author p. E2085

27. LAND-GRANT UNIVERSITIES. H. R. 16105 by Rep. Mink, to amend the First Morrell Act to permit sums received thereunder to be invested as the State legislatures may prescribe; to Interior and Insular Affairs Committee. Remarks of author p. H2105

28. POVERTY. H. R. 16088 by Rep. Harrison, to amend the Economic Opportunity Act of 1964 to permit State Governors to disapprove component programs included in community action programs to be carried on in their States; to Education and Labor Committee. Remarks of author pp. H2114-6

29. FOOD ADDITIVES. H. R. 16096 by Rep. Whalley, to amend the Federal Food, Drug, and Cosmetic Act to include a definition of food supplements; to Interstate and Foreign Commerce Committee.

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COMMITTEE HEARINGS MAR. 21:

Long-term cost sharing under Watershed Act, S. Agriculture (Williams, SCS, to testify).
Extend food for peace program, H. Agriculture (exec).
Agricultural appropriations, H. Appropriations (exec).
Housing, S. and H. Banking and Currency.

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Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 20, 1968

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. JAVITS to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz:

On page 2, after line 2, insert the following:

"TITLE I—LIMITATION ON FEDERAL EXPENDITURES; IMPOSITION OF 10-PERCENT INCOME TAX SURCHARGE

"SEC. 101. LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

"(a) Expenditures under the budget of the United States (referred to in the budget message of the President as totaling $186,100,000,000) during the fiscal year ending

June 30, 1969, shall not exceed $182,100,000,000, except by those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia.

"(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe, except that the President shall not reserve from expenditure any amounts from appropriations or other obligational authority available for the following purposes:

"(1) education,

"(2) low-income housing,

"(3) water and air pollution prevention,

"(4) prevention and detection of crime,

"(5) the District of Columbia,

"(6) training and employment of disadvantaged persons,

"(7) war on poverty.

"SEC. 102. IMPOSITION OF 10-PERCENT INCOME TAX SURCHARGE.

"(a) IN GENERAL.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by adding at the end thereof the following new part:

"'PART V—TAX SURCHARGE

"'Sec. 51. Tax surcharge.

"'SEC. 51. TAX SURCHARGE.

"'(a) IMPOSITION OF TAX.—

"'(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

"'Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"'(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"'(A) 10 percent of the adjusted tax for the taxable year, multiplied by

"'(B) a fraction, the numerator of which is the

number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"'(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the "effective date of the surcharge" means—

"'(A) January 1, 1968, in the case of a corporation, and

"'(B) April 1, 1968, in the case of an individual.

"'(b) LOW-INCOME EXEMPTION.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"'(1) $290, in the case of a joint return of a husband and wife under section 6013,

"'(2) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"'(3) $145, in the case of any other individual (other than an estate or trust).

"'(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter (other than by this section, section 871(a) or section 881) for such taxable year, reduced by any credit allowable for such year under section 37 (relating

to retirement income) computed without regard to this section.

"'(d) AUTHORITY TO PRESCRIBE COMPOSITE TAX RATES AND TABLES.—The Secretary or his delegate may determine, and require the use of, composite tax rates incorporating the tax imposed by this section and prescribe regulations setting forth modified optional tax tables computed upon the basis of such composite rates. The composite rates so determined may be rounded to the nearest whole percentage point as determined under regulations prescribed by the Secretary or his delegate. If, pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for a taxable year, then, notwithstanding section 144(a), in the case of a taxpayer to whom a credit is allowable for such taxable year under section 37, the standard deduction may be elected regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"'(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the date of the enactment of this section—

"'(1) in the case of a corporation, so much of any

tax imposed by this section as is attributable to the tax imposed by section 11 or 1201 (a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201 (a) or subchapter L;

"'(2) the term "tax shown on the return of the individual for the preceding taxable year", as used in section 6654 (d) (1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after March 31, 1967, and beginning before April 1, 1968; and

"'(3) the term "tax shown on the return of the corporation for the preceding taxable year", as used in section 6655 (d) (1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after December 31, 1966, and beginning before January 1, 1968.

"'(f) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"'(1) section 244 (a) (2) (relating to deduction with respect to dividends received on the preferred stock of a public utility),

"'(2) section 247(a)(2) (relating to deduction with respect to certain dividends paid by a public utility), or

"'(3) section 922(2) (relating to special deduction for Western Hemisphere trade corporations),

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"'(g) WITHHOLDING ON WAGES.—In the case of wages paid after March 31, 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402 (a) or (c)(1).'

"(b) MINIMUM DISTRIBUTIONS.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

"(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"'(2) TAXABLE YEARS BEGINNING IN 1963 AND 1968.—', and

"(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"'(3) TAXABLE YEARS BEGINNING IN 1965, 1966, 1967, AND AFTER DECEMBER 31, 1968.—'.

"(c) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"'Part V. Tax surcharge.'

"(d) EFFECTIVE DATE.—The amendments made by this section shall apply—

"(1) insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and

"(2) insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969."

On page 2, after line 2, insert the following:

"TITLE II—MISCELLANEOUS PROVISIONS"

Renumber sections 2 through 7 of the bill as sections 201 through 206, respectively.

Amend the title so as to read: "An Act to limit Federal expenditures, to impose an income tax surcharge, to continue the existing excise tax rates on communication services and automobiles, to apply more generally the provisions relating to payments of estimated tax by corporations, and for other purposes."

Amdt. No. 637 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENTS

Intended to be proposed by Mr. JAVITS to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 20, 1968

Ordered to lie on the table and to be printed

istrator at Mpilo Hospital, Bulawayo, Rhodesia, stated that African nurses, with training in biology, physics, chemistry would still seek the witch doctor in case of serious accident or illness in their families. In Zambia a higher government official pleads with members of the legislative assembly to cease relying on witchcraft to further their legislative aims. In Bulawayo, Rhodesia, a healthy African worker in a modern tire-recapping plant dies as the result of the "witch doctor" placing a curse on him. Near Windhoek, in South West Africa, a mother, on the command of the tribal chief, took out the eyes of her son, accused of stealing (the court trial of this case was in session in Windhoek when I visited there).

One tribal custom which affects the initiative and accomplishments of a worker is found in most African countries. If a man secured a raise in income, he may find a horde of relatives on his doorstep, and he must take care of them. A U.S. consulting engineer in Monrovia told me of a Liberian worker who pleaded that his employer not divulge the amount of his salary to his parents—he could foresee many unemployed relatives moving under his roof which would pretty well cripple his own personal plans.

Over the centuries Africans have never "voted" as we know of it. Ways of Western democracy (as we have also found in Viet Nam) are foreign to them. Tribal decisions begin with discussions of family heads and kraals chiefs, then a lengthy palaver of councillors before the Tribal Chief makes a decision. This tribal approach has been incorporated, along with a Western method of voting, in the Bantu government of the Transkei, in South Africa.

That the mahinery of Western democracy is difficult for the African nationalist to fathom is seen in this analysis which appeared in the *Malawi News*, official organ of the Malawi Nationalist Party on November 26th, 1960:

"For in a typical two-party system, you have two parliamentary factions—one dedicated to 'doing' and another dedicated to 'undoing'. . . . So from its very birth every law proposed and passed by a Government has bitter foes to see to its immediate or ultimate annihilation. It is a system of government with a built-in subversive mechanism. Under it a State works with, and finances, forces of its own destruction . . . (but) Africa must evolve systems that suit her people's attitudes and temperament."

The number of African countries with one-party "democracies" bears out this belief quite strongly.

There are undoubtedly many changes that Americans would like to see in Africa—not only in South Africa and Rhodesia, but in all African Countries. But in attempting to motivate these changes, let's not ignore advancements made in Rhodesia and South Africa. At the same time, we need to analyze the situations in other African countries in a more realistic light.

Obsession with racial matters of Rhodesia and South Africa has kept northern African countries from concentrating on their own vast needs for advancement. The United States has not helped by adding more sanity and balance to the problem. Add to that the fact that we need to give the world a better answer in racial problems than what we have displayed up to the present.

Some elements of light can be seen. At an OAU summit meeting at Addis Ababa, President Tubman of Liberia stated the organization would be better employed in putting its own house in order. Recently, Phillip Richardson, the first chargé d'affaires from Malawi to the Republic of South Africa arrived in Pretoria—his aim, "to further the good relations now existing between Malawi and South Africa". And, the *New York Times* has shown that it too can be more realistic in its approach, when C. L. Sulzberger writes (Dec. 15th, 1967), "It is time for the United States to pipe down on South Africa. This country has a race policy which I personally find both abhorrent and absurd. It is also exceedingly arbitrary in applying justice to white opponents, but that is South Africa's affair, not ours. . . . It seems to me we go too far in interpreting the United Nations embargo on South Africa. . . . We would do better to encourage this trend (toward tolerance) and foster South African association with the outer world instead of driving it back into the laager of isolation from which it is just starting to escape."

Even with our vastly more advanced educational system, and our civil rights legislation, the U.S.A. remains highly concerned about approaching another "summer of discontent". If our problems take time, is it not logical to grant the same concession to countries whose racial spectrum is so much more intricate and involved than our own? Rather than a policy of continuing irritation, can't we acknowledge the advancements that have been made in the Republic of South Africa and Rhodesia, and find ways to work together on solutions to complex problems which demand a united efford from the best minds of both continents?

RICHARD K. JONES—CONFERENCE REPORT

Mr. TALMADGE. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the House to the bill (S. 454) for the relief of Richard K. Jones. I ask unanimous consent for the present consideration of the report.

The PRESIDENT pro tempore. The report will be read for the information of the Senate.

The bill clerk read the report.

(For conference report, see House proceedings of March 11, 1968, page H1801, CONGRESSIONAL RECORD.)

The PRESIDENT pro tempore. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. TALMADGE. Mr. President, I move that the Senate agree to the conference report.

The motion was agreed to.

A TIME FOR FISCAL RESTRAINT

Mr. WILLIAMS of Delaware. Mr. President, in today's Wall Street Journal appears an editorial calling attention to the lack of leadership by the Johnson administration in having exercised the proper fiscal restraint in the face of our continuously mounting deficits.

The editorial cites this lack of fiscal restraint as being responsible for the lack of confidence in the American dollar and places emphasis upon the need for an expenditure reduction and the enactment of a tax increase.

The article very properly compliments Representative MILLS upon the firm stand he has taken in insisting that a realistic expenditure reduction must accompany any increase in taxes.

Pending on the Senate Calendar is a bill the purpose of which is to extend the automobile and telephone excise taxes, which otherwise will expire April 1.

Notice has been served that when this bill is considered by the Senate a determined effort will be made to attach to it an amendment which will:

First. Write into law a mandatory reduction in expenditures for 1969 of at least $8 billion, and

Second. Enact a 10-percent tax increase on both individuals and corporations, the effective date of the corporation tax to be January 1 and the effective date of the individual tax to be April 1.

In the light of the recent run on our gold supply as well as the continuing pressure on the American dollar neither Congress nor the administration has a choice other than to enact such a proposal of fiscal restraint.

Since this bill has a deadline of April first, I strongly recommend that the leadership of the Senate temporarily lay aside the pending business and proceed to the immediate consideration of the tax bill.

The pending business could be laid aside with the clear understanding that as soon as the tax bill has been disposed of, the Senate would automatically revert to the consideration of the measure now before us.

I ask unanimous consent that the editorial from the Wall Street Journal, entitled "Provided by Disaster," an editorial that appeared in yesterday's Washington Daily News be printed at this point in the RECORD.

There being no objection, the editorials were ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, Mar. 20, 1968]

PRODDED BY DISASTER

The gold crisis provides another telling example of the type of leadership the nation has come to expect from the Johnson Administration. It proved incapable of seriously attacking the problem until things got so bad an American businessman in Europe found he couldn't cash dollars to buy dinner.

The gold drain, after all, didn't start last week. It has been going on some time now. The actual importance of the problem, now so clear to nearly everyone, contrasts sharply with the low priority assigned to it for many years. Only when total collapse threatened did the Administration accept—if indeed it really has now—the need for painful domestic and international measures to protect the dollar.

To be specific, take the Administration's attitude toward the budget cuts Congress has quite sensibly set as a price for the President's tax increase bill. The week before last, the Administration was stoutly insisting that reductions of any magnitude were impossible. By the end of last week's run on gold, it started talking of appropriations cuts of $8 billion to $9 billion, which would translate into considerably smaller spending cuts in the coming fiscal year. President Johnson proclaimed that "some desirable programs of lesser priority and urgency are going to have to be deferred."

That, though the President naturally didn't say so, is what Representative Wilbur Mills and other key Congressmen have been telling him all along. They have observed that since spending demands on Government are roughly infinite, few things are so permanent as a temporary tax. Thus the leader who says a tax increase is necessary must also present an austere budget.

The Administration's response had consisted of denying the obvious by pleading a bare-bones budget. Subsidies for the supersonic transport, for instance, were increased only to $350 million in fiscal 1969 from $100 million in the current year. If that represents the Administration's notion of auster-

ity in subsidizing business, imagine its standards of austerity concerning the social experiments of which it is so proud.

That particular foolishness may or may not be over, but the Administration's leadership problems are not. The legacy of its past talk even now saps its power to shape events. Despite the crisis, Congressional approval of a budget cut and tax increase package will not come easily. Mr. Mills, for one, is doubtful the newly proposed cuts are enough. Congress has already heard enough talk about austerity; this time it will want to see the color of the money involved.

The most serious mark against the Administration's leadership in the gold crisis, finally, is that everything was so utterly predictable. Ever since the British were forced to devalue the pound, certainly, there have been recurring threats and warnings about a speculative attack on the dollar-gold relationship.

The remedy has been equally clear: Getting the Federal budget closer to balance and clamping down on the wildly inflationary policies of the Federal Reserve Board. If the Administration had at the turn of the year proposed the spending cuts it now endorses, perhaps the crisis would never even have developed. Now that it is in full bloom, though, those same steps may not prove enough.

A single instance of such temporizing leadership is deplorable enough, but with this Administration it seems to have become a habit. Thus the whole record of its Vietnamese war is that of policy being shaped only by response to one crisis after another. In its general economic management, it rebuffed warnings of serious inflation even from the "new economists" until after the warnings had proved all too accurate.

In light of that record, it came as little surprise Monday that our Mr. Janssen reported that many within the Administration saw a "silver lining" in the gold crisis. They are thankful the crisis has arrived, because now it finally may be possible to do what should have been done all along.

That may be a silver lining, but it is also a sickening indictment of their own collective leadership. This Administration, it once again seems, can take the initiative only when prodded by impending disaster.

[From the Washington Daily News, Mar. 19, 1968]

ENCOURAGING WORD FROM L. B. J.

From President Johnson the word now is—more or less—that he finally is willing to face up to meaningful cuts in Government spending as a means of persuading Congress to pass a tax increase.

In Minneapolis yesterday he said:

"I ask you to join in a program of national austerity to ensure that our economy will prosper and our fiscal position will be sound."

He also said "We will do whatever is required" to meet the needs of our forces in Vietnam.

We have heard these encouraging words before. This time, Mr. Johnson had better mean it. Because by now there is no other choice.

It is not a question of what we want to do. It is a question of what we have to do.

The top Government bankers of the world have moved to curb the speculation in gold. But the bankers' steps, decided on at an emergency session here last week-end, will merely buy time—time in which to stave off real trouble.

Congress has refused to raise taxes because the key men were convinced Mr. Johnson would simply spend more with the extra money. So they have demanded deep cuts in spending. Now, it appears, the President is in the process of agreeing.

A good many people and a good many things will suffer from this.

The people will pay more in taxes. Mr. Johnson's "Great Society" programs will have to be postponed, or reduced, or abandoned. It won't be a happy time for anybody—save LBJ's election-year opponents who will have this much more to talk about.

But if prudence had been prevailing in the Government the last 10 years, the problem would not have arisen. If Mr. Johnson had held down spending and had taken real steps to prevent the excess flow of dollars out of the country when he first came to office, the problem would have gone away.

But it now is too late for any easy way out. More political pussyfooting simply will aggravate the crisis.

The country can survive more taxes and it can survive a severe cutback in "Great Society" schemes. The suffering which would follow a collapse—or even a near collapse—of the international monetary system would be far more widespread and far more painful.

If we do not shore up the dollar, in any case, it will not be possible to do all the things Mr. Johnson has in mind. We can't fight a war with the dollar going to pot. We can't remodel cities, or war on crime, or purify streams or do much of anything else if inflation becomes rampant.

The Senate has before it an excise tax bill. Sen. John J. Williams has an amendment which also would raise the income tax and at the same time whack $8 billion out of the spending. If the Senate and House would adopt this plan promptly, it would go a long way toward alleviating the world trouble in which the dollar now finds itself.

The House and Senate will fail this only at the national peril. LBJ should be up there demanding action on the whole package.

ORDER OF BUSINESS

The PRESIDING OFFICER (Mr. TALMADGE in the chair). Is there further morning business?

Mr. MANSFIELD. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

ILLINOIS—TRANSPORTATION HUB

Mr. DIRKSEN. Mr. President, the greatness of Illinois as a producer of both agricultural and manufactured products is enhanced by its network of highway, rail, air, pipeline, and waterway transportation facilities.

Chicago is the transportation hub of the Nation. Through Chicago, more than through any other gateway, flows a steady movement of goods of all kinds, east and west, north and south. Here are joined the eastern and western railway systems, the Great Lakes and the Mississippi waterway traffic, our vast system of pipelines, the greatest accumulation of motor carriers in the world, and the world's busiest airport.

All communities in Illinois, from metropolitan areas to the smallest farm centers, share equally in the good things of life because of the unparalleled transportation system serving people everywhere.

The Nation's greatness comes in large measure from the fluid movement of goods and people. The State of Illinois has a proud record in the development of transportation of all modes, and will expand its transport leadership as the economy of the State and of the Nation continues to grow.

It is, therefore, most fitting that we salute the dedicated men and women making up our vast transportation systems on the occasion of National Transportation Week, May 12 to 18, 1968.

I ask unanimous consent that the proclamation by the President, designating National Defense Transportation Day and National Transportation Week, 1968, be printed in the RECORD.

There being no objection, the proclamation was ordered to be printed in the RECORD, as follows:

PROCLAMATION 3834: NATIONAL DEFENSE TRANSPORTATION DAY AND NATIONAL TRANSPORTATION WEEK, 1968

(By the President of the United States of America)

One hundred years ago, an American travelling from San Francisco to New York went by ship to Central America, crossed the Isthmus by mule and wagon, and four weeks later arrived at this destination.

One year later, with the completion of our first transcontinental railroad, he could travel in relative comfort from California to New York in ten days.

This revolution in transportation was one of the principal causes and opportunities for the rapid progress of our Nation—the taming of a vast continent with a rapidity which astounded the countries of Europe and continues to amaze historians.

The history of our country cannot be separated from the story of our transportation—nor can its future. We look today to the leaders of our transportation industry for the imagination and enterprise which, in the past, did so much to make our Nation great.

While the Government of the United States must continue to play a key partnership role in the improvement and expansion of our transportation system, basic decisions on investment and operation are made by private industry. This partnership between Government and industry forms one of the most critical elements of our economic system.

This partnership will be called upon in the future to meet even greater challenges than ever before.

To call public attention to the contributions of this great industry—and to the challenges it faces—the Congress, by a joint resolution approved May 16, 1957 (71 Stat. 30), has requested the President to proclaim annually the third Friday of May of each year as National Defense Transportation Day, and by a joint resolution approved May 14, 1962 (76 Stat. 69), has requested the President to proclaim annually the week of May in which that Friday falls as National Transportation Week, as a tribute to the men and women who, night and day, move our goods and our people throughout the land and around the world.

Now, therefore, I, Lyndon B. Johnson, President of the United States of America, do hereby designate Friday, May 17, 1968, as National Defense Transportation Day, and the week beginning May 12, 1968, as National Transportation Week.

I urge our people to participate with representatives of the transportation industry, our armed services, and other governmental agencies in the observance of these occasions through appropriate ceremonies.

I also invite the Governors of the States to provide for the observance of National Defense Transportation Day and National Transportation Week in a way that will give the citizens of each community the opportunity to recognize and appreciate fully the vital role our great and modern transporta-

may deplore its imposition anywhere. But as a matter of law, these punishments were peculiarly the business of Rhodesia. Pietistic Americans might restrain themselves long enough to acknowledge that 3,857 executions were carried out in their own United States between 1930 and 1966.

It is said that Rhodesia "defied the Queen." But the Queen in this affair was no more than a pretty figurehead; the clemency decree came from the Wilson government, which had no authority, even under the pre-independence Rhodesian constitution of 1961, to exercise the prerogative of mercy. The incident was patently trumped up. It is a fair surmise that Wilson's object was to divert the British public from troubles at home by fabricating some vicarious outrage abroad.

One expects opportunism from the Communists and hypocrisy from the Afro-Asian bloc. One has learned to expect anything from Harold Wilson. But it is a sad commentary on the United States, which once also proclaimed its independence from the British crown, to see our own people join in the calamity howling against Rhodesia now heard across the land.

Mr. BYRD of West Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. JAVITS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JAVITS. Mr. President, I ask unanimous consent that I may speak out of order.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JAVITS. Mr. President, I ask unanimous consent that my remarks may appear at the appropriate place in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

EXCISE TAX BILL—AMENDMENT NO. 637—TAX, SPENDING CUT MEASURE REQUIRING PRIORITIES FOR POVERTY WAR, CITIES CRISIS

Mr. JAVITS. Mr. President, I ask unanimous consent that the amendment to H.R. 15414, which I send to the desk, may be printed as a part of my remarks, and printed under the rule.

The PRESIDING OFFICER. The amendment will be received, and printed, and will lie on the table; and without objection, the amendment will be printed in the RECORD.

The amendment (No. 637) is as follows:

On page 2, after line 2, insert the following:

"TITLE I—LIMITATION ON FEDERAL EXPENDITURES; IMPOSITION OF 10 PERCENT INCOME TAX SURCHARGE

"SEC. 101. LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

"(a) Expenditures under the budget of the United States (referred to in the budget message of the President as totaling $186,100,000,000) during the fiscal year ending June 30, 1969, shall not exceed $182,100,000,000, except by those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia.

"(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe, except that the President shall not reserve from expenditure any amounts from appropriations or other obligational authority available for the following purposes:

"(1) education,

"(2) low-income housing,

"(3) water and air pollution prevention,

"(4) prevention and detection of crime,

"(5) the District of Columbia,

"(6) training and employment of disadvantaged persons,

"(7) war on poverty,

"SEC. 102. IMPOSITION OF 10 PERCENT INCOME TAX SURCHARGE.

"(a) IN GENERAL.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by adding at the end thereof the following new part:

"'PART V—TAX SURCHARGE

"'Sec. 51. Tax surcharge

"'SEC. 51. TAX SURCHARGE.

"'(a) IMPOSITION OF TAX.—

"'(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

"'Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10
1969	5.0	5

"'(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"'(A) 10 percent of the adjusted tax for the taxable year, multiplied by

"'(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"'(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"'(A) January 1, 1968, in the case of a corporation, and

"'(B) April 1, 1968, in the case of an individual.

"'(b) LOW INCOME EXEMPTION.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"'(1) $290, in the case of a joint return of a husband and wife under section 6013.

"'(2) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"'(3) $145, in the case of any other individual (other than an estate or trust).

"'(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter (other than by this section, section 871(a) or section 881) for such taxable year, reduced by any credit allowable for such year under section 37 (relating to retirement income) computed without regard to this section.

"'(d) AUTHORITY TO PRESCRIBE COMPOSITE TAX RATES AND TABLES.—The Secretary or his delegate may determine, and require the use of, composite tax rates incorporating the tax imposed by this section and prescribe regulations setting forth modified optional tax tables computed upon the basis of such composite rates. The composite rates so determined may be rounded to the nearest whole percentage point as determined under regulations prescribed by the Secretary or his delegate. If, pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for a taxable year, then, notwithstanding section 144(a), in the case of a taxpayer to whom a credit is allowable for such taxable year under section 37, the standard deduction may be elected regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"'(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the date of the enactment of this section—

"'(1) in the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201 (a) or subchapter L;

"'(2) the term "tax shown on the return of the individual for the preceding taxable year", as used in section 6654(d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after March 31, 1967, and beginning before April 1, 1968; and

"'(3) the term "tax shown on the return of the corporation for the preceding taxable year", as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after December 31, 1966, and beginning before January 1, 1968.

"'(f) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"'(1) section 244(a)(2) (relating to deduction with respect to dividends received on the preferred stock of a public utility),

"'(2) section 247(a)(2) (relating to deduction with respect to certain dividends paid by a public utility), or

"'(3) section 922(2) (relating to special deduction for Western Hemisphere trade corporations),

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"'(g) WITHHOLDING ON WAGES.—In the case of wages paid after March 31, 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3042 (a) or (c) (1).'

"(b) MINIMUM DISTRIBUTIONS.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

"(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"'(2) TAXABLE YEARS BEGINNING IN 1963 AND 1968.—', and

"(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"'(3) TAXABLE YEARS BEGINNING IN 1965, 1966, 1967, AND AFTER DECEMBER 31, 1968.—'.

"(c) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

" 'Part V. Tax surcharge'

"(d) EFFECTIVE DATE.—The amendments made by this section shall apply—

"(1) insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and

"(2) insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969."

On page 2, after line 2, insert the following:

"TITLE II—MISCELLANEOUS PROVISIONS"

Renumber sections 2 through 7 of the bill as sections 201 through 206, respectively.

Amend the title so as to read: "An Act to limit Federal expenditures, to impose an income tax surcharge, to continue the existing excise tax rates on communication services and automobiles, to apply more generally the provisions relating to payments of estimated tax by corporations, and for other purposes."

Mr. JAVITS. Mr. President, I am today submitting an amendment to the bill which would propose to extend the excise taxes with which we will deal very shortly.

My amendment would set new priorities for Government spending to meet the crisis of the cities, provide a 10-percent tax surcharge, and require a net cut in Federal Government expenditures of $4 billion.

Mr. President, the amendment is designed to implement the program announced on March 6 by a group of Republicans in the other body led by Representative CHARLES GOODELL, of New York. I ask unanimous consent that the names of the other Representatives who announced the program may be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

The names of the Representatives who announced the program on March 6, are as follows:

Representative Charles E. Goodell (R., N.Y. and member of House Republican Leadership) and Representatives W. E. (Bill) Brock (R., Tenn.), Albert H. Quie (R., Minn.), Howard W. Robison (R., N.Y.), Donald Rumsfeld (R., Ill.), William O. Cowger (R., Ky.), George Bush (R., Tex.), William Steiger (R., Wis.), William H. Ayres (R., O.), Alphonzo Bell (R., Cal.), Edward G. Biester, Jr. (R., Pa.), Benjamin B. Blackburn (R., Ga.), Clarence J. Brown, Jr. (R., O.), Garry Brown (R., Mich.), James C. Cleveland (R., N.H.), Barber B. Conable, Jr. (R., N.Y.), Robert J. Corbett (R., Pa.), John R. Dellenback (R., Oreg.), Robert V. Denney (R., Nebr.), John N. Erlenborn (R., Ill.), Marvin L. Esch (R., Mich.), Paul Findley (R., Ill.), James C. Gardner (R., N.C.), James R. Grover, Jr. (R., N.Y.), Gilbert Gude (R., Md), James Harvey (R., Mich.), Edward Hutchinson (R., Mich.), Hastings Keith (R., Mass.), Dan Kuykendall (R., Tenn.), Robert McClory (R., Ill.), Jack H. McDonald (R., Mich.), Clark MacGregor (R., Minn.), Charles McC. Mathias, Jr. (R., Md.), Thomas J. Meskill (R., Conn.), Robert H. Michel (R., Ill.), Rogers C. B. Morton (R., Md), Charles A. Mosher (R., O.), Donald W. Riegle, Jr. (R., Mich.), William V. Roth (R., Del.), Herman T. Schneebeli (R., Pa.), Fred Schwengel (R., Ia.), J. William Stanton (R., O.), Burt L. Talcott (R., Cal.), Fletcher Thompson (R., Ga.), Guy Vander Jagt (R., Mich.), Charles W. Whalen, Jr. (R., O.), William B. Widnall (R., N.J.), Roger H. Zion (R, Ind.).

Mr. JAVITS. Mr. President, I have the same objective as legislation introduced by the Senator from Delaware [Mr. WILLIAMS], the ranking Republican member of the Committee on Finance. The Williams amendment would cut expenditures by $8 billion. My amendment would cut expenditures by $4 billion.

The plan of the Republican group in the other body is to cut expenditures by $6.5 billion, and restore $2.5 billion as a priority to the cities, in the poverty program, manpower, and other programs, which would reorder priorities and deal with problems of the cities. It is that plan I am submitting to the Senate.

We must begin to break the deadlock betweeen the White House and the Congress, and proceed to bring our economy into line with the reality of our wartime situation. I feel the program proposed by the group of House Republicans presents the best approach because it attempts to assure that cuts in spending are made in those areas where expenditures can be deferred while reallocating current expenditures for programs designed to fight poverty and the crisis in the cities.

In essence, we need a program of sensible austerity, one which requires the action the Nation should take in war, but which does not impose counter-productive economies that compound our grave problems in the cities.

My amendment would—

First. Provide for a 10-percent tax surcharge on corporations and individuals;

Second. Require a mandatory reduction in actual Government spending of $4 billion in fiscal year 1969; but

Third. Specifically exempt from such cuts expenditures for the military effort in Vietnam, for education, low-income housing, water and air pollution prevention, prevention and detection of crime, the District of Columbia, training and employment of disadvantaged persons and the war on poverty.

On March 13 I sent a telegram to the President in which I urged him to call an immediate emergency session at the White House of the leadership of both Houses and of the ranking members of the House Ways and Means Committee, the Senate Finance Committee and the two Appropriations Committees to resolve the present dangerous deadlock between the Congress and the President over fiscal policy and to come to an agreement on budget priorities, needed expenditure cuts to meet those priorities and on the tax surcharge.

To date no such action has been taken, although I have reason to believe the President is considering the suggestion embodied in this amendment and as far as anyone can tell, the deadlock remains unresolved. The resolution of this deadlock is urgent and overrides partisan politics. At stake is the continued confidence of the world commuity in the management of the American economy and in view of recent demonstrations of a serious lack of confidence abroad, we must take action now and deal with inflation in an effective way.

To economic questions I am not a Johnny-come-lately. As long as 3 weeks ago, in this Chamber I urged our Government to do what it and six other nations did last Sunday with respect to gold and the international monetary system.

At stake also is the survival of our cities torn today by dissent and crying for revitalization. Only by rearranging our priorities, by reducing spending in other areas can our programs directed at our urban crisis be adequately financed under wartime conditions. While we still have a better price record over the past 9 or 10 years than six other major industrial countries, during the past 2 years only Canada and Japan had consumer price increases steeper than ours.

It is for these reasons that I introduce today an amendment to the bill to continue excise taxes on communications services and on automobiles. The amendment would call for a 10 percent tax surcharge on corporations and individuals and for a $4 billion cut in fiscal year 1969 expenditures, except for necessary military expenditures for Vietnam, for education, low-income housing, water and air pollution prevention, prevention and detection of crime, the District of Columbia, training and employment of disadvantaged persons and the war on poverty. Most importantly this amendment would require a careful reassessment of priorities which has thus far been absent from the administration's economic strategy.

I understand the President is now ready to accept cuts of this magnitude and this is what is needed to deal with inflation at home and to finance the war in Vietnam at current force levels.

In my judgment steeper cuts in spending are unrealistic and, at this time, would very likely require cuts in those domestic programs which are essential to deal with the manifold and unmet problems of our urban society.

A net $4 billion cut in the fiscal 1969 budget, along with adoption of the administration's $12.9 billion package of fiscal proposals, would leave a deficit on the new unified budget basis at a level of around $4 billion, which is considered acceptable under wartime conditions and one which could be financed without crushing pressure on our capital markets.

Enactment of these anti-inflationary measures should be accompanied by the submission to the Congress in 1968 of a tax reform package to spread the tax burden among our citizens more equitably. The tax reform package should include, for example, the reduction of the oil depletion allowance from 27½ to 20 percent which would bring an estimated $350 million into the Treasury. I support the amendment introduced by Senator WILLIAMS of Delaware, which would bring a reduction of this allowance in three stages. I agree that the current fiscal situation cannot wait until a tax reform package is enacted but it is perfectly reasonable to expect that tax reform proposals be submitted to the Congress so that hearings can begin this year.

Only the ending of the war in Vietnam can effectively solve our fiscal crisis, make possible the allocation of large resources for our cities, and bring our balance-of-payments deficit under control. Even the President's Council of

Economic Advisers admits that Vietnam has absorbed 25 percent of the country's growth since 1965. I have said repeatedly that I favor the beginning of the end of the war as do most Americans and I believe so now. However, I see no other choice but to pay for this war as long as the fighting continues. Any other course would be irresponsible.

I urge the administration again to call for the tax surcharge in the name of the war in Vietnam and then they will get it. As long as they continue to kid themselves and the American people, they will not.

In my January 31 statement on the domestic situation, among other steps, I called for a 10-percent tax surcharge and a reallocation of $4 billion within the proposed fiscal 1969 budget for such high priority items as job training, education, health, housing, and poverty. In view of events since that time, particularly the recent gold rush, it is evident that the dollar is in grave danger and cuts in fiscal 1969 spending are unavoidable. Unless inflation is brought under control, it would be difficult if not impossible to deal with our domestic problems.

In drafting my amendment, I have carefully reviewed the proposals made by the distinguished Senator from Delaware [Mr. WILLIAMS]. Incidentally, he made his proposals for fiscal restraint on the same day, January 31, as I did, and our proposals paralleled, which is rather interesting to the whole country and to many of us here, as the Senator from Delaware and I are considered not necessarily to have the same ideological outlook.

Now, Mr. President, I also considered the proposals of the able Republican House group of which I spoke, headed by Representative CHARLES GOODELL, of New York. I think their proposal is so reasonable and intelligent that I have taken the liberty of adopting it, with their permission, and am introducing it as an amendment to the excise tax bill.

I concluded that a cut in the order of magnitude proposed by the House Republican group—a reduction of $6.5 billion in expenditures coupled with reallocation of $2.5 billion yielding a net of $4 billion—was what the situation called for. While I do not agree with every one of the 23 items slated for cuts in the Goodell proposal, I can live with most of them; and I believe that most Members of Congress could live with most of them under present wartime conditions.

I realize that the Goodell proposal called for a $6.5 billion cut followed by a $2.5 billion increase to finance a human renewal fund; however, we are dealing here with a tax measure rather than with an appropriations bill. In my judgment the best way to proceed is to require a $4 billion reduction in expenditures which would have the same effect as the proposal of the Goodell group.

The reallocation of $2.5 billion in an effort to deal with our urgent urban problems is fully justified and represents a relatively small sum, considering that we spend as much in a month in Vietnam and in view of the enormous problems disclosed by the President's Commission on Civil Disorders.

I like very much the idea of a reallocation of priorities which the Goodell proposal contains, because the administration is not doing it, much as I think that it should. So, we have to do it for them. That is not the best way, but it is the only way it is made available to us.

The measures Senator WILLIAMS and I propose are clearly measures that are dictated by the current emergency. They must be followed by a fundamental reexamination of our national priorities—about which the President's budget spoke a great deal and did little if anything—and our Federal budget. Clearly new and greater emphasis must be placed on urban America and less on programs which have long outlived their usefulness. This will be a most difficult task which should be carried out in a nonpolitical manner. As long ago as 1963 the minority members of the Joint Economic Committee—on which I am the ranking minority member from the Senate—proposed a nonpartisan Commission on Federal Expenditure Policy to establish priorities in public spending and to identify those activities which could be better performed and with superior effectiveness by State and local governments and by the private sector. We repeated that recommendation in 1964 only to have it rejected outright by the administration in both years.

It was never more pertinent than today. I hope very much that as a permanent suggestion, the administration will take kindly to the idea. But, first and foremost, we must put our house in order. The hour is perhaps even too late now. I am submitting the amendment, therefore, which I feel within the limits of prudence will give proper attention to the crisis in the cities, which the amendment is capable of doing.

Mr. President, I yield the floor.

STANDARDS OF CONDUCT

The Senate resumed the consideration of the resolution (S. Res. 266) to provide standards of conduct for Members of the Senate and officers and employees of the Senate.

Mr. CLARK. Mr. President, the Senator from Oregon [Mr. MORSE] is a cosponsor of the pending amendment. As he is necessarily absent from the Senate today, he asked me to have a statement of his placed in the RECORD which he has had prepared, indicating support for the pending amendment.

I, therefore, ask unanimous consent that the statement by the Senator from Oregon supporting the pending amendment be printed in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT BY SENATOR MORSE

The Congress continues to be the one branch of the federal government where public confidence in honesty and ethical practices has never been firmly earned and probably not deserved. It is the fault of Congress itself. We have written statutes to codify ethical practices in the executive civil service, and among the judiciary. But we have neither statutes nor codes for the standards of Congress in which the public can have any confidence.

It would be impractical to apply the same statutes to Congress as apply to the civil service, since there is no tenure in Congress, either for members or for their staffs. But there is one protection which we continue to deny the public. It is the knowledge upon which to pass the judgment of public opinion.

It was in 1946 that I introduced in the Senate the first measure calling for public disclosure of the financial interests of members of Congress. The Senate was plagued then with commodity speculation by members, by a member of the Agriculture Committee in particular. I have introduced that measure, with variations to expand its coverage, in every Congress since that time. My current bill is S. 313.

Give the voters the information about the financial income, assets, and liabilities of a member of Congress, and they will decide whether the votes he casts and the position he takes upon the issues are financially self-serving to the degree that he should be retired from Congress. That is the check we need. That is the means whereby we can reassure the American people that their Congress, like their civil servants, are not using public office for personal gain.

Until we have such a system of full public disclosure, the halls of Congress will continue to be clouded by rumors and suspicion. And deservedly so.

For what we have in the pending measure as it came from the Ethics Committee is an effort to take care of the evils that have already been exposed, but nothing more. It is the uttermost minimum, aimed at those cases of unethical practice that we have already uncovered and passed judgment upon.

What it suggests is that in place of a general code of ethics, we will only correct each unethical practice as it is dragged out into public view, and that all our remedies will come *after* the public has the goods on some member of Congress.

That is no way to restore public confidence. It can only enhance public suspicion that there is a lot more going on here than they suspected, and about which we do not want anyone to know.

I am pleased to have an opportunity to co-sponsor the pending amendment with the Senator from Pennsylvania, Mr. Clark, who has done so much to advance this principle within the Senate. I believe our amendment is the only real, solid, meaningful improvement in Congressional standards of ethics and conduct that we can adopt.

Mr. CLARK. Mr. President, I desire to speak briefly on the pending amendment. I should like to have the attention of the Senator from Mississippi [Mr. STENNIS].

Just before adjournment on yesterday, the Senator from Mississippi made a short statement in opposition to the pending amendment. I should like briefly to comment on what he had to say at that time.

I honor and respect the views of the Senator from Mississippi and again wish to congratulate him for the fine work the committee has done under his chairmanship in bringing the present resolution creating new Senate rules to the floor of the Senate.

I am afraid, however, that the fundamental philosophy of the Senator from Mississippi, with regard to ethical conduct of Members of the Senate and how the Senate should check on it, and my philosophy are quite different.

The Senator from Mississippi states—and I am now referring to his comments appearing in the CONGRESSIONAL RECORD of yesterday, page S3051:

Before a man ever gets to the Senate he is passed upon by the electorate of his State which always includes a great many people of discriminating thought, intuition, and evaluation. The battle is fought out on the firing line and between the parties. The people of the State pass upon the facts and they pass upon the man. The people judge all the facts relating to the man and the problems he will face.

There is a refining and filling-out process that has been going on in our country for almost 200 years. That has been a major part of the committee's thinking on disclosure.

Mr. President, if that is a fact, then there is no need for any disclosure amendment at all. I would aver that it is not a fact. I would aver that throughout the history of this country there have been instances after instances where, because the people did not know what they should have known about a candidate running for the Senate, they were—let us not say duped—but misled into voting for a man who did not have the proper qualifications or the integrity to serve in this body.

It so happens that the comments of the Senator from Mississippi have reference to candidates for the Senate, but the proposed rules do not deal at the moment with candidates for the Senate. The Senator from Nevada [Mr. CANNON] has an amendment which he will offer, and which I shall support, which would impose the same disclosure requirements on candidates as would be imposed on Senators by the pending amendment.

As the Senator from Oregon [Mr. MORSE] said in his statement which I just placed in the RECORD:

The Congress continues to be the one branch of the federal government where public confidence in honesty and ethical practices has never been firmly earned and probably not deserved. It is the fault of Congress itself. We have written statutes to codify ethical practices in the executive civil service, and among the judiciary. But we have neither statutes nor codes for the standards of Congress in which the public can have any confidence.

Mr. President, it is because the Senator from Oregon is quite correct in his comments, as part of his statement which I have just read, that I believe we need public, not merely private, disclosure of the financial affairs of Senators.

Actually, the matter which brought the whole problem to the attention of the Senate dealt in large part with the conduct of one of our Members before he was in the Senate as such, and dealt with conduct outside the Chamber.

The Senator from Mississippi further stated:

A candidate is examined, exposed, and picked to pieces to a considerable extent. Many of the people know the man personally, where he was reared, what his habits are, what property he holds, and what his faults are.

The people pass on all of these factors. They pass upon the man, his moral character, and fiber. They know what he will do under pressure. They know what he will do under coercion. They know what he will do under political persuasion. The people have a good idea as to that when they deliberately select him to represent them in the Senate.

Mr. President (Mr. BREWSTER in the chair), with all deference to my good friend from Mississippi, I would categorically deny that statement as to what happens when a man runs for the Senate.

It may well be that in a relatively small State with a restrictive franchise, such as the fine State my friend from Mississippi represents, his statement may in part be true. But I can assure him and other Senators that it is not true in a large State with a huge urban population, or even a relatively small State with a large urban population, such as the State of New Jersey. Certainly it is not true in Pennsylvania, New York, Ohio, Indiana, Illinois, Massachusetts, and elsewhere.

In those States, it is a rare thing when a majority of the electorate know the man who is running for the Senate. More often than not, he is just a name to them. It is for that reason, among others, that I believe the most extensive amount of public disclosure is highly desirable before a man reaches the Senate, and is equally desirable after he reaches the Senate.

For that reason, I feel it is most important that we should have public disclosure of financial affairs.

Mr. President, the Senator from Mississippi further points out in his argument that the original record of the finances of a Senator, secret though it may be, does provide what might be called a secret weapon which could be used against him if he were not actually acting in a manner of integrity with regard to his finances; but that is, indeed, a frail tool with which to create for this great body the same ethical standards which we require for members of the civil service and executive branch of the Government. I do not believe that this hidden, financial statement is adequate in any way to deal with the problem which has brought the Senate into such grave disrepute from time to time during its history, and particularly during the past few years.

Finally, the committee says the committee believes that the rule which they propose is the American rule. I must say I find great difficulty in bringing patriotism into this particular debate. It does not seem to me the pending amendment is any less American than the rule proposed by the committee chaired by the Senator from Mississippi. I think what we are trying to do here, in all candor, is to deal, in a commonsense way, and hopefully without emotion, with a problem of ethics which has vexed this body all too frequently all through its history, but particularly during the last few years, with the incidents which have occurred with which all Senators are familiar. So I do not believe calling one way the American way and implying that the other way is un-American is helpful. I therefore hope the amendment will be adopted.

Mr. ANDERSON. Mr. President, will the Senator yield?

Mr. CLARK. I am glad to yield to the Senator from New Mexico.

Mr. ANDERSON. I only wanted to check this situation. In talking with the Senator yesterday, it appeared that he had interests in oil fields in Louisiana, and other interests, from which he receives income. I commend him for it. I think the Senator from Pennsylvania was not elected because of any oil interests he might have in the State of Louisiana, or anything of that nature. His work as the mayor of a large city, I believe, is far more of a recommendation to be a public official, because his work, which was excellent and of high grade, qualified him far more than any possessions he might have otherwise. I think it is very important that candidates for office be judged by the electorate, and I do not think the dollar signs make any difference.

Mr. CLARK. I thank the Senator for his kind words. I may say that I do not think there was anything in my private life or in my financial affairs which, had they been disclosed in my running for the Senate, or for mayor, for that matter, would have made any difference; but I do think my constituents were at that time, and are now, entitled to know what matters may involve conflicts of interest when I am called on to vote on a particular bill.

Mr. CASE. Mr. President, will the Senator yield?

Mr. CLARK. I yield to the Senator from New Jersey.

Mr. CASE. With his permission, and the permission of the Senate, I would like to ask that I be allowed, without the Senator's losing the floor, to propose for us jointly, an amendment to our amendment.

Mr. CLARK. Mr. President, I shall be happy to yield the floor in order that the Senator may propose that amendment.

Perhaps the Senator from New Hampshire would like to ask me to yield to him first.

Mr. COTTON. Mr. President, I was hoping the Senator would yield to me for a question.

Mr. CLARK. I shall be happy to yield, if it is all right with the Senator from New Jersey.

Mr. COTTON. The Senator's explanation of the amendment states that the reports would be filed with the Comptroller General, who would make them available for inspection by members of the public under appropriate regulations. I wondered what the authors of the amendment meant by "appropriate regulations." Something is either public or is not.

Mr. CLARK. It is public. The regulations would deal administratively with how the public would be able to see them. For example, we would not want to have them stand in long lines. We would want to have certain hours. We would want to have restrictions, if copies were to be made of the records, that the originals would be maintained. It is that kind of regulation we had in mind.

Mr. COTTON. Yes.

Mr. CLARK. Perhaps I had better read the language into the RECORD at this point. I quote from page 6, line 1 of the amendment:

4. Reports and certificates filed under this rule shall be made upon forms which shall be prepared and provided by the Comptroller General, and shall be made in such manner and detail as he shall prescribe. The Comptroller General may provide for the grouping within such reports and certificates of

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HIGHLIGHT: House passed bill to prohibit unfair trade practices regarding cooperatives.

SENATE

1. RECLAMATION; CONSERVATION. Interior and Insular Affairs Committee reported without amendment S. 3033, to increase the authorization for continuing work in the Missouri River Basin (S. Rept. 1018) (p. S3257), and voted to report (but did not actually report) with amendments S. 1401, to provide that receipts from mineral leases on offshore lands be deposited in the land and water conservation fund. p. D241

2. DAIRY IMPORTS. Sen. Nelson expressed concern with the FDA decision "removing certain sanitary requirements from imported canned milk," and urged that foreign dairy farms and processing plants, producing dairy products for importation to the U. S., meet sanitary standards established by the U. S. Government. p. S3263

3. FOREIGN TRADE. Sen. Percy discussed and inserted material outlining the formation and history of the Emergency Committee for American Trade. pp. S3266-9

4. ECONOMIC REPORT. Sen. Proxmire submitted the "1968 Joint Economic Report" from the Joint Economic Committee (S. Rept. 1016) (p. S3022). The report of the Joint Economic Committee includes recommendations to strengthen farmer bargaining power, emphasize rural development, increase economy and efficiency in spending, include in the budget "program projections for at least several years into the future," reform the Federal tax system, provide a flexible monetary policy with stability, and strengthen the status of the dollar in international trade.

5. TAXATION; EXPENDITURES. Began debate on H. R. 15414, to continue the existing excise tax rates on communication services and automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations. Most of the discussion was on an amendment by Sen. Smathers and Sen. Williams, Del., which would cut 1969 expenditures by $6 billion below the President's budget and provide for a 10-percent surtax on individual and corporate income. Sen. Smathers said a similar amendment had been rejected, 9 to 8, by the Finance Committee. pp. S3269, S3283-93

6. NOMINATION. Received from the President the nomination of Wilbur J. Cohen to be Secretary of Health, Education, and Welfare. p. S3293

HOUSE

7. TRADE PRACTICES; COOPERATIVES. Passed S. 109, the proposed Agricultural Producers Marketing Act, with an amendment to substitute the language of H. R. 13541 (p. H2169). H. R. 13541 was passed earlier with amendments, 232-90 (pp. H2149 69). The committee report states that the purpose of this bill is to "strengthen the competitive marketing system for agricultural commodities by creating several new legal remedies designed to prohibit certain unfair trade practices" and that the legislation is necessary in order to give farmers "new and greater 'market power'."

8. EDUCATION. Rep. Mize commended the action of the Senate in "approving funds in the urgent supplemental appropriation bill so that school districts in the federally affected areas can receive 100-percent funding this year." pp. H2171-2

9. FARM LABOR. Rep. Mize stated that he had received expressions of concern over the "regulations issued by the Secretary of Labor which would prohibit youngsters under 16 from performing certain farm work which they have performed in the past" and inserted a Kansas Legislature resolution concerning this action. p. H2182

even distorted when one national entity in the international economic "system" finds itself badly out of step with the others. The situation thus created is disequilibrium. In a classical economic framework in which exchange, payments and trade were entirely free, this disequilibrium could probably be said to be self-corrective over time, if the individual members of the system were willing to accept the corrective medicine, such as deflation. Ours is obviously not this kind of world. Governments of course do not wish to subject themselves to economic changes dictated by economic forces they cannot control.

Thus the international economy has become carefully structured. In a sense, the years since World War I have been spent trying to learn how to structure the economic system wisely. The keystone of the structure is international responsibility and joint international action. The agreements in the U.N. Charter for world poliitcal cooperation were echoed in the agreements creating institutions for economic stability: the World Bank, the International Monetary Fund, and the GATT itself. At least in part, their objective is to prevent rash action by a single member country which might seek a hasty international solution to essentially domestic problems.

This is the world economic system that is being so severely strained today. The U.S. gold and balance-of-payments crises are, of course, closely related to the issue whether the United States can exercise responsibility in its own conduct of domestic economic policy. We can reasonably take many of the direct steps the President has so far advocated for solving the balance-of-payments problem. More importantly, however, we must take general measures to put our own economic affairs in better order. Better than piecemeal encroachment upon freedom of trade and payments, we should enact the proposed income tax increases and we should at the same time practice as much economy in Federal spending as the war in Vietnam and other essential national commitments will permit, in order to reduce the buildup of inflationary pressures.

These vital and basic steps would help to inspire confidence in foreign countries that we are going to administer our economy soundly. Since their willingness to hold large quantities of dollars is essential to the gold and balance-of-payments situation, these would certainly be steps in the right direction. They will have a force much more fundamental and corrective than any import restrictions. In these ways we can measurably help to strengthen the international adjustment mechanisms that have been created to institutionalize stability, and where possible we should take other appropriate steps. Speedy implementation of the plan for Special Drawing Rights in the International Monetary Fund is one needed step.

SUMMARY

I would summarize as follows:

1. Our historic policy of trade liberalization through removal of trade barriers should be maintained.

2. Current proposals for quota restrictions on imports should be rejected and new trade restrictive measures should be opposed in favor of more fundamental corrective measures.

3. Efforts to reduce remaining high tariffs should continue.

4. New emphasis should be given to removing non-tariff barriers to trade.

5. Removal of existing tariff and non-tariff trade barriers should be carried out in the new context of an effort to create international rules of fair competition among trading nations.

6. The Special Representative for Trade Negotiations should incorporate study of such a body of fair competitive rules in the overall trade policy study now being conducted by his office.

7. The GATT should be strengthened, as should the international economy policy-making mechanism of the United States Government.

8. The international economic adjustment process should be improved by the completion of new monetary devices and other steps leading to restoration of economic stability in the United States, and equilibrium in the international economy.

CONCLUSION OF MORNING BUSINESS

Mr. BYRD of West Virginia. Mr. President, is there further morning business?

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

TAX ADJUSTMENT ACT OF 1968

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar No. 995, H.R. 15414.

The PRESIDING OFFICER. The bill will be stated by title.

The BILL CLERK. Calendar No. 995, H.R. 15414, an act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The PRESIDING OFFICER. Without objection, the Senate will proceed to its consideration.

Mr. BYRD of West Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER FOR RECOGNITION OF SENATOR YOUNG OF OHIO

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the distinguished junior Senator from Ohio [Mr. YOUNG] be recognized for a period of not to exceed 15 minutes, and that he may speak out of order.

The PRESIDING OFFICER. Without objection, it is so ordered. The Senator from Ohio is recognized for 15 minutes.

OUR VIETNAM INVOLVEMENT: PRESIDENT JOHNSON'S GRAVE MISTAKE

Mr. YOUNG of Ohio. Mr. President, the events of recent months in Vietnam clearly demonstrated that the policy of continued escalation and expansion of the war which President Johnson and the Joint Chiefs of Staff have followed for more than 3 years is a futile one.

Time and again General Westmoreland and the Joint Chiefs of Staff have demanded and received additional men and supplies, each time accompanied by their sanguine and optimistic assurance that the end of the war was in sight. They saw daylight at the end of the tunnel. Each time they were proven wrong. As we have sent additional men and arms to South Vietnam, the North Vietnamese and Vietcong have more than matched our efforts with men, arms, and increased determination. Instead of victory each escalation and expansion of our fighting an American war and bombing more and more areas in North Vietnam has produced a new stalemate at a higher level of death, destruction, and despair for the Vietnamese and in mounting costs in lives, money, and loss of respect for the United States. Since 1960, more than $115 billion of American taxpayers' money has been spent on our involvement in this miserable civil war in Vietnam.

General Westmoreland reportedly requested 206,000 additional troops, a 40-percent increase over the number of marines, soldiers, and airmen now in Vietnam in order "to regain the initiative." The fact is that even before the Tet offensive we have been on the defensive in every area in South Vietnam except for our bombing and search and destroy operations. There is every reason to fear that a further escalation and expansion of our intervention of the manner General Westmoreland has proposed will create new problems of unprecedented proportions for the United States both at home and abroad.

This is no time for patience with policies that have been repeatedly discredited by events. This is no time to hold fast to a course that has been steadily leading the Nation toward catastrophe at home and the loss of respect abroad.

The American war we have been waging in Southeast Asia is eroding the very moral fiber of the Nation. It is blocking an attack on social problems at home which have reached the point of disaster. It is setting American against American. It is demoralizing our politics and deranging our daily lives. It is inevitably leading to a pocket-picking inflation. It is undermining the U.S. dollar abroad as it is leading toward uncontrolled inflation at home. It is strengthening the Communist countries, which have been torn and weakened by internal conflicts. Also by enmity of Communist China toward the Soviet Union. It is paralyzing our influence in other vital areas of the world. It is pushing us ever closer to world war III and a nuclear holocaust.

We know now that a military victory cannot be won without utterly destroying the country we ostensibly are fighting to defend. In 1964 former Senator Barry Goldwater stated:

> Defoliation of the forest by low-yield atomic weapons could well be done. When you remove the foliage, you remove the cover.

Administration militarists are now carrying on the Goldwater program. We are removing the cover hoping the Vietcong will stand naked to be cut down by American airpower. In spraying and destroying farms in Vietcong controlled areas, Vietnam, a beautiful green paradise, is being stripped of vegetation and crops. More than a million and a half acres have already been ruined. Two million Vietnamese peasants have been driven from their hamlets—many forced into refugee camps. Defense Department officials now propose to use new and more powerful chemicals to increase the total

of ruined, spoiled land to a catastrophic extent. We are not only destroying the meager food supply of Vietnamese civilians, but by our dastardly defoliation of the countryside of a people President Johnson claims we are seeking to free, we are also leaving the earth sterile for future generations. Unfortunately, old men, women, and children trying to stay alive are being hurled closer to starvation or herded like animals into American refugee camps.

We now know that not even our awesome weaponry can impose on a suffering silent people a colonial government they do not want and will never again suffer to take hold. We know, or should know, that steadily deepening involvement in a civil war in Vietnam will not deter social revolution elsewhere, nor contain Communist China. On the contrary, the brutal impact of military technology on a primitive agrarian society is creating enemies for us all over the world. Driving North Vietnam into the arms of China is not containment.

Proposals to send 50,000 to 206,000 additional American troops to Vietnam, to extend use of our tremendous firepower in more bombing and shelling of hamlets in Laos, Cambodia, and North Vietnam, and to seriously consider employment of tactical nuclear weapons in destroying far off agrarian countries and their national do not represent mere escalation in degree of an old war. This was a civil war in Vietnam. It is now an American war.

The fact is that the world today is living under the dread portent of World War III. Particularly so if President Johnson does not seek a diplomatic settlement. If he continues his determination to fight on to an ultimate military victory to what tragedy that will ultimately lead us no one knows.

Instead of considering means of maintaining South Vietnam as a military bastion on the mainland of Southeast Asia, President Johnson and his advisers should immediately seek to bring about a political settlement and the military neutralization of South Vietnam.

President Johnson has made a grave mistake. He is in serious difficulty not only in world opinion but in particular in the opinion of what is probably now a majority of American citizens, solely due to his determination to fight on in the American ground and air war he is waging in Vietnam to ultimate military victory. The times, commonsense, and the opinion and judgment of heads of state of all Asiatic nations and in addition the heads of state of our European allies, the United Kingdom, West Germany, Belgium and France call for an unconditional halt of bombing of North Vietnam without delay and for us to seek a diplomatic settlement of an ugly war which seems unwinnable. This despite the fact that more than 21,000 men of our Armed Forces have died and more than 110,000 have been wounded in combat.

The President owes a duty to the American people to announce that in seeking a ceasefire and an armistice in Vietnam our hope is for a permanent settlement. Therefore, delegates and representatives of the National Liberation Front, the political arm of the Vietcong, should participate in any conferences along with delegates of the Saigon military regime of Thieu and Ky, which we are supporting and maintaining in office, along with representatives of North Vietnam. Furthermore, in any government of South Vietnam, Thieu and Ky, who talk violently of invading North Vietnam but have failed miserably in achieving land reforms and thereby earning support from the countryside, should be bluntly informed that American aid to them will be diminished and will soon be nonexistent unless a coalition government is formed in Saigon including not only representatives of the National Liberation Front but also Buddhists, neutralists, so-called, and opposition leaders in the constituent assembly including several recent candidates for President.

Unfortunately, the Vietcong leaders outgeneraled and outwitted General Westmoreland and our generals in South Vietnam and the South Vietnamese leaders, when instead of striking at Khe Sanh, which they had encircled during several weeks preceding the Tet lunar holiday and threatened to overrun causing our generals to withdraw more than 40,000 fighting men from the central highlands and Mekong Delta, preparing to encircle the encircled and repel that Vietcong offensive action against Khe Sanh which was never intended, the Vietcong struck everywhere they were not expected. They overwhelmed 38 provincial capitals, including Saigon itself for several days. Even our Embassy in Saigon was invaded and taken over for nearly 7 hours and Ambassador Bunker forced to flee for his life.

At the time of our halt in bombing North Vietnam we should also announce that all search and destroy missions by our troops in South Vietnam will be halted, and that we are seeking disengagement. We should immediately announce our intention to end escalation and expansion of our fighting in Vietnam and announce a temporary halt to increasing the total number of our troops in South Vietnam during a period of 30 days.

In fact, if there seems some likelihood, or promise, that through the United Nations or the International Control Commission or by intervention of heads of state of India, Pakistan, or any other Asiatic country, talks are likely to commence seeking to end the bloodletting, all offensive combat action on both sides should be stopped. This should specifically require an end to terrorist acts on both sides and ending of all so-called search and destroy missions while talks are going on which may lead to peace.

Very definitely, the National Liberation Front of South Vietnam, which is the political front of the Vietcong, must necessarily participate in any conference and be represented by delegates independent of those of the Saigon and Hanoi governments if there is to be peace in Vietnam. That we are willing to negotiate directly with the Vietcong should be announced by our President regardless of the feelings of Thieu and Ky who could not remain in power for more than a few days were we to withdraw our military support of their dictatorial regime.

Furthermore, we should require the military regime in Saigon to rule legally instead of by decree under the so-called martial law program declared by President Thieu and Vice President Ky. Furthermore, insist that Thieu and Ky immediately release all political leaders of opposition factions now under arrest and held in so-called protective custody and demand that these so-called neutralists, Buddhists, and leaders such as Dzu and others supporting peace causes must be included in a broadened base of government of South Vietnam. President Johnson should admit that the present military regime in Saigon is not representative of the people of South Vietnam and lacks the support of all except a very small minority. An announcement should be made from the White House that all opposition elements, whose total strength was indicated to represent approximately 65 percent of the wishes of those of South Vietnam who voted in the September 1967 election, must be represented in the ruling government.

We must be prepared to accept a coalition government that would give true representation to all the political forces in South Vietnam. It is difficult to see how there can be any peaceful settlement in South Vietnam without some form of coalition government, since the National Liberation Front controls as much, if not more, of South Vietnam than does the Saigon regime. Of course, the Saigon military junta which feeds on this war opposes any negotiations. There is not doubt that the people of South Vietnam would welcome a coalition government if that meant a step toward peace.

Once a cease-fire and an armistice has been negotiated, we should then gradually withdraw our forces to Camranh Bay, Danang, Saigon and our other coastal enclaves until an international agreement has been effected to guarantee the neutralization of Vietnam, Laos and Cambodia. Then, when a secure peace has been established, we could gradually withdraw our troops and set about to repair the tragic wreckage the war has wrought.

Unless some action is taken by us without delay and unless the President abandons his determination to fight on in Vietnam to complete military victory, we Americans shall be doing the fighting and our youngsters will be doing the dying throughout another 5 years.

The time has come to abandon our bankrupt policy of escalation. The only answer is for the administration to make up its mind to seek peace and to extricate our Nation from the Vietnamese quagmire.

President Johnson and Dean Rusk like to talk about the commitments of three Presidents. Also Secretary Rusk makes frequent mention of Communist aggression from the north. They know there are no such commitments. On the day President Eisenhower left office in 1961, we Americans had 685 military advisers in South Vietnam. President Eisenhower had written in 1954 to the President of South Vietnam stating:

> I am instructing the American Ambassador . . . to examine with you . . . how an intelligent program of American aid . . . can serve to assist Vietnam in its present

places in the country and it only gives encouragement to riots, violence, destruction of the innocent, robbery of the poor, and final elimination of the democracy in which we live.

Mr. BYRD of West Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. SMATHERS. Mr. President, I should like to discuss for a few minutes the amendment to H.R. 15414 which was introduced on Friday last by the Senator from Delaware [Mr. WILLIAMS] and myself.

The basic legislation, the Tax Adjustment Act of 1968,[1] does not now contain either provisions for a tax increase or expenditure limitations.

In the course of considering the bill, the committee voted twice against attaching a 10-percent surcharge on income, one occasion being a 9-to-8 vote against a combination surtax and cutback in nondefense spending in the sum of $8 billion for the fiscal year 1969.[2] The amendment we have introduced is designed to give the Senate as a whole the opportunity to express itself on these matters. Our proposal is to join an effective reduction of expenditures by the Federal Government with the temporary revenue-raising surtax, which could bring our domestic accounts back into balance for the next 2 years.

DESCRIPTION OF THE AMENDMENT

The mechanics of this measure would be as follows: On the expenditure side, there would be an iron-bound ceiling on the money which the executive branch could spend for the 1969 fiscal year. This limit would apply to all the controllable expenditures of the Federal Government. It would cover the money available from all sources, including current and prior appropriations, receipts from loans, and any other income from whatever source derived. The only exception to this ceiling would be of what are called "uncontrollable" expenditures, such as interest on public debt, for which the U.S. Government has a constitutional obligation, and other expenditures which are required by statutes setting up trust funds, such as social security and veterans' pensions.

In our amendment, this ceiling would be set at $180.1 billion, which is $6 billion below the level in the President's budget message.

Furthermore for fiscal year 1969, our amendment would provide an additional restriction on the executive branch by cutting back on the 1969 obligations which the Federal Government may make for future years by $10 billion below the estimates submitted by the President to the Congress in the budget message of this January.[3] Coupled with these controls is a proposal for a 10-percent surtax on individual and corporate income.

Now, Mr. President, it gives me no pleasure to recommend—nor, I am sure, does it the Senator from Delaware [Mr. WILLIAMS]—that the Senate take this action at this time. Most people do not like to pay and do not want to pay additional taxes, if they can be avoided. We in the Senate are no different.

I made a television statement the other day with respect to the fact that I thought we had to have a tax increase and that we had to have expenditure control. I received a wire from a fellow in Lakeland, Fla., who, apparently, heard me and sent me the following:

> Take your tax increase and stick it in the waste basket.

Since then, I have received 35 additional telegrams along that line. Apparently, there are folks in my State who do not like the thought of a tax increase. I do not like it, either. We will be receiving many more telegrams, I am sure.

However, Mr. President, I like less the thought of seeing inflation that will erode the dollar and add to the burdens of those elderly people in my State living on fixed incomes. I hate to think that we will have a deficit which could produce inflationary effects and, as an aftermath, which would bring about a horrendous depression. I also hate to think about what will happen on the London gold market on Monday, April 1, if we do not take steps to put our fiscal house in order.

The arrangement on the sale of gold that was made just the other day is a fragile arrangement. If the central bankers of Europe get the idea that Members of the U.S. Congress are not going to do anything about the budget deficits their Government is running, they will say, believe me, "We have dollars, we have been saving in order to settle our international accounts, but we do not want to see the U.S. Government let those dollars depreciate." If this happens, they are going to cash in their dollars, and say: "Give us the $10 billion in gold you have remaining." This makes it imperative that we meet our fiscal obligations now, even though they may be unpleasant.

PRIMARY COMPARED WITH SECONDARY CONSIDERATIONS

A tax increase is distasteful enough under any circumstances. The economists are divided on whether the economy is going too fast or too slow, and what impact a tax rise, spending cuts, interest rate increases, or other fiscal and monetary measures may have.[4] With conditions in our cities as they are, many thoughtful people believe there should be large increases in the Federal Government spending at this time, rather than reductions. Many authorities believe that any proposal for a tax increase should be accompanied by thorough-going reforms of the tax system, to broaden its base, eliminate loopholes, and make it more equitable.

There are many citizens who take exception to specific policies of the Government. A considerable number oppose foreign aid. Others oppose our course in Southeast Asia, which all concede has been absorbing a large share of our resources. The case against a tax increase has been made on the economic grounds that it would be too deflationary, or perhaps too inflationary, and occasionally both at the same time.[5]

In his first inaugural, Thomas Jefferson, who had some knowledge of the subject, observed:

> Every difference of opinion is not a difference in principle.

I feel that this is a vital distinction. It is our belief that the amendment we present today transcends these differences of opinion. It is addressed, we feel, to a basic principle—to the ability of our constitutional system of government to cope with the most difficult of fiscal issues in these difficult times.

The soundness of the economy and the financial system underlie all of the commitments of the Federal Government—both domestic and foreign. They are the underpinning for any Government action to fulfill our pledges and provide for the security and general welfare of our citizens.

If the dollar is eroded—in either substance or confidence—the foundation of our economic system can be damaged beyond repair. If the process goes far enough, the whole financial order of the Western World can be undermined, bringing more uncertainty, more speculation, and less constructive economic activity. These results would be felt not only in this country, but in all of the nations associated with us down through the years.

THE INTERNATIONAL MONETARY SYSTEM IS IN TROUBLE

These possibilities are not fanciful. The newspapers of March 15 reported that the gold markets across the Continent closed down, and the Paris market, which alone remained open, was mobbed in the worst financial crisis since 1929.[6]

The creation of a two-price system for gold is thought by the majority of bankers and businessmen in the United States and Europe to be only a stopgap solution,[7] giving this country perhaps a few

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[1] Reported by the Finance Committee on March 15, 1968; Senate Report 1014, 90th Congress, 2nd Session.

[2] "Finance Committee Reports Excise Tax Extension Bill", Senate Finance Committee Press Release, March 14, 1968.

[3] Particularly, these items are listed in the Budget Appendix for the fiscal year 1969, House Document No. 226, 90th Congress, 2nd Session.

[4] "Economists' Debate Underscores Cooling Ardor for Tax Increase", by Frank C. Porter, Washington Post, December 27, 1967.

[5] "The Case Against a Tax Increase", Wall Street Journal, March 22, 1968, page 12:1 lead editorial.

[6] "British Suspend Gold Trading for One Day at Request of U.S.; Reserve's Bank Rate Put at 5%"—New York Times, March 15, 1968, page 1, right lead.

[7] See "Gold Stopgap, Bankers Say U.S. only Buys Time to Reform Basic Economic Policy", Wall Street Journal, March 15, 1968, page 1:1.

years, perhaps a few months, perhaps only a few weeks, and, very possibly in my judgment only a matter of days, to take the required corrective actions.

A two-price system itself raises the question of the real value of the dollar. The effect this is already having was described by one banker as follows: [8]

> In the past, people have been keeping dollars because of the firm rate of exchange (of those dollars for gold). This has created an international currency. . . . But now if we say a dollar is no longer exchangeable for a firm amount (of gold) people in foreign countries would consequently want to hold an absolute minimum of dollars.

Accordingly, the state of the free world's financial system is today precarious. If we do not act decisively now to balance our domestic and foreign accounts, there would be another convulsive rush for gold followed by severe derangement of the international monetary system, a withering contraction of world trade, and a depression affecting all of the Western nations, including the United States.[9] What I am saying, gentlemen, is that if we do not make the basic reforms, there is general agreement that the international financial system, so laboriously built over the past 30 years, will come apart before our eyes.

The Senators offering this amendment do not wish to have on their consciences further developments of that character. It seems to me, also, that the Senate and the House of Representatives, in the face of the events that are of record, would wish to fulfill their responsibilities in this matter.

We recognize that there may be deep differences of opinion among the American people as to the underlying policies of the Federal Government for which Federal funds will be spent. We are fighting an armed conflict to contain Communist aggression in Vietnam. No doubt there is an argument for opposing the revenue needs of the Government as a fair political tactic in seeking a change of those policies—up to a point. If we were spending an equal amount to combat famine or epidemic disease in Southeast Asia, similar tactics by opponents of those policies would be perfectly legitimate—up to a point. Those who advocate massive spending in the cities could make a similar case—up to a point.

None of us desire an austerity program; both as individuals and as citizens we hate to give up the individual projects and national projects that we know will bring us pleasure, long-term advantage, and happiness.

However, when the question becomes one of the fiscal integrity of the country itself, it seems to me that there is a compelling argument for laying aside personal gain and differences of opinion over priorities and policy, in order to cooperate in preserving the foundations of all policy.

I am not saying political combat on these issues should cease. On the contrary, the channels for influencing our foreign and domestic policies by the democratic political process are being multiplied with every passing week. I have consistently encouraged all of our citizens—young and old, North and South, conservative and liberal—to roll up their sleeves and support the party and candidate they prefer.

Without prejudice to any of these specific opinions upon policies which are being debated through the political process, all parties should join in the cause of statesmanship, to keep the domestic and international accounts of the Nation within a semblance of balance, so that the country is on an even keel in January 1969 for whoever wins the election.

ANY POLITICAL CHANGES AT LEAST 10 TO 12 MONTHS AWAY

It is important to remember that however things turn out in November, there could not be a basic change until January or February of 1969, or probably after that. That is at least 10 months or a year away, and who can say what crises we will be in at that time. However, we cannot wait 10 months or a year to restore fiscal balance.

We must act now. If this is agreed, we can go to the question of the nature of the action to be taken. I have proposed a combination of reductions and controls on expenditures and an increase in tax revenues. Others may prefer one or the other, or higher interest rates, or some other combination. We will be glad to hear their arguments.

THE CONSEQUENCES OF INACTION

We feel that the measures we propose are the ones required by the situation—both for their psychological effect on domestic and foreign decisions, and because realism dictates ruinous financial consequences in the absence of action.

Without a tax increase, the authorities tell us, there will be progressive inflation, fueled by the atmosphere of progressive inflation. A recent businessmen's newsletter told its readers:

> Prices rose more than 3% last year, will rise 4%-plus in '68, and 5% in 1969.[10]

This kind of escalation of expectations stimulates demands for massive wage increases and price increases that far outrun gains in productivity and sound progress.

Historically, rampant inflation has been followed by recession. We are, therefore, liable to have a period of hair-curling depression in this country.

If the Federal Government must borrow $20 or $22 billion in the private money market in 1968, and again in 1969, we know that sources of credit for housing, for State and local government, and for small business will be bone dry. We saw what happened in 1966 in these areas. Do we want to go through such a period again?

On the international side, U.S. gold lost to speculators and central banks since the devaluation last November already totals about $2.5 billion. This brings our stock down to $10.48 billion, the lowest in 32 years.[11] If this continues, we may have difficulty defending the dollar in regular international transactions.

I want to make that even stronger. We not only may have difficulty, we will have difficulty. We may not be able to defend it at all.

Last week the stock market hit a new low for the year.[12]

In London, Sir Leslie O'Brien, Governor of the Bank of England, expressed the consensus in that country when he called upon the United States to tackle its financial and balance-of-payments problems with "a due sense of urgency." [13]

WHY A TAX INCREASE IS THE KEYSTONE

Where both the domestic and international considerations converge is upon the value of the dollar. Around the world, the experts have echoed this theme: "The problem is not the price of gold but confidence in the dollar." [14] It seems apparent that the key to preventing a run on the dollar is a reform including some kind of a revenue increase coupled with rational controls on expenditures. The 10-percent surtax would decrease the deficit from $22.8 billion to $19.8 billion in 1968 and $20.9 billion to $8 billion in 1969.[15]

That is, of course, assuming—which is a problematical assumption—that we do not have the supplemental request for additional appropriations for Vietnam. It is quite likely that we are going to have such a request. However, these figures of January do not even include that item.

The tax increase will give us immediate relief in both the domestic and international spheres, and allow us a breathing space so that we can go on to a mature solution of our political and economic problems.

Of course, there are other measures the Federal Government must take. We must straighten out the national priorities. We must review our tax and welfare systems. We must learn how to build our trade surplus and, therefore, our exports in regional and small business products. We are actively in the process of trying to do these things, and our efforts should be redoubled.

However, looming over all of these individual areas is the one unresolved question of whether the U.S. Government and its citizens will demonstrate the willpower and the self-discipline to put its financial house in order, and whether it will take the necessary action before it is too late.

No one can say, with absolutely authority, whether we have reached the point of no return this week or will reach it next week. But, the warning flags are flying and the red lights are flashing all over the world.

I feel that the moment has arrived. If our constitutional processes cannot allow us to balance our books, when the world demands that we balance our books—if

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[8] Wall Street Journal, loc. cit.

[9] "The Gold Rush" by Edwin C. Dole, Jr. The New Republic, March 23, 1968, page 10:2.

[10] The Kiplinger Washington letter, March 15, 1968, page 1.

[11] See "DeGaulle's Gold Plea Stirs Concern", Washington Post, March 21, 1968, Page H 9:1.

[12] "Dow Index at 1968 low in late Selling Surge", Washington Post, March 22, 1958, Page D 7:6.

[13] "British Bank Rate Cut on Renewed Optimism", Washington Post, March 22, 1968, Page D 7:1.

[14] See Wall Street Journal article, March 15, 1968, loc. cit.

[15] "President's Surtax Proposal: Continuation of Hearing—January 1968". Hearings before Committee on Ways and Means, House of Representatives, January 22, 1968, page 3.

we continue our policy of fiscal inaction, I feel that we in the Congress will bear a primary responsibility for dragging the free world down a steep, quick slide to disaster.

LEGISLATIVE BACKGROUND OF THIS PROPOSAL

Congress has had before it a revenue measure of this type that I am proposing fro more than a year.

In some remarks of mine on October 10 last year, I advocated the enactment of a surtax with the provision that it be joined to expenditure limitation. A limitation of this kind was finally enacted on December 1967 in the joint resolution making continuing appropriations for fiscal year 1968.[16] The format of Public Law 90–218 provides the model for the expenditure ceiling we are now proposing. The formulas, mechanisms, and technicalities are designed to be exactly the same.

However, in December, no action was taken on the revenue side.

The amendment which we advance today would give the Congress an opportunity for exercising its powers on both proposals combined in a manner which I believe is consistent with the spirit of article I. There are ample precedents for the Senate's acting first on tax provisions as amendments to pending financial legislation. A recent example is the series of tax amendments to the Foreign Investment Act of 1966.[17] Of course, the Constitution provides as to tax legislation that "the Senate may propose or concur with amendments as on other bills." [18]

As to the spending limitations, we have the joint resolution of last December, which I have described, as our precedent.

In formulating this proposal, we have worked in close consultation with our colleagues in a bipartisan manner. We do not feel it is a Democratic proposal or a Republican proposal, or a hawk or a dove proposal. We do feel that it is a congressional proposal, and a responsible proposal. I feel that it is the kind of measure that all of us can live with, and will allow us all to live with our consciences.

CONCLUSION

Mr. President, we need fiscal balance—we need congressional action on a tax bill as well as expenditure controls, and I urge that our amendment be the vehicle for this action. I believe we need it for "the preservation of our peace at home and safety abroad, for economy in the public expense, and the honest payment of our debts and sacred preservation of the public faith" [19]—that being a statement from the inauguration address of Thomas Jefferson.

In order to fulfill that need, we submit our amendment for the consideration of this body and the Congress.

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[16] Public Law 90–218, 90th Congress, 1st Session, Approved December 18, 1967.

[17] See, for instance, "Numerous Tax Riders Added to Foreign Investors Law", Congressional Quarterly Almanac, 89th Congress, 2nd Session, pp. 732–35.

[18] Constitution, Article I, Section 7.

[19] Inauguration address of Thomas Jefferson, March 4, 1801, "The Life and Selected Writings of Thomas Jefferson."

I ask unanimous consent to have printed in the RECORD my remarks of last October and further material prepared for delivery last November, which will provide more details as to the economic consequences of action not being taken in this matter.

There being no objection, the remarks and other material were ordered to be printed in the RECORD, as follows:

[From the CONGRESSIONAL RECORD, Oct. 10, 1967]

THE PROPOSED TAX INCREASE—I

Mr. SMATHERS. Mr. President, it has been said with a smile that our country set out from the first to erect a government of lawyers, not men. Some credence has been lent to the theory by an observation on the floor of the House of Commons in 1775, that as many copies of Blackstone's Commentaries were being sold in the Colonies as in all of England.

SOME HISTORICAL BACKGROUND

As a result of this structural peculiarity, a good many political questions in the United States tend to become legal questions. Moreover, most of the fundamental issues involving foreign war or domestic tranquility tend to be debated in terms of the powers of taxation and spending.

Although the current controversy over the proposal for a tax increase involves all of these elements, I believe that the history of the United States and of Great Britain demonstrates that this has been a general characteristic of parliamentary institutions.

The cause that separated our two nations, as we were taught in school, revolved around taxation. In 1763, Britain concluded prolonged and costly wars, of which the American Colonies were the chief beneficiaries. A major argument in favor of the Stamp Act and the tea tax was that the Colonies ought to contribute to the costs of Redcoat regiments because they were protecting our western frontiers.

It is interesting to me that the stamp tax was delayed a year, in hopes that the colonists would come up with alternatives. At the same time, new taxes in Britain were extended to the humblest homes, previously exempt, and this was followed by a series of bread riots. It is worth noting, I believe, that the series of revenue and enforcement measures that precipitated the Revolution were enacted by a parliamentary government which jealously guarded the fiscal powers it had wrested from the King during five centuries of struggle.

While this fragment of history does not provide an exact analogy, it may be instructive.

CONSTITUTIONAL POWERS

As a consequence of these events, those who drafted the American Constitution were most definite about where the powers of taxation and of expenditures should reside.

Article I, section 7, provides:

"All bills for raising Revenue shall originate in the House of Representatives, but the Senate may propose or concur with Amendments as on other bills."

Article I, section 8, enumerating the prerogatives of Congress, begins:

"The Congress shall have the Power to lay and collect Taxes . . . to pay the Debts and provide for the common Defense and general Welfare of the United States . . ."

Article I, section 9, states:

"No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law; and a regular Statement and Account of the Receipts and Expenditures of all public money shall be published from time to time."

It is pertinent to emphasize that revenue bills must originate in the House of Representatives. Because of this rule, the President cannot even send to Congress a draft of a tax bill he wishes passed. He is limited to sending a message making his recommendations, as he did on August 3 with respect to the surtax.

Further action is then up to the House of Representatives. As we have seen, this distribution of responsibilities is no accident. It was as deliberate a decision as the Constitutional Convention and the American people ever made.

Of course, the House of Representatives can choose to take no action—that is well within its rights.

In this instance, we seem to detect a desire to make consideration of any such bill contingent upon whether the President will take action to reduce the spending of the Federal Government by a figure thought to be appropriate by several Members of the House of Representatives.

EXPENDITURES

It seems to me quite clear, however, from article I, section 9 of the Constitution, that the power to control expenditures is not given to the President. The power to appropriate money is reposed in the Congress.

It might be noted, at this point, that even cutting appropriations for the current year would not result in cutting spending by the same amount. The reason is that there is a large backlog of unspent appropriations from the past. At the beginning of 1967, this carryover amounted to $125.6 billion.

However, what the Congress has given, the Congress can take away. Verily, the Congress can rescind any appropriation for a prior year at any time after it has been passed, and can impose any germane conditions upon its expenditure short of rescision. But no official of the executive branch of the Federal Government, including the President, can write a check for any purpose—"but in consequence of appropriations made by law."

THE BUDGET

The President is, of course, in a decisive position to influence the budget requests—both as to specific items and general programs—which are sent to Congress. In a few months, such requests governing spending and programs for the next fiscal year, beginning in July 1968 and ending June 1969, will be sent up to Capitol Hill.

In its turn, the Congress will have the opportunity, and as a matter of fact, has the duty, to review those requests and make appropriations for only so much, and for only those programs, as Congress deems wise.

APPROPRIATIONS

This is exactly what has been happening with the present budget requests, which the President made at the beginning of 1967 for the fiscal year between July 1, 1967, and June 30, 1968.

At the beginning of October of this year, the House had enacted upon 14 appropriations bills. During this session, the House has appropriated $120.3 billion, while at the same time cutting this year's budget requests by $3.8 billion, and last year's fiscal 1967 appropriations by $173 million.

The Senate has, up to this time, passed nine appropriation bills, five less than the House. From these bills, we have cut this year's budget requests by $118 million and reduced fiscal 1967 appropriations by $76 million.

As a matter of fact, each of these items gets a double congressional review—once when the authorization of the program is being considered, and again when it is proposed to spend the money in the form of an appropriations bill.

The House and the Senate can thus not only discourage policies pertaining to next year's appropriations, but can make further reductions in this year's appropriations. If we wish to do so, we can phase down or phrase out programs by denying them funds. In short, Congress can stop, start, or reduce

any programs recommended by the President. This is within our traditional power, and is within our experience.

As a personnal matter, the Senator from Florida is not in favor of changing the Constitution to transfer such a power from the Congress to the Presidency—at this time or any other time. But I am in favor of the Congress recognizing, admitting, and exercising its responsibility.

THE FACTS—SIZE OF THE DEFICIT

As I see it, this is the legal framework surrounding the proposals for higher taxes.

There are also points of reference provided by the facts and figures.

The tax message and the testimony before the congressional committees have made clear the dimensions of the deficit the Nation would face in the absence of increased taxes.

The January 1967 calculations, which included a 6 percent—or $4.4 billion—surcharge on corporate and individual incomes, effective as of July 1, 1967, placed the deficit at $8 billion.

July 1 has come and gone. Expenditures have risen: $4 billion for defense and $2.5 billion for civilian programs. Conventional tax revenues have fallen $7 billion short of estimates. Taking into account all the reasonably foreseeable expenditures, the administration emerges with the estimate that the deficit will range between $23.6 billion and $28.7 billion.

CONSEQUENCES OF INACTION

We have a fair idea of what will happen in the event of a deficit that large. We had a foretaste of it last year, when intereset rates rose to the highest level in 40 years. It is now commonly accepted in the financial community that interest rates wil rise again, and may level off at 6 to 7 percent, or they may go on up to 7 to 9 percent. Passage of a tax bill will make the difference.

A half million homes that would have been built in 1966 were not built. Those that were lucky enough to find new homes paid more for them. The extra interest costs alone have been estimated at $2.5 billion over the next ten years, and most mortgages run two or three times that long. Then there would be a greater public debt and a higher interest rate on that—which would cost the taxpayer $700 million next year alone.

The Nation in the past has not been as generous as it could have been to some of our domestic programs. This summer there were civil disturbances in more than 40 cities, with an estimated half a billion dollars in property damage and several dozen lives lost.

These are some of the costs that must enter into the equation.

INFLATION

Finally, there is the spector of inflation. We are thankful that this generation has not been ravaged by inflation. This cruel force certainly erodes the living standards of those retired on fixed incomes. It means senior citizens, of whom we have 19 million among us, will suffer immediate deprivations in food, clothes and medical supplies.

Inflation also thwarts the small businessman and the farmer who need credit and cannot readily pass increased costs along to the consumer. It affects individuals and families at all ages, and at all stages, that are trying to better their circumstances and build a secure future. Inflation could blast everyone's plans by taking away more of a raise than a man can gain from his employer in a year of work, and more than he can earn on his hard won savings.

The experts predict that, even if the tax bill is passed, we will have price increases of 2.5 percent next year, and maybe a little less in 1969.

Without the tax bill, I think all the recognized experts strongly feel we will get 4 to 5-percent inflation in 1968, and perhaps considerably more than that in 1969. That means that everyone in the country—without exception—would pay a much higher cost than a 10 percent surtax bill would impose on him.

THE BALANCE OF PAYMENTS

Another problem which touches few of our people directly, but everyone indirectly is the balance of payments.

Our international accounts have been in persistent deficit since 1958. Our export trade accounts for 70 percent of our foreign earnings, and last year, our trade surplus fell to the lowest point since 1959. Many of us in the Congress and in the administration are attempting to reverse this trend.

Inflation would cripple these efforts. It would undoubtedly price some American exports out of world markets and step up the already worrisome acceleration of imports. Profits and jobs would be shifted to foreign countries in fairly short order, magnifying economic and social problems here at home.

A warning of another kind has been sounded by the world's financial authorities. In the polite language of diplomacy the Managing Director of the International Monetary Fund has been critical of "industrial countries which applied policies of fiscal restraint too late contributing to severe strains in money and capital markets." In plain words, this means the community of nations felt that the United States should have raised taxes last year, in fiscal year 1966 as I and many others recommended should be done.

These men are concerned, not only with the economic health of the United States, but with the reserves of their own countries—some 40 percent of which are held in dollars—and with the whole structure of international trade and investment.

If the worth of the dollar is undermined, this structure will be badly shaken, and all of our friends and allies who have chosen to hold dollars will pay a price for their good will toward us.

I have just returned from a 2-week trip to Europe, including a visit to Geneva where the General Agreement on Tariffs and Trade discussions—GATT—were still being held. Every official, every economist I talked with on my visit, had one central question—what is America going to do with her economy?

As one man put it to me, "We wonder whether you Americans have the strength of will, the self-discipline, to face up to the economic realities—or are you going to simply lurch along like some juggernaut without brakes or steering?"

The responsible people of Europe are therefore looking at us and wondering whether we will deal forthrightly with our fiscal problems.

ADDITIONAL PROBLEMS

The most discouraging aspect of a policy of inaction is that our problems at home and abroad will not only still be with us; they will gain in size and perversity. Later on, we will be required to pay even a higher economic and human cost to make any progress against them. By the time we make up our minds to master the situation, we might need, not one 10-percent surtax increase, but a series of increases that could be even steeper. We might even require wage and price controls, with all their attendant drawbacks, irritations, and threat to our liberties.

Under these circumstances, the Senator from Florida, without any hesitation or mental reservation, can say that to allow a deficit of over $25 billion and rampant inflation would cause irreparable damage and needless suffering—not only to our domestic economy, but to our international credit and standing around the world.

THE SURTAX PROPOSAL

To avoid these consequences, which I regard as intolerable, the Congress has been asked to consider postponing certain excise tax reductions and levying a modest surtax, at the rate of 10 percent of the final tax bill which each individual and corporate taxpayer computes. The term "surtax" is rather technical. The actual impact of such a tax would be about 1 percent of income for those taxpayers to whom it would apply.

THOSE IT WOULD AND WOULD NOT AFFECT

But, it is important to note that one family out of every four now pays no taxes at all. They would not be affected by a surtax. It is contemplated that 16 million taxpayers in the lowest brackets would be exempt from the surtax.

Those that are left are the middle and upper income classes of this country, enjoying the highest standard of living the world has ever seen.

RECENT GAINS

Our taxpayer's financial standing has been measurably improved by the uninterrupted prosperity of the past 6½ years, to which my distinguished friend the Senator from Wisconsin [Mr. PROXMIRE] so eloquently referred a moment ago, when he put into the RECORD for the consideration of the Senate and other an article from today's Wall Street Journal which explains in detail the prosperity which our country has enjoyed for the past 80 months. The statistics for this period, which is short in the span of history, but nevertheless matches the record for continued prosperity, show the following remarkable advances between 1961 and 1967:

"Gross National Product, Personal Income, Wages and Salaries, Industrial Production, up more than 50%.

"Consumer Expenditures, Retail Trade, up between 40 and 50%.

"Pre-Tax Corporate Profits, up more than 75%."

As the distinguished Senator from Wisconsin pointed out earlier today, dividends have increased to the remarkable extent of some 81 percent during these past 6½ years:

TAX REDUCTIONS

"In sharp contrast, the federal taxes of the typical citizen have been significantly reduced. The following tables illustrate these decreases in some detail.

"AVERAGE SINGLE TAXPAYERS

"Income from wages	1963 tax	1966 tax	Percent decrease in Federal tax
$2,000	$242	$163	40.9
$5,000	818	671	18.0
$10,000	2,096	1,742	16.9
$15,000	3,787	3,154	16.7

"MARRIED COUPLE WITH NO CHILDREN

$2,000	$122	$58	52.5
$5,000	660	501	24.1
$10,000	1,636	1,342	18.0
$15,000	2,810	2,335	16.9

"MARRIED COUPLE WITH 2 CHILDREN

$3,000	$65	$4	93.8
$5,000	420	290	31.0
$7,500	877	686	21.8
$10,000	1,373	1,114	18.8
$15,000	2,486	2,062	17.1"

The programs and policies of recent years have brought us these gains, coupled with lower Federal taxes, and, until last year, almost negligible price increases.

In 1962, the 7 percent investment tax credit and accelerated depreciation reduced tax liability $1.3 billion. This was followed in 1964 by the general tax reduction bill totaling $16.9 billion. In 1965, excise tax legislation authorized further decreases amounting to nearly $3.4 billion.

As a result, Americans are paying about $22½ billion less in Federal taxes than they were 5 years ago. Our Federal Government, in fact, collects a smaller percentage of GNP than does Britain, France, or West Germany.

In this light, a surtax increase which would temporarily reclaim 1 percent of income would not appear to be a monumental sacrifice on the part of any individual or corporation.

CURRENT DIFFICULTY

This year, for many reasons, some of which I have described, and which are generally familiar, the country is in trouble.

Our national accounts are out of balance, and a small tax increase is being called for by the best and I think most learned minds on fiscal and monetary problems here and abroad.

Can anyone stand up in the face of these figures and argue that the tax bill is not a necessity or that we cannot afford it?

NATURAL RESISTANCE TO TAXATION

I suppose that the answer to that question is "Yes," because we can always find someone in this country to make an argument against taxes.

The Englishman, Samuel Johnson, advised his countrymen in 1775 along these lines, as follows:

"We are soon told that the Americans, however, wealthy, cannot be taxed; that they are descendants of men who left all for liberty, and that they have constantly preserved the principles and stubbornness of their progenitors; that they are too obstinate for persuasion, and too powerful for constraint; that they will laugh at argument, and defeat violence; that the continent of North America contains three millions, not of men merely, but of Whigs . . . fierce for liberty, and disdainful of dominion; that they multiply with the fecundity of their own rattlesnakes, so that every quarter of a century doubles their number. . . ."

THE IMPASSE

I suppose that there are elements of this American psychology, along with the complex and frustrating problems of policy, which have brought us to the impasse that we now face in the tax proposal. In my view, this paralysis of our governmental process is the worst aspect of the situation.

What can we do to resolve this impasse? I suggest that the hard issues of policy underlying the present debate will not be settled by the end of this year, or the end of next year, or by waiting a year. They go deep into the marrow of the bones of our society.

Perhaps another voice, raised nearly 200 years ago can give us some assistance in this regard. In an atmosphere full of similar vexations, Edmund Burke urged upon Parliament a spirit of conciliation. He said:

"The proposition is peace. Not peace through the medium of war; not peace to be hunted through the labyrinth of intricate and endless negotiations, not peace to arise out of universal discord . . . not peace to depend on the juridical determination of perplexing questions, or the precise marking of the shadowy boundaries of a complex government. It is simple peace . . . sought in the spirit of peace. . . ."

LET THE PROCESS CONTINUE

What is most needed today, I feel, is what Burke counseled then. Let us regain our calmness and keep our cool, so that we can put our marvelously devised constitutional institutions back on the right track.

Let us face the immediate problem of the deficit and pull together to resolve it for the good of the country. Then we can fight it out on the underlying policies on other days through the traditional budget and appropriations processes, and even political processes, which are admirably suited to such combat.

In this endeavor, we will welcome the thoughts and contributions of our colleagues in the House committees, in the leadership, and on the House floor. It may be that we in the Senate can be of some help in this matter.

A THOUGHT ON REDUCING SPENDING

Recognizing the abiding concern for the health of our economy which both Houses of the Congress share, I would like to suggest what I believe to be one of several possible ways of dealing with our current dilemma.

I feel that, to some extent, Congress may be painting itself into a corner if it insists that a $5 to $7 billion decrease in spending be a precondition for considering a tax increase.

We have, as we have seen, both the authority to increase taxes and to control appropriations. The Constitution grants these powers to us—to the Congress.

Because we have these powers, why cannot we use them in combination? Why cannot we enact in one bill an effective formula for raising the surtax, while at the same time holding down spending?

I believe we can.

As a practical matter, we know that the tax bill—if we pass a tax bill—will be the last major legislation acted upon by Congress during this session. At that time every appropriation bill will have been cleared through Congress.

I would, therefore, propose that the House Ways and Means Committee resume consideration of the tax bill—to deliberate how much of a surtax increase should be imposed, when it might be effective, and to whom it should apply.

Then, in the same bill, language could be provided which directs the Secretary of the Treasury to place in escrow approximately 3 or 4 percent, or whatever would be the wisdom of the committee, of each and every appropriation which we have passed for fiscal 1968.

The purpose of that set-aside would be to create a reserve of $5 to $7 billion, a fund which could perhaps be called an "economic reserve fund"—as in fact, at least one well-known economist, Dr. Pierre Rinfret, has suggested in his latest advisory letter.

There would be strict limitations attached to the spending of any of the moneys in the fund. The President would be authorized to draw on the fund only when he concludes that an expenditure of all or a part of the fund is in the urgent national interest. An additional condition would be strict notification to the Congress and its committees whenever such expenditures are made, in keeping with article I, section 9 of the Constitution.

In brief, Congress would not give up any of its constitutional powers of the purse. Yet, at the same time, Congress might be able to achieve a $5 to $7 billion economy on the expenditure side.

The addition of such language to a tax bill, I am assured by the renowned Parliamentarian of the Senate, would not be inappropriate.

Such a provision would place squarely on the shoulders of the President the responsibility for holding or spending the escrowed funds and would make crystal clear the stated intention of Congress to hold the spending line.

The 3-percent set-aside would be intended to apply across the appropriations board in an entirely impartial way, without having the bruden fall disproportionately upon any one special project or agency of the Government.

In any case, I submit that it is possible for Congress in one legislative package to provide the means for both enacting a surtax and at the same time limiting expenditures further, if they wish to do it. In the meantime, we will be giving additional thought to other alternatives.

Mr. President, we know well that all legislation involves compromise, and that when a legislative impasse, such as the one in which we now find ourselves occurs, conciliation and compromise become the essential bridges across our varying points of view to constructive action.

We are at a time when the well-being of our country calls upon us to erect such bridges.

Clearly, the economic hurricane warning flags are flying. The Economic Weather Bureau tells us the eye of the storm is headed directly at the United States. The winds could be devastating. In our own interest and the interest of the free world, we must act—and we must act now—to keep the process going.

Mr. BYRD of Virginia. Mr. President, will the distinguished Senator yield?

Mr. SMATHERS. I am glad to yield.

Mr. BYRD of Virginia. Mr. President, I believe that the Senator from Florida has made a very able presentation of one of the dominant problems facing our Nation. Along with Vietnam, the other major problem, as I see it, is our fiscal situation.

While I have not made the decision that the Senator has made in regard to the President's tax proposal, I have not yet made a decision one way or the other on it. I will be influenced by the recommendation that will be made by the Committee on Finance, of which the Senator from Florida is a distinguished member.

I will be influenced, too, by whether the executive branch of Government makes a determined effort to curb Federal spending.

I believe that the speech of the Senator from Florida today will make an important contribution to the discussion which is taking place at both ends of the Capitol with respect to taxes and spending.

As I listened to the speech of the able Senator from Florida, it occurred to me that he was focusing attention on and dramatizing not only the question of taxes, but also—and more important—the question of total government spending, which, as he has pointed out, is not solely the responsibility of the President, not do I believe it is solely the responsibility of Congress.

We have a joint responsibility.

We cannot attempt to pass the buck, so to speak, to the President. We in the legislative branch have a responsibility, because only we can appropriate. However, I believe the President, himself, has a responsibility, because he has the great power of the Presidency, and his responsibility is to submit a sensible budget. In my opinion, we have a joint responsibility—the executive branch and the legislative branch.

The Senator from Florida mentioned—I believe I recall correctly—that even if there were a tax increase, there is no assurance that we would not need a series of tax increases, if the overall spending programs of the Government are not brought under control.

As I see it, that is what the distinguished chairman of the ways and Means Committee in the House, Representative MILLS, said the other day I quote one sentence of his statement:

"We are trying to get this message across. We want to pause in this headlong rush toward ever bigger government."

If we are to pause in this headlong rush toward even bigger government, Congress itself—the Members of the House and the Members of the Senate—must face its responsibility in trying to keep the budget under control; and the President of the United States, whoever he may be, must exercise his responsibility of not submitting such tremendous programs to Congress.

As I recall the remarks of the Senator from Florida, he mentioned that the House, in handling 14 of the 15 appropriation bills, has reduced the President's budget by $3.8 billion.

Mr. SMATHERS. The Senator is correct.

Mr BYRD of Virginia. And the Senate has six additional bills to handle.

Mr. SMATHERS. The Senator is correct.

Mr. BYRD of Virginia. I thank the distinguished Senator from Florida.

Mr. SMATHERS. I thank the distinguished senior Senator from Virginia very much for his generous remarks. If I had time, I would compliment him further on his great belief in fiscal and monetary responsibility and for the many actions he has taken, as a Member of Congress, to bring about a sound fiscal program for our Government. I do appreciate the generosity of his remarks.

STATEMENT PREPARED FOR DELIVERY TO THE SENATE BY SENATOR GEORGE SMATHERS ON NOVEMBER 27, 1967, BUT NOT DELIVERED AT THAT TIME

THE PROPOSED SURTAX—II

In some remarks delivered on October 10, I undertook a review of the reasons which lead me to the belief that a tax increase this year was necessary and that Congress should couple such a measure with reductions on spending, if we were to retain control of our economy. At that time I appraised the reasons favoring a continuing Congressional and public discussion of these questions, which I felt were compelling.

In the intervening seven weeks, there have been several major developments. In the wake of several increases in the official discount rate,[1] the United Kingdom announced on November 18 that the pound sterling was to be devalued by 14.3%, and that it would seek $3 billion in foreign loans to bolster its financial condition.[2]

Shortly thereafter, the President indicated his willingness to have a cut in expenditures simultaneous with his tax bill, in a manner similar to the suggestion which I previously made.[3]

At the same time, Representative Wilbur Mills, Chairman of the House Committee on Ways and Means, announced that he would reconvene the Committee in order to review consideration of the President's surtax legislation.[4]

I heartily approve of the action of Chairman Mills and congratulate him on his decision to resume these hearings.

Although the merits of the surtax proposal have been heard before during the past few months, I feel it would be useful now to take a fresh look at the subject. The basis for this judgment is an over-riding feeling that, because of the international developments crowding the headlines, everyone is listening.

I believe that the people of this country realize that the coming economic debate will be critically important. It seems to me, therefore, that continued Congressional consideration of the surtax proposal is not only imperative, but that nearly all of our people are curious about it, many want the discussion to go forward, and a substantial number are eager to follow the drama as it unfolds.

The final shape of legislation woulld be difficult to predict at this time. Whether a surtax is enacted, its size and timing, whether it will be accompanied by spending reductions, and of what type, is not yet clear.

There are matters involved upon which reasonable men can differ. There are dangers in managing our domestic economy with regard to international balance of payments considerations—and there are comparable dangers in not so managing it. There are arguments, on the grounds of economic facts and philosophy, and on grounds of political advantage, that can be made against a surtax, as well as for it. There are a host of predictions as to how the economy will fare during 1968, not all of which are consistent.

However, I believe that the place for these arguments, doubts, misgivings, and prognostications to be presented, and the forum for reconciling the difference of opinion, is the Congress of the United States, as the Constitution provides.

In our system, the Congress, and particularly the House of Representatives, as the most direct representatives of the people, had the duty of debating tax and spending questions, coming to responsible conclusions, and originating any legislation which it finds appropriate. The Ways and Means Committee hearings are therefore altogether healthy. They will let in light and air, and will aid in building proper and current foundation upon which the House and the Senate can make sound and balanced judgments on tax and spending policies.

There are several considerations which I believe provide serviceable points of reference. Any legislative decisions must be based upon some estimate of economic performance in the months ahead. One widely distributed forecast is as follows: [5]

"The economy is expected to grow vigorously through 1968 . . . further inflation and renewed strains in financial markets appear to be the two major economic problems next year. Corporate profits may be restrained somewhat by rising costs and higher taxes, but an atmosphere of inflation will probably allow a considerable number of offsetting price increases."

The background to this decision is, in my opinion, unprecedented prosperity which the citizens of this country have enjoyed over the past 81 months. This is a record of economic success unequaled in this country or any other over the past century, and as far back as economic records will permit any of the experts to go. In general, our national economy and national product has grown by about half—an astounding performance. I touched on the detailed statistics in my previous remarks.[6]

One factor, and perhaps the deciding factor in keeping these advances going, has been the newfound ability, and the willingness, of the Federal Government to use tax and budget policies to maintain this expansion, to decrease unemployment, while at the same time keeping prices reasonably level. I enumerated the three major pieces of tax legislation and additional administrative actions in the field of taxation which, since 1962, have resulted in a total tax reduction of $22½ billion annually.

Subsequently, figures have become available which illustrate the remarkable stability in consumer prices which the people of this country have enjoyed over the past six years. The Table that follows shows that consumer prices in the United States increased only about one-half as much as in most of the other industrialized nations during this period. Some countries, as Italy and Japan, have seen their prices climb three and four times as fast as the U.S. rate.

Consumer price increases—First quarter, 1961 to second quarter, 1967

	Percent
United States	11.2
Germany	19.4
France	23.9
United Kingdom	24.9
Italy	32.3
Japan	41.8

Source: Weekly Compilation of Presidents Documents, October 16, 1967, Page 1435–6.

It is also worth noting that, during other recent periods of armed hostility, the U.S. consumer price index has risen two and three times as fast as it has during the past two years.[7] These are things to be thankful for.

All in all, our government has done a fine job with the economy and nearly every American has derived substantial personal and family benefits.

Another fixed point in this situation is the deficit in our national income accounts, and the effects that this is having on money markets which support our economy.

When it became apparent that the Federal Government would have to borrow an extraordinary amount of money in 1967 and 1968, interest rates began a steep, upward climb. A warning was sounded at the White House on October 6 about these movements.[8]

Subsequently, the federal, state and local government found it increasingly difficult to find customers for their long-term bonds.[9]

In the past two months, the financial pages have also been full of reports of records set by interest rates for corporate bonds in all ranges.[10]

The *London Economist* magazine quoted an American bond dealer's observation that the bond market was becoming a "chamber of horrors," and stated that the question of "whether interest yields on corporate debentures are merely the highest in about 45 years or the highest in about a century . . . depends on whether you consider the bonds of the early 1920's or those issued shortly after the civil war more 'comparable' to those coming out today." [11]

Certain Treasury officials have gone so far as to suggest that, in the absence of some tax action, these money markets could become unmanageable.[12]

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[1] "Second Time In Month, Discount Rate Hiked in Britain To 6.5%." *Journal of Commerce*, November 10, 1967. The rate was subsequently raised to 8%.

[2] *Washington Post*, November 19, 1967. Page One, Right Lead.

[3] "LBJ Set To Cut Spending To Win Tax Bill Passage", *Washington Post*, November 21, 1967, Page One, Right Lead.

[4] Address of Congressman Wilbur Mills at a Convention of the Arkansas Farm Bureau, delivered November 20, 1967, at the Arlington Hotel in Hot Springs, Arkansas.

[5] "Guide to Investors, Business and Investment Outlook" Merrill-Lynch, Pierce, Fenner & Smith, Inc., Securities Research Division, Winter 1967.

[6] "The Proposed Tax Increase", October 10, 1967, *Daily Congressional Record*, Page S. 14534 at 14536.

[7] "From July 1965 to July 1967, the CPI rose 5.7%; In the first two years of the Korean War (1950–1952) the Index rose 11.3%; In the first two years of World War II the Index rose 19.8%." *Weekly Compilation*, October 12, 1967, Page 1435.

[8] The following survey of interest rates was set forth in the text of President Johnson's remarks to officials of the Savings and Loans System, delivered October 6, 1967; Reprinted in the *New York Times*, October 7, 1967, Page 12:5:

Three-Month Treasury Bills had risen from 1967 low of 3.33% to 4.52%

Six-Month Treasury Bills rose from 3.71% to 5.06%

Twelve-Month Treasury Bills increased from 3.80% to 5.15%

One-Year Federal Agency Paper was up from 4.53% to 5.60%

AA Corporate Bonds rose from 5.22% to 6.33%

New Municipal Bonds increased from 3.40% to 4.19%

[9] Government Finds It Harder To Obtain Long-Term Loans" *Washington Post*, October 26, 1967, Page K–7:1.

[10] "One Triple-A Bond issue recently offered at 6.10% was reported only one-quarter sold. Public and Wall Street brace for tight money." *Washington Post*, October 15, 1967, Page G–1:1.

In Canada a prime debenture was offered at 7.65% "Fading Tax Hike Change Hurts Bond, Money-Market", Washington Post, October 18, 1967, Page D–8:1.

A Double-A bond reached the market at 6.44% "Northern States $30 million offering of bonds sold out—First Bostonian Life Group wins issue, reoffers it to yield 6.44%, top return in 100 years." *Wall Street Journal*, October 19, 1967, Page 27–2.

[11] *The Economist*, October 14, 1967, Page 219, "American Bond Market—Chamber of Horrors."

[12] "Tax Action Need Cited By Deming," *Washington Post*, October 20, 1967, Page D–8:4.

Of course, these rates are being transmitted to the housing market, which is the largest user of credit of any user in this country, and they are causing increasing consternation. About 95% of the homes which Americans buy require the use of mortgages, with the average amount of credit approaching $19,000, which represents about 88% of the average purchase price.[13]

Thus, it is easy to understand why high interest rates and the flow of funds away from the housing loans to other higher yielding investments have sharp and immediate effects upon home building and buying.

The housing market was in a depressed condition at the end of 1966, with family and multiple residential housing starts for that year, according to the National Association of Home Builders, at a level of 1,196,000, the lowest figure in ten years. This constitutes a shortfall of about 25%, and creates a backlog of unsatisfied housing demand which has ominous implications for the future. The prediction for 1967 is about the same.

These forces are felt throughout the economy, and, of course, small business tends to be the last in line for credit and thus is left at the window when credit becomes unavailable.

Although the consequences of these financial developments are uneven at first, the ultimate long-term result is that they are passed along to our citizens in terms of higher prices for houses, higher rents, higher costs for groceries, clothing, appliances, transportation and recreation. Last but not least, they result in higher taxes to pay for the bond issues to finance the increases in the national debt which will inevitably occur in the absence of a tax bill.

The sum of all these increases is called inflation. The experts estimate that, without a tax increase, we will experience 4 to 5% inflation in 1968, and perhaps *more* than that in 1969. With a tax increase, the expectations are for a modest 2.5% increase in price levels in 1968, and perhaps a bit *less* than that in 1969.

To me this kind of erosion of purchasing power seems completely unacceptable, and I think most people would agree. It thus appears that one of the biggest jobs facing the Congress is to educate the American citizen as to what the increased inflation will do to him and the nation if fiscal action is not taken. The President has called inflation, "the cruelest tax of all." [14]

However, that is just a name for inflation. What must be done is bring into every American home the realization that the cost of inaction on financial policy, through inflation, will effect the family day by day and week by week throughout the year, and will be much greater than the cost of a surtax which the man of the house has to compute once a year when he files his return.

A surtax would affect only those who have enjoyed the previous tax reductions and can afford to pay. It affects all tax payers evenly and equitably, to the extent of 1% to 1.3% of their incomes. Hopefully, it is quite temporary, and will soon be lifted—the record of the past five years demonstrates that our government is just as ready, if not more ready, to reduce taxes when this can be done. In contrast, inflation would affect every person in the country, and its ravages would be disproportionately great for those who can least afford them.

[13] Report of the Board of Governors of the Federal Reserve System presented to the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking and Currency, May 8, 1967, and Reprinted, *"Federal Reserve Bulletin,"* May 1967, at Page 728, under the title, "Monetary Policy and the Residential Mortgage Loan."

[14] Excerpts from transcript of the President's Statement at an impromptu news conference, October 5, 1967, as reported in the *Washington Post,* October 6, 1967, Page A–10.

These are the factors which I see on the domestic side of the ledger. However, there are also pressing international developments. Necessity requires us to examine closely the inter-action between our economy and happenings elsewhere in the world.

There is no doubt that our foreign policies, and their cost, are a major determinent of government and private financial decisions in this country. Most prominent for the past two years has been the involvement of this country in Vietnam, which will cost somewhere between 20 and 30 billion dollars during 1967. However, even if the battlefronts in Southeast Asia were quiet, our budget would still have to take into account many delicate international situations, such as the Middle East, Cyprus, and poverty and unrest throughout the less-developed countries. These situations develop, and problems arise. Our ability to respond to the continuing challenges of world events depends directly upon the strength of our economy and the international strength of the dollar.

In recent days, there has been considerable talk about gold and the dollar and the relationship between the two. The avowed purpose of the devaluation is to make British exports less expensive and more saleable, and make imports into the United Kingdom relatively more expensive. Our exports are thus affected in Britain, in other countries which have devalued, and in still more trade areas which can buy merchandise either from the United States or the devaluing countries.

Accordingly, the United States must do everything it can do to become more competitive in world markets. As I have indicated on several occasions, we are attempting to do something about this in our Small Business Committee and elsewhere.[15] The judgment of all of the authorities is that inflation at home will cripple these efforts to expand exports and materially worsen our balance of payments.

Following the British devaluation, there was a "gold rush" in several European financial centers, with certain persons and governments trading their dollars for gold bullion. This exchange at one point reached a volume of about fifteen times that of an ordinary day.[16] Yet, I do not believe that the trading was as intensive as it was several years ago when the price of gold reached $40 an ounce, and there is little likelihood that it will.[17]

It has been a consistent policy of the U.S. Government to avoid monetary actions which would reward those who hoard gold and speculate that it will rise in value. There are already some signs that the gold crisis will run its course.[18] Accordingly, we should take care in this country not to do unwittingly what we would not do under any circumstances deliberately. And, inaction in fiscal policy would have the effect of such a policy-by-default in this matter. It means that the U.S. Government will be required to borrow and go more deeply into debt to pay the bills, which should be met currently with tax money.

This is not a conservative course of action and it is not a sound course of action. I feel it would be doubly unsound because of the psychological impact it would have in money markets abroad, and the implications of irresponsibility which might be drawn from it.

It is elementary learning that gold is sought because it is a stable source of value.

Whether the dollar will continue to be as good as gold, and will retain its stable value depends entirely on the wisdom with which the American Government manages our economy.

However, the ramifications of our decisions also will be felt far beyond our shores. The delegates to the recent GATT Conference in Geneva expressed uncertainties about whether these international developments will upset world trade.[19]

Many countries which hold dollars as part of their international reserves are intimately affected by the decisions which fall to us in this country to make. The financial authorities throughout the world are well aware that international commerce and the international monetary system which affects most countries in the world rely upon the proper application of tax and spending policies in the United States.

In recent days, there has been a discussion of the role of other countries in relation to the dollar. I think that it would be a mistake to be overly sanguine about possible help from other countries which might be unable or unwilling to be of assistance during a time of need. On the contrary, it is just at such times when we will be most on our own, and things will be most difficult for us in attempts to keep our financial house in order.

In summary, I believe that there are two essential points which Congress and the public should keep in mind. Domestically, there is a clear choice between accepting a temporary surtax increase and other spending measures on the one hand, and abandoning the field to a more costly inflation on the other. Internationally, our country has an equally clear choice between responsible action and continued financial strength, or lack of action which will bring a creeping weakness, which could be changed quickly into a galloping panic.

It boils down to a choice between two undesirable alternatives: The first is a surtax increase—which will be *limited* to about 1%, and will very probably be temporary. The second is inflation—which is by nature *unlimited,* which will start out in the next year by being twice as damaging, and will be permanent in its corrosive effects on many of our population and upon the country's position in the world.

Admittedly, it is a sophisticated thing to make a decision among undesirable choices. It takes a great deal of economic and personal maturity to do this. It is a little like trying to make a decision to go to the dentist to have an infected tooth extracted at a time before the pain has become unbearable.

If the country is to maintain its economic health, I feel that this is one of those hard decisions that our citizens are going to have to make.

Taken together, the action of the Congress and the American people in this matter will, in my opinion, be a test of our resolve, and of our system of government equal in severity and significance to the "Great Depression" and the "Cold War."

[15] See "Appointment of a Secretary of Commerce", remarks, *Daily Congressional Record,* May 23, 1967, Page S7247; "Further Action in the Export Field Pursuant to Small Business Committee Hearings", remarks, *Daily Congressional Record,* September 14, 1967, Page 13007; "Proposed Legislation to Liberalize Sub-Part G of the Internal Revenue Code", remarks, *Daily Congressional Record,* October 24, 1967, Page 15168.

[16] "Heavy European Gold Demand Follows Pound Devaluation", *Washington Post,* November 23, 1967, Page L–8:1; "Gold Purchases at Record Again," *New York Times,* November 25, 1967, page 1:2; "Paris Gold Buying Sets Frenzied Peak," *Washington Post,* November 25, 1967, page 6:4.

[17] "U.S. Stands Firm on Price of Gold; Stresses Supply," *New York Times,* November 25, 1967, page 1:1; "U.S. Economic 'Cool' Will Be Aid to Britain," by Hobart Rowen, *Washington Post,* November 26, 1967, page F1:1.

[18] "Economist Sees Gold Crisis Settling Down In A Few Months" by Professor Paul A. Samuelson, *Washington Post,* November 27, 1967, Page D10:1; "Gold Rush Subsiding As Dollar Holds Firm," by Frank C. Porter, *Washington Post,* November 28, 1967, page A8:1.

[19] "Experts Fear Gold Run Will Upset World Trade," *Washington Post,* November 24, 1967, Page A–25:1.

In the debate which will follow, I hope that the press, radio, and T.V. remain conscious of the responsibilities which they bear if democracy is to endure in this country in times of stress. I believe that our people wish to understand the choices with which they are presented and need to know the consequences of alternative courses of action and inaction. The media have a vital role, in going beyond the personalities and the maneuvers, and bringing before the public the substance of the arguments. This may require research and analysis in order that matters emerge in their proper perspective. But this will be a historic test of our system of economic management and of our democratic government. We will be depending upon the quality of the reports and interpretations which the media will place in the hands of our people—and will be depending upon the good sense and increasing economic maturity of our people once they have this information.

I welcome the reopening of this debate by the Committee on Ways and Means. I hope that the suggestions I have made will be found to be helpful in some quarters, and that I will be able to contribute further as this matter progresses through the Congress.

AMENDMENT NO. 665

Mr. SMATHERS. Now, Mr. President, I wish to add one more thing.

I send to the desk a proposed amendment, in my own behalf, and ask that it be printed and lie on the table.

I have discussed this proposal with the Senator from Delaware. This is merely an amendment which involves a straight 10-percent surtax.

The PRESIDING OFFICER. The amendment will be received and printed, and will lie on the table.

Mr. LAUSCHE. Mr. President, will the Senator yield for a question?

Mr. SMATHERS. Let me finish one statement, and I will be happy to yield.

The reason I submit this particular amend is that I would like my fellow Senators to know that those of them who have said to me: "I am concerned about voting for a package of this nature because the $6 billion of expenditure reductions might affect my favorite program," will be afforded an opportunity to vote on a straight 10-percent surcharge, which will raise about $10 billion.

In other words, this is to inform Senators that, if this package does not prevail, they will still have the opportunity to vote for a straight 10-percent tax increase.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. SMATHERS. I am happy to yield.

Mr. LAUSCHE. Does the amendment which the Senator has offered cover both the surtax proposal and a reduction in expenditures?

Mr. SMATHERS. No. This particular amendment, which I am submitting by myself, is only a fallback amendment, so to speak. In the event that the package the Senator from Delaware and I have offered does not prevail, then I am seriously considering calling up this amendment for just the straight 10-percent surcharge.

Mr. LAUSCHE. Have the Senator from Delaware and the Senator from Florida offered an amendment containing both a surtax and a cut in expenditures?

Mr. SMATHERS. Yes. We offered such an amendment Friday. It calls for the 10-percent surtax, a $10 billion reduction in obligations, and a $6 billion reduction in expenditures in fiscal 1969.

We have put together a package which would increase taxes on the one hand and cut expenditures on the other.

Mr. LAUSCHE. Mr. President, who are the sponsors of the proposal?

Mr. SMATHERS. The Senator from Delaware and I.

Mr. LAUSCHE. Mr. President, will the Senator from Delaware and the Senator from Florida allow me to join with them in sponsoring this measure?

Mr. WILLIAMS of Delaware. We would be pleased to have the Senator from Ohio join with us.

Mr. SMATHERS. We would be pleased and honored to have the Senator join with us in this measure.

Mr. LAUSCHE. Mr. President, I ask unanimous consent that my name be added as a cosponsor of this measure.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS of Delaware. Mr. President, I join with the Senator from Florida in appealing to the Senate to give serious consideration to the package bill which the Senator from Florida has just outlined and which we propose to introduce as a substitute for the pending measure.

In the absence of any action whatever in the direction of reducing expenditures or increasing taxes we are confronted in the fiscal year, ending June 30, 1968, with a deficit ranging between $20 billion and $22 billion.

The estimated deficit for fiscal 1969 in the absence of any action to raise taxes or reduce expenditures is $28.3 billion. That would mean a total deficit in a 2-year period of approximately $50 billion.

I think it would be the height of fiscal irresponsibility if Congress were to refuse to face up to the basic question of reducing this deficit and thereby controlling the inflation, which is already getting out of hand and which unquestionably would spiral even higher if we were not to take any action.

Inflation hurts worst those who can afford it the least. The people in my State and the people in the State of Florida who are living on retirement pensions are the ones who are penalized the most by inflation.

There are many retired citizens in my State and the State of Florida who realize that to reduce the purchasing power of the dollar is to pauperize gradually the aged of this Nation.

We have no choice but to protect the purchasing power of the dollars received in the form of pensions, social security benefits, and payments from life insurance policies that have been built up over the years by thrifty people who have tried to save.

The alternate to taking some action—and it is a hard action to take, as the Senator from Florida has pointed out, because it is not popular to advocate reduced spending and higher taxes—is the continuation of this inflation, an acceleration of the interest rates which are today already at the highest levels of the past 100 years, and the ultimate devaluation of the American dollar.

We should not overlook the fact that if Congress does not face up to this matter and exercise some fiscal restraint we shall ultimately be confronted with the necessity of price and wage control in this country. I would hate to see that day arrive.

For that reason, I join with the Senator from Florida in appealing to the Senate to support this measure which is a bipartisan approach to the solution of the fiscal problem. I have the feeling that the House will accept this measure if it embraces a package to reduce the expenditures of the Government on a realistic basis and at the same time provide for the additional revenue we must have in order to finance not only the cost of the war but also the overall cost of our Government operation today.

I shall have more to say on this subject tomorrow; however, at the moment our amendment would not be in order until after we have disposed of the remaining committee amendment.

I hope we can get a vote on the amendment in the Senate tomorrow. The bill must be acted on before the end of this week.

I am glad to note that the Senator from Florida has served notice on the Senate that if this package bill is rejected he will offer his tax increase although, as he has pointed out, while I am cosponsoring and strongly supporting the proposal that we combine a reduction of expenditures along with a tax increase I would not support the tax increase alone. My own personal feeling is that an increase in taxes alone is not facing up to the basic question. Failure to control expenditures prior to a tax increase would merely pour more money into the spending programs. I am fearful that we would not accomplish anything by taking the latter course.

Regardless of the position that I as well as others may have, Congress should face up to the issue before we complete action on the pending bill. Senators are now on notice that there will be a series of rollcall votes and that we shall be able to announce not only to our own constituents but also to these foreign central banks exactly what position the Congress and the administration is going to take on fiscal restraint.

This is our hour of decision.

Mr. HARTKE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. HARTKE. Mr. President, would the Senator from Delaware or the Senator from Florida inform the Senate as to the position the administration is taking—whether it is in favor of or opposed to the proposal or taking no position on it?

Mr. WILLIAMS of Delaware. Mr. President, the speeches which the Secretary of the Treasury has made publicly have been in favor of the principles of the amendment. The speeches which the President of the United States has been making, including those which he made last week, likewise endorse the principles of the amendment. As to whether or not, when the chips are down, they will endorse this amendment, the Senator from Indiana is a member of this administration, and I would suggest that he is in a

better position to get the answer. Thus far I have been unable to get it.

Mr. HARTKE. The Senator from Delaware does not have an opinion from the Secretary of the Treasury on this matter as of this moment?

Mr. WILLIAMS of Delaware. I expect that the Senator from Indiana can get an answer to the question of whether the administration will endorse this package easier than I can. However, the President of the United States, speaking last week in Texas and again in the Midwest, made many statements to the effect that he supported fiscal restraint and control in the spending.

This amendment merely carries out the objective that the President said he wanted to achieve. Therefore, as one who is basically an optimist and always likes to be optimistic, I am proceeding on the premise that we have the strong support of the administration for our combined expenditure reduction and tax increase proposal unless they say otherwise.

Mr. HARTKE. Mr. President, I would think that under those circumstances, the normal procedure, as the manager of the bill knows, is that an amendment of this type should be sent to the Treasury Department with a request that they submit their best judgment on the amendment.

I hope that the manager of the bill, the distinguished Senator from Florida, can help us by giving some information on that matter.

Mr. WILLIAMS of Delaware. Mr. President, if the Senator will yield, I point out that the amendment has been submitted to them, and I have already placed in the RECORD the position of the Treasury Department.

The Treasury Department at that time took a position against the expenditure reduction proposal. However, since that time they have been making great speeches in favor of such a proposal. Time alone will tell on what side they will be tomorrow.

The Senator from Indiana has mentioned several times the indecision that exists in various quarters of his administration. However, whether the administration is for or against the proposal and whether the various Members of the Senate are for or against it will be determined when we vote. Let everybody stand up and be counted. Let the country know what position the Johnson administration will take.

I think that American business is experiencing difficulty in making its plans for operation in the coming year because of uncertainty as to whether there will or will not be a tax increase. Let Congress answer that question this week.

I hope that we will answer the question in the affirmative and taxes increased at the same time as we reduce spending in a realistic manner. If, however, Congress is not going to do that, then let the Senate answer the question by rollcall vote and reject the proposal. Then let the information go out to the country and to the international bankers as well, that neither the Senate nor the administration is going to face up to this problem of fiscal restraint.

Congress should answer the question, and as far as I am personally concerned, I am ready to answer it today or tomorrow. But the question will be answered, and every Senator will have an opportunity to cast his vote.

Surely the administration will back us with their support. However, time alone will tell whether their expressions of fiscal restraint are in earnest or whether they are just political propaganda.

Mr. HARTKE. I should like to ask the manager of the bill whether or not it is going to be the contention of those managing the bill and the Senators representing the committee—especially representing this amendment—that it will have the backing of Treasury Department or will be opposed by the Treasury Department?

Mr. WILLIAMS of Delaware. If the Senator will yield, I too should like to know, but I do not believe that is too important. I know the Members of the Senate well enough to know that they will form their own opinions without regard to what the administration says, and I am confident that the Senator from Indiana has his position firmly in mind, regardless of the position of the other Members of the Senate or of the administration.

However, if the Senator from Indiana is undecided and wants instructions as to how to vote I would suggest that he call the White House, and if he is unable to get the information I shall try to get the information as to how they want him to vote. If, however, the Senator really wants some good advice as to how to vote I will give it to him now: Support this package being offered by the Senator from Florida and myself wherein we reduce spending by $6 billion and then raise taxes by 10 percent.

Mr. HARTKE. Mr. President (Mr. SPONG in the chair), I have nothing but the highest respect for the opinions of the Senator from Delaware. I respect his judgment. I believe it is bad in this case, but I still respect it. I intend to do everything I can to make clear to the Senate that it is the wrong course.

I address my remarks to the manager of the bill. I believe it is important to make every effort to clarify the position of the administration, specifically the Secretary of the Treasury, so that the Members of the Senate are not misinformed as to the position of the administration. So I again ask the manager of the bill whether he has any information, any indication at this moment, as to whether the Secretary of the Treasury opposes this amendment, approves of this amendment, or voices no opinion on this amendment. One of those three forms is the customary response given to every amendment submitted by the Committee on Finance.

Mr. SMATHERS. In response to the Senator's question, I can say only two things: First, the distinguished Senator from Indiana heard, as did the other Senators, the testimony of the Secretary of the Treasury, the able Henry Fowler, when he appeared before the committee and was questioned with respect to this package.

If I recall correctly he said something like: "So far as I am concerned, it is my judgment that we need the 10-percent surcharge tax increase so urgently that I would be willing to do most anything or take most anything to get it."

Over and over, that was his testimony. Not exactly in those words, but that is pretty much the context of what he said.

Since then, I understand that, while he would prefer simply to have a 10-percent surcharge tax increase alone and leave to the Appropriations Committees of the House and Senate the opportunity to reduce expenditures, as they would decide to reduce them. Nevertheless, he still is of the opinion that if the tax increase is going to be coupled with an expenditure control, he would still like the package if it did not provide for more than a $5 billion expenditure limitation.

So it is my general feeling that the Secretary of the Treasury is not in favor of this particular package with the $6 billion expenditure cut because he feels that we are taking too big a bite into the expenditures of the Federal Government. It is my understanding he also believes that it is quite difficult to live with the provision in this measure with respect to the reduction in the number of personnel and the fact that only one job could be filled when four vacancies occurred.

So the answer to the Senator's question is that, so far as I know, the Secretary is not in favor of the specifics of this amendment.

Mr. HARTKE. Have the sponsors of this amendment submitted it to the Treasury Department for official comment?

Mr. SMATHERS. No.

Mr. HARTKE. Is it the intention of the sponsors of the amendment to submit it to the Treasury Department for comment?

Mr. WILLIAMS of Delaware. The substance of this amendment already has been submitted to the Department. I put their answer into the RECORD some time ago.

I can assure the Senator from Indiana, who always wants to be sure of the position of the administration before he casts his vote, that the administration is very much in favor of the extension of the excise taxes and very much in favor of the 10-percent increase in taxes. I do not believe they are too enthusiastic about the reduction in spending that we have in this package.

While I would disagree with that conclusion, myself, the Senator from Indiana, as one who apparently desires to support the administration, can vote for all the tax increases and against all spending cuts and can go home feeling sure he is supporting his administration, which I know he always desires to do.

Mr. SMATHERS. It is a pleasure for me to listen to a discussion between two good adherents to the policy of the administration—the Senator from Indiana and the Senator from Delaware.

Mr. HARTKE. I ask the manager of the bill, Is there any reason why the cosponsors of this proposal would hesitate to send it to the Treasury and ask them for their official comment? I would respectfully request that they do so, so that Senators will have the benefit of the

Treasury Department's decision and reasoning.

Mr. SMATHERS. We believe it is our responsibility, in Congress, to increase taxes. The administration cannot increase taxes. We can. We believe it is our responsibility to reduce appropriations. The administration cannot reduce appropriations. We can. So we do not believe there is any necessity to send the amendment to the administration for their comment, unless the Senator from Indiana wants it so that he will know how to be guided in his voting.

Mr. HARTKE. I would appreciate having it, and I believe we should follow the routine and the procedures followed by the Committee on Finance, in which we not only ask for their opinion but also ask for their testimony in regard to these items.

I respectfully suggest to the manager of the bill——

Mr. SMATHERS. Is the Senator from Indiana going to offer any amendments to the bill?

Mr. HARTKE. Yes.

Mr. SMATHERS. Has the Senator from Indiana sent them to the administration?

Mr. HARTKE. Yes.

Mr. SMATHERS. The Senator has already sent them?

Mr. HARTKE. Yes.

Mr. SMATHERS. Has the Senator received a response?

Mr. HARTKE. Sometimes I get a response and sometimes I do not. That is not my fault.

Mr. SMATHERS. The Senator is avoiding my question.

Mr. HARTKE. If the Senator does not want to know what the administration thinks about his amendment, that is all right with me.

Mr. SMATHERS. We are more concerned with what the Senator from Indiana thinks about it.

Mr. WILLIAMS of Delaware. This package in a somewhat different form was submitted to the administration on February 1, 1968. The bill was introduced on January 31. The only difference in this package and that bill is that we are now proposing a $6 billion reduction in spending, whereas I proposed $8 billion. The administration did reply. Their answer is a part of the Finance Committee hearings. If the Senator from Indiana will read the committee hearings, he will find the answer of the administration, because I put it in the record.

Mr. HARTKE. I understand that. I have read the hearings.

Mr. WILLIAMS of Delaware. If the Senator would like I can read it to him, but he can read it for himself.

Mr. HARTKE. I have read it, to make certain I knew what they said. I have read it, and it does not endorse this amendment as submitted.

I take it that it is the position of the present manager of the bill and the cosponsors of the amendment that the Secretary of the Treasury at this point does not endorse this proposal. Is that a fair statement?

Mr. SMATHERS. Yes.

Mr. HARTKE. In the event that the amendment proposed by the Senator from Florida and the Senator from Delaware is successful and it becomes law, is it anticipated that it would obviate the necessity for additional taxes this year, contrary to the testimony given by the Secretary of the Treasury, Mr. Fowler, in hearings before the committee; or is it the contention of the Senators that we first may be faced with an additional tax above the 10-percent surtax and, in addition, the possibility of wage and price controls, even if the 10-percent surtax is passed? Is that the hope for the future? Is that the death of America as a great power, and the end of the theology of hope?

Mr. SMATHERS. I am listening to those words, those beautiful phrases, but I am not quite sure I know what they mean. I am not sure whether anyone else does.

Mr. HARTKE. If the Senator from Florida wants me to clarify them, I will clarify them.

Mr. SMATHERS. The Senator has asked a question. I will answer it. The question was, Is this the end of America? I will tell the Senator what could be the end of America. The end of America could come if the American people do not have the self-discipline to face up to some of their own responsibilities at home and begin to tighten their belts and reduce the size of expenditures and begin to act in a more rational fashion. If that is not done, I believe it will be the end of America.

I think that is what we are trying to accomplish right now. I do not believe we can fight a war in Vietnam, with all the expenditures that are involved there, and at the same time take on gigantic, enormous commitments all over the world, and also have huge programs at home, even if we were that rich—and we are not. The moment we begin to understand that we do not have that kind of money, even though we are rich and powerful; the moment we begin to understand that, I think on that day we will begin to get stronger, because we will then start to preserve some of our substance. That is what we shall have to do.

Mr. HARTKE. Mr. President, will the Senator further yield?

Mr. SMATHERS. I yield.

Mr. HARTKE. The Senator from Florida understands, does he not, that the President, in a press conference last Saturday, said that we could do all those things.

Mr. SMATHERS. The Senator can state anything he wants to, but do not state it as coming from my mind or as my understanding. If he wants to speak his own views, he can do so on his own time.

Mr. HARTKE. Is it the contention of the Senator from Florida, in the event the amendment which he and the Senator from Delaware are cosponsoring, is not successful, and if the 10-percent surtax becomes law, that it will not be necessary to impose additional taxes on the American people this year?

Mr. WILLIAMS of Delaware. Can the Senator from Indiana with his great vision into the future and with his superintelligence, tell us exactly what will happen in Vietnam? I am sure that he could then give us the answers to his own questions.

Mr. SMATHERS. Why not tell us what will happen in the war on crime?

Mr. HARTKE. Let us assume that the war in Vietnam continues at the present rate, or that the amount of escalation which has been anticipated takes place, and that there will be no further crisis requiring additional taxes. Is it anticipated that there may be a request for additional taxes?

Mr. WILLIAMS of Delaware. I suggest that the Senator from Indiana seek an answer from a representative of his own administration. As a Senator in the minority I have difficulty in getting answers, and of times when I do get them I have difficulty in understanding what they are because the administration switches its views so often. But surely the Senator from Indiana, who as a supporter of the administration and as one who apparently does not want to vote until he finds out where the administration stands, can at least find out what they want to do. If perchance he finds out I would appreciate his telling the rest of us.

Mr. SMATHERS. We do not know what the future holds. There may have to be a request for additional taxes at some later date, depending on our further involvement in Southeast Asia. I do not know. I would hope not, as I am sure the Senator hopes not. Until we know what the future holds we have no way of telling what requests will be made of us. I am sure the Senator knows that.

Mr. HARTKE. I wish to return to the matter of the excise tax and ask the distinguished Senator from Florida, as the present manager of the bill, whether we are going to have a substantial increase in sales, in a proportion higher than normal, this year.

Mr. SMATHERS. I have no way to know what the future holds.

Mr. HARTKE. Does the Senator from Florida, as manager of the bill, agree or disagree that the revenue figures which were given to us by the Treasury Department on the basis of the 10-percent excise tax would indicate we would have a banner year in car sales this year?

Mr. SMATHERS. I do not have any information on that matter.

Mr. HARTKE. I am sure the Senator from Florida, as manager of the bill, is acquainted with the statement——

Mr. SMATHERS. Maybe the Senator from Indiana can tell us. He seems to be in a better position. What does the future hold in the automobile field this year? Why does the Senator not tell us? I cannot tell the Senator.

Mr. HARTKE. If the Senator cannot tell us, he should not have inserted the budget estimate in the RECORD, and the Senator did insert it in the RECORD.

The Senator said we were going to have $1.5 billion to $2.66 billion additional revenues in fiscal 1969, and $309 million additional in 1968.

There is only one way to make that kind of statement.

Mr. SMATHERS. Those are budget figures.

Mr. HARTKE. The Senator does not stand by the budget figures.

Mr. SMATHERS. The Senator will see the letters "est" in parentheses, which means "estimate." That is what they

think might happen. That indication is in front of all of those figures. This means "I cannot swear to it; it is an estimate. It is an educated guess."

Mr. HARTKE. It is only fair to tell people that the Senator has two sets of figures. The Senate should be informed which figures were used in the estimate.

The Senator has a 7-percent tax on automobiles at manufacturers' prices. Is that correct?

Mr. SMATHERS. That is what the excise tax is.

Mr. HARTKE. The Senator is correct. It is a 7-percent tax on the average cost of automobiles at manufacturers' prices.

I am asking how many units were estimated to be in that figure which is included in the budget estimate. I think the Senate should know on budgeted receipts on automobiles how many units it is estimated will be included in this bill for the year 1968–69.

Mr. SMATHERS. We will supply those figures.

Mr. HARTKE. I hope the Senator does better than the Treasury. I am still waiting for the Treasury to supply them for the record.

Mr. SMATHERS. I have just been supplied the figures. The budget estimate is based on estimated manufacturers' sales in the calendar year 1968 of 9,250,000 cars. This assumes an average manufacturers' price of $2,500 per car and on the average means a tax of $175 per car. This includes estimated imports.

ADJOURNMENT UNTIL 10:30 A.M.

Mr. BYRD of West Virginia. Mr. President, if there is no further business to come before the Senate, I move, in accordance with the order previously entered, that the Senate stand in adjournment until 10:30 a.m. tomorrow.

The motion was agreed to; and (at 4 o'clock and 15 minutes p.m.) the Senate adjourned until tomorrow, Tuesday, March 26, 1968, at 10:30 a.m.

NOMINATIONS

Executive nominations received by the Senate, March 25, 1968:

SECRETARY OF THE DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Wilbur J. Cohen, of Michigan, to be Secretary of Health, Education, and Welfare.

DIPLOMATIC AND FOREIGN SERVICE

Frank E. McKinney, of Indiana, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to Spain.

Robert Sargent Shriver, Jr., of Illinois, to be Ambassador Extraordinary and Plenipotentiary of the United States of America to France.

INTER-AMERICAN DEVELOPMENT BANK

Edward Clark, of Texas, to be Executive Director of the Inter-American Development Bank for a term of 3 years and until his successor has been appointed.

HEMIS-FAIR COMMISSIONER

Edward Clark, of Texas, to be Commissioner for the Federal exhibit at Hemis-Fair 1968.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 25, 1968

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. CARLSON (for himself and Mr. TYDINGS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: At the end of the bill insert a new section as follows:

TAX EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS

SEC. —. (a) Section 501 of the Internal Revenue Code of 1954 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be

treated as an organization organized and operated exclusively for charitable purposes, if—

"(1) such organization is organized and operated exclusively to perform services—

"(A) of a type which, if performed on its own behalf by a hospital which is an organization described in subsection (c) (3) and exempt from taxation under subsection (a), would constitute an integral part of its exempt activities; and

"(B) solely for hospitals each of which is—

"(i) an organization described in subsection (c) (3) which is exempt from taxation under subsection (a),

"(ii) a constituent part of an organization described in subsection (c) (3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c) (3), or

"(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

"(2) such organization is organized and operated

on a cooperative basis and allocates or pays, within $8\frac{1}{2}$ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c) (3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503 (b) (5)."

(b) The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

Amdt. No. 664 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. CARLSON (for himself and Mr. TYDINGS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 25, 1968

Ordered to lie on the table and to be printed

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 25, 1968

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. SMATHERS to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: On page 2, after line 2, insert the following:

TITLE I—TEMPORARY INCOME TAX SURCHARGE

SEC. 101. IMPOSITION OF TAX SURCHARGE.

(a) IN GENERAL.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by adding at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition

to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

"Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) 10 percent of the adjusted tax for the taxable year, multiplied by

"(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of

paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) LOW INCOME EXEMPTION.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(1) $290, in the case of a joint return of a husband and wife under section 6013,

"(2) $220, in the case of an individual who is a head of household to whom section 1 (b) applies, or

"(3) $145, in the case of any other individual (other than an estate or trust).

"(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter (other than by this section, section 871 (a) or section 881) for such taxable year, reduced by any credit allowable for such year under section 37 (relating to retirement income) computed without regard to this section.

"(d) AUTHORITY TO PRESCRIBE COMPOSITE TAX

RATES AND TABLES.—The Secretary or his delegate may determine, and require the use of, composite tax rates incorporating the tax imposed by this section and prescribe regulations setting forth modified optional tax tables computed upon the basis of such composite rates. The composite rates so determined may be rounded to the nearest whole percentage point as determined under regulations prescribed by the Secretary or his delegate. If, pursuant to this subsection, the Secretary or his delegate prescribes regulations setting forth modified optional tax tables for a taxable year, then, notwithstanding section 144 (a), in the case of a taxpayer to whom a credit is allowable for such taxable year under section 37, the standard deduction may be elected regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the date of the enactment of this section—

"(1) in the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201 (a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201 (a) or subchapter L;

"(2) the term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654(d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after March 31, 1967, and beginning before April 1, 1968; and

"(3) the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if the tax imposed by this section were applicable to taxable years ending after December 31, 1966, and beginning before January 1, 1968.

"(f) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2) (relating to deduction with respect to dividends received on the preferred stock of a public utility),

"(2) section 247(a)(2) (relating to deduction with respect to certain dividends paid by a public utility), or

"(3) section 922(2) (relating to special deduction for Western Hemisphere trade corporations),

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(g) WITHHOLDING ON WAGES.—In the case of wages paid after March 31, 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402(a) or (c)(1)."

(b) MINIMUM DISTRIBUTIONS.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(2) TAXABLE YEARS BEGINNING IN 1963 AND 1968.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING IN ~~1965~~, ~~1966~~, 1967, AND AFTER DECEMBER 31, 1968.—".

(c) CLERICAL AMENDMENT.—The table of parts of

subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax surcharge."

(d) EFFECTIVE DATE.—The amendments made by this section shall apply—

(1) insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and

(2) insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

TITLE II—MISCELLANEOUS PROVISIONS

Renumber sections 2 through 7 of the bill as sections 201 through 206, respectively.

Amdt. No. 665 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. SMATHERS to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 25, 1968

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DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

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Issued March 27, 1968
For actions of March 26, 1968
90th-2nd; No. 50

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HIGHLIGHTS: Senate debated Hollings amendment to control textile imports. Senate debated Williams-Smathers-Lausche amendment to reduce Federal expenditures. Senate committee voted to report bills to extend Public Law 480, extend and expand food service programs for children (including breakfast program), and prohibit certain cotton imports. House committee voted to report food-for-peace and Kerr Memorial Arboretum bills. House Rules Committee cleared per-diem travel bill.

SENATE

1. TAXATION. Continued debate on H. R. 15414, the tax adjustment bill (pp. S3315-92). Agreed to, 51-32, a committee amendment to provide that interest on industrial development bonds, which has been excluded from gross income as interest on a State or local government bond, is to continue to be exempt from income tax unless otherwise provided by some future law (pp. S3315-39). Debated the Williams-Smathers-Lausche amendment to reduce Federal expenditures and provide

a surtax on income (pp. S3340-92). Debated an amendment to this amendment, by Sen. Hollings, to restrict textile imports (pp. S3370-78, S3380-90). Rejected, 33-59, an amendment by Sen. Long, La. (to the Williams-Smathers-Lausche amendment) to eliminate provisions that would provide several limitations on expenditures (p. S3359). Rejected, 35-52, an amendment by Sen. Proxmire (to the Williams-Smathers-Lausche amendment) to strike out the surtax provisions but retain the expenditure-limitation provisions (pp. S3359-69). Sen. Javits presented and discussed an amendment (for himself and Sens. Jordan of Idaho, Miller, and Percy) to establish a Commission on Federal Budget Priorities and Expenditure Policy (pp. S3378-80).

2. PUBLIC LAW 480; SCHOOL LUNCHES: COTTON IMPORTS: LAND TRANSFER. The Agriculture and Forestry Committee voted to report with amendments (but did not actually report) S. 2986, to extend Public Law 480 for 3 years; H. R. 15398, to extend and expand food service programs for school children with an amendment to extend the school breakfast program for 2 years; S. 1975, to prohibit importation of extra-long-staple cotton received from countries which have severed diplomatic relations with the U. S.; and H. R. 11527, to convey certain lands to the University of Maine. p. D247

3. RECLAMATION. Passed without amendment S. 3033, to increase the authorizations for continuing work on the Missouri Basin reclamation project. pp. S3295-6

4. WEATHER. The Commerce Committee reported without amendment S. Con. Res. 67, favoring U. S. cooperation in the world weather research and service program (S. Rept. 1020). pp. S3300-1

5. AGRICULTURAL EXPORTS. Sen. Percy stated "it is vital to our Nation's farmers and to the Nation...to preserve" the "surplus in agricultural exports," and inserted an article on the subject. pp. S3314-5

6. ELECTRIFICATION. Received from the Rural Electrification Administration "information of approval of a loan to the N. W. Electric Power Cooperative, Inc. of Cameron, Mo., for the financing of certain transmission facilities." p. S3298

Received from the Federal Power Commission a copy of two publications, "All Electric Homes, Annual Bills, 1967," and "Federal and State Commission Jurisdiction and Regulation of Electric, Gas, and Telephone Utilities, 1967." p. S3298

7. CREDIT UNIONS. Received from HEW a proposed bill "to amend the Federal Credit Union Act"; to Banking and Currency Committee. p. S3298

8. PURCHASING. Received a GAO report on "substantial savings available through use of formal advertising procedures in contracting for light bulbs and tubes, General Services Administration." p. S3298

9. VOCATIONAL REHABILITATION. Received from HEW a proposed bill to amend the Vocational Rehabilitation Act to extend the authorization of grants to States for rehabilitation services to broaden the scope of goods and services available under that act for the handicapped; to Labor and Public Welfare Committee. p. S3298

open, but we must expand them by easing barriers to trade.

Maintaining our favorable balance of trade and keeping world markets open for American goods depends on our keeping American markets open to foreign goods. If the United States now creates and maintains a system of barriers to trade, there is little question that our trading partners will retaliate and close their markets to us. America is fully capable of competing in world commerce. Our present trade surplus is ample testimony to our capabilities. America is capable of maintaining its leadership role in freeing world trade from restrictive barriers. The genius of the American free enterprise system has provided an example for the rest of the world to follow. We have nothing to fear from imports or from lowering barriers to trade; we have a great deal to lose from restricting imports.

A thoughtful article on this subject, written by the distinguished president of the Chicago Board of Trade, Henry M. Wilson, has recently come to my attention. It points out the importance of agricultural exports to our trade surplus and emphasizes the need to continue to reduce trade barriers to insure the continued growth of that surplus.

I ask unanimous consent that the article be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Journal of Commerce, Feb. 28, 1968]

"IMMENSE EXPORT POTENTIAL": TRADE GROWTH VITAL TO ECONOMY OF UNITED STATES

(By Henry H. Wilson, president, Chicago Board of Trade)

Probably to a greater extent than any other sector of the economy, United States agriculture is competing today in what has become a truly world market. And if U.S. agriculture is to continue to prosper, it is abundantly clear than it cannot do so in isolation.

A truckload of wheat coming off the farm in western Kansas can no longer be viewed primarily as grist for the Kansas City flour miller. With more than half of the United States wheat crop going overseas, its merchandisers must be equally concerned with how their prices and other trade terms stack up against Australian wheat, let us say, for delivery in Yokohama, Japan.

Similarly, soybean oil from a crushing facility in Decatur, Ill., is in intense worldwide competition with sunflower oil from the Soviet Union. If our soybean oil starts losing, then one must begin writing off the more than 40 per cent of United States soybean production that goes for export.

A national commitment to retention and expansion of these export markets is vital for many reasons—reasons that go far beyond the well-being of the United States farmer and farm-related industries.

Looking beyond the bedrock question of survival in the nuclear era perhaps the most imminent threat to the country's and the world's stability are the pressures on the dollar—and hence on the entire world monetary system.

FARM EXPORTS

Agriculture's role in keeping the dollar viable cannot be overstressed and must not be undercut. United States agricultural exports last year came to nearly $6 billion. The significance of that total is made clear when one considers that, without it, the over-all United States trade surplus of $4.3 billion for the year would have wasted away to a debit item. The over-all deficit in our balance of payments accounts would have risen to an unsustainable level of nearly $10 billion.

In large part because productivity advances on our farms have exceeded those in any other major sector of the economy over the past generation, United States agriculture is in the forefront in terms of the competitive advantages it enjoys relative to the rest of the world's major producing countries.

Yet this economic edge, and our very ability to export, soon could be imperiled by artificial regulators and restraints on trade.

MULTI-LANE HIGHWAY

World trade is a multi-lane highway. Impediments thrown up in one lane invariably impede traffic in the others. We recognize that a free flow of trade imposes hardships on some sectors of the economy and these industries and their workers are certainly entitled to special consideration.

The United States cannot, however, let temporary dislocations divert its focus from long-range national objectives, indeed exigencies. On balance, trade growth is vital to this nation's and the world's continued economic progress. We must strive to foster it—by pressing for elimination of foreign barriers to United States exports and by pulling down some of our own.

The potential for export expansion is immense—and it is a potential built on the most solid of all foundations: the competitive advantage that efficient United States farmers enjoy relative to foreign producers and a prospective, multifold growth in the world demand for grains, especially feed grains in Europe and Japan.

CORN EXPORTS RISE

Spreading prosperity in these nations is rapidly enriching their food tastes and most particularly their demand for meats. Annual U.S. corn exports for feed have already risen more than five-fold over the past decade to the 700 million bushel level.

Within the next decade, there is strong reason to believe that Europe's dietary demands will approach our own. And if that's the case, Europe alone could be in the corn market for more than three billion bushels yearly, equivalent to the United States feed demands for corn.

Economists on both sides of the Atlantic would agree that there are strong reasons for the United States to assume the role of Europe's primary feed supplier.

For one thing, this country can grow corn and soybeans at much lower cost. Equally important, the European Common Market is already confronted with a tight labor market, and by most estimates that squeeze promises to grow tighter in the years ahead.

Hence less efficient farmers could be much better utilized and better paid in more efficient European industries.

POLITICAL PRESSURES

As with the rest of the world, though, political pressures from the European farm are strong—and it is unrealistic to expect the EEC to ignore them. The variable levy system that the Common Market has set up for protecting its grain producers, and the lofty price targets it seeks to sustain, are clearly encouraging an inefficient allocation of European resources.

It is one thing to preach to our friends across the Atlantic and another thing to set a good example. We must work cooperatively with the EEC, and that means recognizing and letting down some anachronistic trade barriers that remain on this country's lawbooks. Only then can reciprocal trade be massively expanded, as it must be for this nation's and the world's well-being.

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

TAX ADJUSTMENT ACT OF 1968

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the unfinished business be laid before the Senate.

The PRESIDING OFFICER. Without objection, the Chair lays before the Senate the unfinished business, which will be stated.

The assistant legislative clerk read as follows:

A bill (H.R.15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The Senate resumed the consideration of the bill.

Mr. LONG of Louisiana. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. LONG of Louisiana. Is the pending business now the committee amendment relating to interest on industrial development bonds?

The PRESIDING OFFICER. The pending business is the one remaining committee amendment.

The pending committee amendment is as follows:

On page 18, after line 5, insert a new section, as follows:

"SEC. 5. INTEREST ON INDUSTRIAL DEVELOPMENT BONDS.

"(a) EXCLUSION FROM GROSS INCOME.—Until otherwise provided by law hereafter enacted, interest on obligations which are so-called industrial development bonds shall be excluded from gross income under section 103 of the Internal Revenue Code of 1954 in accordance with—

"(1) the regulations prescribed under such section by the Secretary of the Treasury or his delegate, as in effect on March 13, 1968, and

"(2) the principles set forth in Revenue Ruling 54–106 (CB 1954–1, 28), Revenue Ruling 57–187 (CB 1957–1, 65), and Revenue Ruling 63–20 (CB 1963–1, 24).

"(b) RULINGS.—The Secretary of the Treasury or his delegate is authorized and directed to issue ruling letters with respect to so-called industrial development bonds in conformity with the provisions of subsection (a).

UNANIMOUS-CONSENT AGREEMENT

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the time on the pending amendment be limited to one-half hour, the time to be equally divided, 15 minutes to be controlled by the manager of the bill and the other 15 minutes to be controlled by the Senator to be designated in charge of the opposition to the amendment.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Who yields time?

Mr. LONG of Louisiana. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 2 minutes.

Mr. LONG of Louisiana. Mr. President, this is the issue which the Senate debated and voted upon some time ago when an amendment was offered on an appropriation bill by the Senator from Oklahoma [Mr. MONRONEY].

At that time the argument was made by the Senator from Louisiana and others that this matter appropriately

should be attached to a revenue measure. It was also argued that the matter should be studied so that the committee would be better informed and could convey its conclusions to the Senate.

The committee feels that it is desirable to continue the policy established by the Internal Revenue Service rulings in effect prior to March of this year until Congress considers the matter and acts legislatively. Any change in existing rules in this area should be made by legislation rather than by administrative ruling.

That being the case, the committee voted for an amendment suggested by the Senator from Nebraska [Mr. CURTIS] and the Senator from Oklahoma [Mr. HARRIS], which in effect continues the Internal Revenue Service rulings that existed prior to this year with respect to industrial development bonds.

The committee does expect to look into this matter and receive Treasury suggestions about it during the course of the year. Perhaps the committee will place before the Senate legislation that would alter the tax-exempt status of these bonds in some respect. It is the judgment of the committee, however, that this is a matter which should be dealt with legislatively. Existing policy should not be changed by regulations of the Internal Revenue Service which conflict with previous rulings.

It is impossible to say what the House attitude on this matter will be. We will know when we have had an opportunity to discuss it with the House Ways and Means Committee.

The PRESIDING OFFICER. The time of the Senator has expired. Who yields time?

Mr. LONG of Louisiana. Mr. President, I suggest the absence of a quorum and ask unanimous consent that the time not be charged to either side.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Louisiana? The Chair hears none, and it is so ordered. The clerk will call the roll.

The assistant legislative clerk called the roll and the following Senators answered to their names:

[No. 76 Leg.]

Baker	Fulbright	Long, La.
Bartlett	Gore	Metcalf
Boggs	Griffin	Moss
Burdick	Gruening	Pearson
Byrd, Va.	Harris	Prouty
Byrd, W. Va.	Hatfield	Russell
Cotton	Hayden	Smathers
Curtis	Hollings	Williams, Del.
Dirksen	Hruska	Yarborough
Ervin	Jackson	Young, N. Dak.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG] and the Senator from Georgia [Mr. TALMADGE] are absent on official business.

I also announce that the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senators from Rhode Island [Mr. PASTORE and Mr PELL], the Senator from West Virginia [Mr. RANDOLPH], the Senator from Connecticut [Mr. RIBICOFF], the Senator from Massachusetts [Mr. KENNEDY], the Senator from Washington [Mr. MAGNUSON], the Senator from Indiana [Mr. BAYH], and the Senator from Oklahoma [Mr. MONRONEY] are necessarily absent.

Mr. KUCHEL. I announce that the Senator from Massachusetts [Mr. BROOKE] is necessarily absent.

The PRESIDING OFFICER. A quorum is not present.

Mr. LONG of Louisiana. Mr. President, I move that the Sergeant at Arms be directed to request the attendance of absent Senators.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Louisiana.

The motion was agreed to.

The PRESIDING OFFICER. The Sergeant at Arms will execute the order of the Senate.

After a little delay, the following Senators entered the Chamber and answered to their names:

Aiken	Hart	Morton
Allott	Hartke	Mundt
Anderson	Hickenlooper	Murphy
Bennett	Hill	Muskie
Bible	Holland	Nelson
Brewster	Inouye	Percy
Cannon	Javits	Proxmire
Carlson	Jordan, N.C.	Scott
Case	Jordan, Idaho	Smith
Church	Kuchel	Sparkman
Clark	Mansfield	Spong
Cooper	McClellan	Stennis
Dodd	McGee	Symington
Dominick	McGovern	Thurmond
Eastland	McIntyre	Tower
Ellender	Miller	Tydings
Fannin	Mondale	Williams, N.J.
Fong	Montoya	Young, Ohio
Hansen	Morse	

The PRESIDING OFFICER. A quorum is present.

Mr. CURTIS. Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. CURTIS. Mr. President, I yield myself 5 minutes.

If I may have the attention of Senators, we can dispose of this matter without extended time.

The vote will be on the approval of the committee amendment which is found on page 18, line 6 through line 22. In effect, it says that industrial bonds issued by States and subdivisions shall retain their tax-free status until changed by Congress.

Chief Justice Marshall was not uttering a new truth when, in the case of McCulloch against Maryland, back in 1819, he said the power to tax is the power to destroy.

The framers of our Constitution, as set out in article I, section 1, provided:

> All legislative powers herein granted shall be vested in a Congress of the United States . . .

In section 7 of article I, it is stated:

> All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills.

There are people, as there are Members of the Senate, who feel that a tax should be imposed on at least some classes of industrial development bonds. The question today is, Where does the authority rest?

The integrity of the Congress of the United States, the power of Congress, and adherence to the Constitution are at stake, and I shall point out why.

For more than 35 years, States and localities have been issuing revenue bonds, using the money to develop industry. It started out in Mississippi. I am told that there, many small communities have used this method of getting a factory or some activity started that has brought employment where it was very much needed. That practice continued through the thirties, the forties, and the fifties, with approval of the Treasury Department.

In 1954, the Treasury issued a public ruling, holding that these industrial development bonds were tax free. After that, Congress reenacted section 103 of the Internal Revenue Code, and it is a rule of law that when you reenact a statute, you enact it subject to the then contemporary interpretation. So Congress, in effect, enacted by law the tax-free status of these bonds.

We are here today because the Treasury Department is attempting to make these bonds taxable, when they have been nontaxable for more than 35 years. The issue was passed upon by Congress in 1954.

Should their status be changed? That is a debatable question. Certainly any change should be by the legislative process. There should be hearings; the process should start before the Committee on Ways and Means.

I have great affection for that committee. It is older than the Republic itself. It is the oldest committee in our Government. It was created by the Continental Congress, long before the Constitution was written.

That is where they should start, and hold hearings. We should never concede to the Treasury the power to impose taxes. If this amendment is rejected, it is my opinion that we shall be conceding to the Treasury the power to impose taxes.

One of the arguments that is used is that a good deal of revenue is involved. Mr. President, that has been exaggerated.

The PRESIDING OFFICER. The Senator's 5 minutes have expired.

Mr. CURTIS. I yield myself 3 additional minutes.

Of the corporate bonds sold today that are taxable, 77 percent go to nontaxable entities—unions, pension funds, college endowments, hospital endowments, and the like.

While we are not debating the issue on its merits, but the matter of where action should be taken, I call attention to this fact: The Federal Government uses its credit, through small business loans, the poverty program, and so on, to create safety and create jobs. If we are to stop States and localities from using industrial bonds to promote jobs and industry, we will then follow through and stop the Federal Government from doing it.

It is said that these bonds are not general revenue bonds. No holders of the bonds are complaining. Their issuance is the official bonding act of the subdivision involved.

It is also said that these bonds are issued in such great numbers that they are forcing up the interest on other bond issues.

Let us examine that argument. It is the demands of the Federal Government for the money, the Federal borrowing in

the marketplace, that is the biggest factor forcing up the interest.

Mr. President, we are not foreclosing Congress from looking into this question as to whether or not there are abuses which ought to be changed, or whether a complete abolition of tax-free bonds is in order. This amendment begins with the words "unless otherwise provided by law," the law shall be as it was on March 13.

What is involved here is saying that what has been done for 35 years shall continue to be done unless changed by Congress.

Mr. President, I repeat, much is at stake. A great principle is involved here. If we permit the Treasury Department to impose taxes by rulings, every city, every school district, every county, every State, every taxpayer will be in jeopardy, because the rulings will be extended and extended and extended. The power to tax, which is the power to destroy, is a power that is vested only in Congress, and the bills must originate in the House of Representatives.

Mr. President, I urge Senators to support section 5, found on page 18 at lines 6 through 22 on that page, as recommended by the Committee on Finance.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

I have had a number of requests for time to speak in favor of the committee position; and rather than ask that time in opposition be yielded, I ask unanimous consent that an additional 10 minutes be allotted to each side on this matter.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Oregon.

Mr. MORSE. Mr. President, I rise to support the unanswerable arguments just made by the Senator from Nebraska [Mr. CURTIS]. He has done well to point out that there is a constitutional question involved, and we have a duty to check another attempt on the part of the executive branch to take over legislative functions; for there is no question about the duty of Congress, under the Constitution, to determine tax measures.

The second argument I wish to make is that if we let the Treasury Department get by with this arbitrary course of action they have followed, fixing an arbitrary time to impose their legislative fiat upon Congress, we are going to create grossly unfair, discriminatory practices in this country. I refer briefly to a situation in my own State.

We now have legislation, passed by the last Oregon Legislature, granting authority to follow the bond investment policy that is before the Senate today. I repeat, it has been passed by the legislature.

There is pending in the city of Astoria, Oreg., a proposal to build a plant of the Northwest Aluminum Co. that will employ a thousand workers after it is built, and of course a good many in its building.

To cut my State off now, by this arbitrary action of the Treasury Department, would be grossly unfair. We are entitled to go ahead with that project. The amendment of the committee will resolve that problem. We have, I am advised by State officials, about four other projects planned.

Mr. President, I say that in a time of economic problems, we ought to be expanding our economy, not restricting it.

My last point is that if we follow the amendment of the committee, it will result in pouring into the Treasury of the United States and into State and local treasuries many. many times the tax dollars the Treasury Department arbitrarily seeks allegedly to save by this action, because we will thereby create wealth that would otherwise not be created.

The plants I have mentioned in my State will not go up without this inducement. So, in fairness to all the States, I urge the approval of the committee amendment.

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Oklahoma.

Mr. HARRIS. Mr. President, I am pleased to join with the distinguished Senator from Nebraska, as I did in the committee, in cosponsoring the amendment the adoption of which is now the pending business before the Senate.

Mr. President, as Senators know, my distinguished senior colleague [Mr. MONRONEY] has made a valiant fight on this issue in this body previously, particularly during the consideration of the urgent supplemental appropriation bill in the Senate on March 11. He is on his way back to the Senate from Oklahoma to support this matter. I hope he will be here in time for the vote. At any rate, however, Senators know quite well that his influence has been felt very strongly in support of the committee position.

It is estimated in Oklahoma that discontinuance of the tax-exempt status for these types of revenue bonds would immediately block the employment of as many as 16,000 people. Twelve counties and 11 municipalities in Oklahoma are geared up to provide industrial plants under this type of financing, and at least $16 million of nonexpended bond funds could be frozen if the Treasury Department were to proceed to discontinue the longstanding practice of allowing exemption on these tax-exempt bonds.

I join with those who have spoken and expressed the view that the orderly way to proceed, if we are to change or alter the present tax-exempt status, would be through the procedure of having hearings in the Finance Committee and by action of Congress. I support the committee position.

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Wyoming.

The PRESIDING OFFICER. The Senator from Wyoming is recognized for 2 minutes.

Mr. HANSEN. Mr. President, the Committee on Finance has proposed an amendment to H.R. 15414 which would restore the tax-exempt status of industrial development bonds. I urge the Senate to accept the amendment, for it means a great deal to the future prosperity and social well-being of our country.

When the Treasury Department decided to end tax exemptions for municipal corporate bonds—a matter which should have been decided by the Congress, not the bureaucracy—it reflected the lending and financial interests of the eastern seaboard, not the needs of the country as a whole.

It was also a step which runs counter to the administration's professed goal of reducing unemployment. The bonds in question enable communities with a large number of unemployed persons to do something about it. Industrial development mans new jobs and new taxpayers.

The sparsely populated and declining areas of the United States have, in development bonds, one means to create new jobs, new tax resources, and new communities. This certainly pertains in Wyoming and, judging from the comments of other Senators, in many other areas across the Nation.

These development bonds enable localities in rural areas, like Green River and Cheyenne, Wyo., to compete with dense population centers for the fruits of our affluence. Once a new industrial park is financed and and tenants are found, the community can look forward to larger, continuing payrolls and to greater local tax revenues. These communities can then build up more and better public services and stronger community organizations all at once.

Proponents of the Treasury's changes argue that such bonds hurt the market for regular municipal bonds. Thus our cities suffer. But this a shortrun view, Mr. President, for the only real solution to the problems of our great cities is not ever-greater indebtedness for public facilities; it is, rather, to stem the flow of migration to the large cities, to stabilize their populations.

The real competition fostered by these bonds, Mr. President, is between the overcrowded urban centers and the half-forgotten rural towns and small cities.

By such development, the young and employable can be held in or attracted to these places, rather than migrating to Chicago or Los Angeles.

The adoption of the committee amendment to H.R. 15414 will help thousands of small businesses create tens of thousands of jobs in small cities and towns across the country. If we take the long view, this is a wise step—one which will aid our great cities and our quality of life.

Mr. President, the people of Wyoming support this amendment in favor of development bonds. I hope the Senate will, also.

I ask unanimous consent that telegrams of support for the amendment, from Wyoming citizens and leaders, be printed in the RECORD.

There being no objection, the telegrams were ordered to be printed in the RECORD, as follows:

CHEYENNE, WYO.,
March 25, 1968.

Senator CLIFFORD P. HANSEN,
Senate Office Building,
Washington, D.C.:

The board of directors of the Greater Cheyenne Chamber of Commerce at its meeting today unanimously gave full support of Senator CARL T. CURTIS' H.R. 15414 amendment suspending administrative action of

the Treasury Department with respect to tax treatment of interest on industrial revenue bonds issued by State or local governments. We strongly endorse the tax-exempt status of industrial revenue bonds.

W. K. REED,
President, Greater Cheyenne Chamber of Commerce.

CHEYENNE, WYO.,
March 25, 1968.

Senator CLIFFORD P. HANSEN,
Senate Office Building,
Washington, D.C.:

Respectfully request your full support of Senator CURTIS' H.R. 15414 amendment for tax-exempt status of industrial revenue bonds.

R. J. HOFFMAN.

CHEYENNE, WYO., *March 26, 1968.*

Senator CLIFFORD P. HANSEN,
Senate Office Building,
Washington, D.C.:

We strongly endorse the tax exempt status of industrial revenue bonds as proposed in Senator Carl T. Curtis H.R. 15414 amendment suspending administrative action of the Treasury Department with respect to tax treatment of interest on industrial revenue bonds issued by local and State government.

JACK H. REED,
President, Industrial Development Association of Cheyenne.

CHEYENNE, WYO., *March 25, 1968.*

Hon. CLIFFORD P. HANSEN,
Senate Office Building,
Washington, D.C.:

Please support Senator Carl T. Curtis' (H.R. 1541) amendment which suspends administrative action of the Treasury Department with respect to the treatment of interest on industrial revenue bonds issued by State or local government.

Senator CLIFFORD P. HANSEN,
Senate Office Building:

The importance of the continuance of the industrial development bond exemption is seen in the Allied Chemical situation, Green River, Wyo. Construction averages 200 employees, with a 1-year peak of 430 employees. This will generate, before any expansion, approximately $200,000 in county, school, and state taxes annually, according to estimates of the county's taxing officials. The permanent work force of 200 represents more than $1 million in annual payroll and up to $3½ million minimum with natural increments.

There is a call for construction of 200 homes in Sweetwater County, Wyo., with the resultant expansion of the building trades and general business. New homes add $36,000 in tax support to the local government and a satellite industry, the mining of bicarbonate of soda, adds another 40 permanent employees. The initial Allied Chemical freight loadings are estimated at 5,000 cars a year with a dramatic resultant increase in rail employment and income.

Overall, the tax base locally will provide for an increase which will help provide better schools and much more opportunity for the young people to stay at home.

ADRIAN REYNOLDS,
Chairman, Southwest Wyoming Development Committee.
W. J. LUZMOOR, Jr.,
Mayor, Town of Green River.

Mr. LONG of Louisiana. Mr. President, I yield 1 minute to the distinguished Senator from Tennessee.

The PRESIDING OFFICER. The Senator from Tennessee is recognized for 1 minute.

Mr. BAKER. Mr. President, I rise for the purpose of expressing my support for the pending amendment. I commend my colleague, the Senator from Nebraska [Mr. CURTIS], for advancing the proposal in this form.

I am happy to say at this time that, since our last colloquy on this subject on the floor of the Senate, the Treasury Department, according to a report in the Wall Street Journal, has apparently made an effort to protect these projects that were at least partially underway at the time this matter was first brought to the attention of the Congress.

I readily concede that there are inequities in the present law and that it can be improved. However, I believe that the general concept of local self-help and "bootstrap" assistance through the usage of industrial revenue bonds is a valuable tool for promoting the economic balance of our Nation and its future prosperity.

I think the proposal of the committee and of the Senator from Nebraska [Mr. CURTIS] is a proper one. I hope that we examine the matter more fully at a future date.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the Senator from Wisconsin [Mr. PROXMIRE] be assigned to control the time in opposition to the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

The Senator from Wisconsin is in control of the time for the opposition.

Mr. PROXMIRE. Mr. President, I yield myself 5 minutes at this time.

The PRESIDING OFFICER. The Senator from Wisconsin is recognized for 5 minutes.

Mr. PROXMIRE. Mr. President, I doubt if we will use the 25 minutes available to those in opposition to the amendment.

In the first place we should recognize that what this amendment would do would be to widen what is probably the most conspicuous loophole in our tax law. I have opposed the oil depletion allowance. I think this is even more conspicuous and less equitable. This is a loophole that would enable anybody with a lot of money, say, $10 million, to buy municipals and to receive interest on those municipals at a rate now of about 5 percent. That would be about $500,000 a year, or $10,000 a week. And he would have to pay not one nickel of Federal income tax on that amount of money.

Congress has seen fit to make this provision—and I think wisely so—for legitimate municipal purposes. Certainly, Congress should agree with the Treasury interpretation that this practice should not be applied to the financing of industrial development or private plants. What makes the amendment particularly perverse and unfortunate is the fact that it will increase the interest rates which cities have to charge in order to raise money for hospitals, schools, and legitimate municipal purposes. This is so because, as the municipal bond market increases, and the pending amendment would permit a very rapid expansion of tax exempts, the supply increases, so the price falls which, of course, means interest rates rise.

There is no element of municipal bonds that has grown more rapidly than the industrial development bonds, and they will expand with great force. As I say, as the supply increases, the interest rate will rise. That means that financing investment for health and school services will be penalized because interest rates on bonds to finance the services will have to rise.

Furthermore, the evidence that I have seen and heard shows that the corporations which take advantage of this opportunity are by and large big business corporations. This is not entirely true, but most of the corporations which have taken advantage of this provision have been big corporations, and most of the revenue bonds that have been floated have been floated to provide an opportunity for big business to the disadvantage of small business.

As the distinguished Senator from Louisiana, the chairman of the Finance Committee, indicated when he spoke against this measure a couple of weeks ago, many businessmen recognize that this is not ethical or in the long run business interest. They feel uneasy about it. They take advantage of it, of course, because they are in business to make a profit. Their competitors take advantage of this provision. They have to do so. However, they do not like it.

The pending measure would certainly weaken the position of our cities with respect to trying to raise money. This is the first point I have made, and it is the last point I make. The most important reason for the existence of the tax-exempt bonds is that Congress has seen the necessity of making it as easy as possible for the cities to raise money for legitimate purposes. The pending amendment would make it more difficult for cities to do so because, with this great increase in bonds, the interest rate is bound to rise. The most rapidly growing bonds on the market today are the industrial development bonds.

Mr. President, I yield 2 minutes to my colleague from Wisconsin.

Mr. NELSON. Mr. President, I agree with the comments made by my distinguished colleague. I have a few brief remarks to make.

Forty States now engage in this practice. Ultimately it will be 50 States. I can see no purpose in having this provision. There would be no competitive advantage to any State once all 50 States are doing it, but it will raise the price of the bonds in the marketplace.

Following is a summary of a panel discussion at the Investment Bankers Association in December 1967, as reported by the Daily Bond Buyer and other news media. They list the participants in the panel. This was their conclusion:

This past year's mammoth increase in the issuance of tax-free industrial aid bonds in behalf of private business (from $500 million in 1966 to $1.3 billion in 1967) has raised the cost of local government borrowing on full-faith-and-credit bonds by about ¼ of 1 per cent, and the cost of other local government borrowing by perhaps twice that much, according to estimates made at the Convention of the Investment Bankers Association.

* * * * *

It was further pointed out that the financing of the ordinary needs of local government—public safety, sanitation, transportation and education—is causing an annual net increase in the supply of municipal

and other local government bonds of from $6 to $7 billion a year. If this net supply is to be swelled by another $1 to $2 billion a year of tax-free industrial aid financing, the tax-exempt part of the bond market will be overstrained, and will have to give ground for higher borrowing costs for all local government functions.

Mr. President, I ask unanimous consent that that article and some other editorials and comments that I have be printed at this point in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Post-Crescent, Mar. 16, 1968]

END TO TAX-EXEMPT INDUSTRIAL BONDS

The Treasury Department has announced its intention to change a rule which has granted tax exempt status to bond issues sold by local governmental units for the purpose of industrial development, a change which would be a reversal of a rule which has stood since 1954.

The department decision will have particular meaning for Wisconsin municipalities and counties, which have been laboring under the handicap of competition from such financing plans in other states. In 1965, the legislature authorized Wisconsin counties to issue such bonds, and a few counties, including Outagamie County, have organized development corporations as a first step toward this type of financing. But the Wisconsin type of bond has never received approval from the Treasury Department, probably because of the change in attitude which was taking shape and which now has resulted in the decision to change the tax exempt rule.

But in the meantime, Wisconsin has faced the unfair competition from these bonds issued in other states. Forty-one states now allow the issuing of such bonds.

There have been periodic attempts to end the tax exempt status of such bonds in the form of legislation. The latest bill with this objective introduced by Rep. John Byrnes of Green Bay, the ranking Republican of the House Ways and Means Committee which has jurisdiction over tax matters, was endorsed by the Treasury Department. The subsequent decision to try to achieve the same thing through a change in tax rules probably is a frank recognition of the political facts of life since most of the states now are using this financing device in competition for industrial development. Rep. Wilbur Mills, chairman of the Ways and Means Committee, is from Arkansas, one of the leading states in use of these bonds.

As Rep. Byrnes has pointed out repeatedly, the tax exempt status given such bonds issues means that there is not only unfair competition among the states in industrial development but that taxpayers from states like Wisconsin also are picking up the tab for lost revenues.

The totals of such bond issues no longer make the question one of an insignificant nature, if it ever was. The national total of such bond issues has increased from $70 million in 1960 to $1.4 billion last year.

Added to the normal annual increases in public works bond issues, the industrial development bonds are causing an added tax cost at the local level in another way. The gush of industrial development bonds has served to drive up interest rates on public works bond issues because of the competition for money.

The basis for the tax exempt status of public works bonds is that they are obligations of municipal taxpayers in most cases, in contrast, the industrial development bonds are retired from annual land or building payments of firms whose plants have been financed through the less costly means of local government borrowing. The use of this device to lure industry has been well documented.

The Treasury Department is on the right track in changing the tax exempt rule, though it is expected to face a federal court challenge. The present rule has resulted in unfair competition to states like Wisconsin, is based on the faulty premise that industrial development bonds are a taxpayer obligation, and is resulting in the loss of a potential source of federal revenue.

[From the Stevens Point (Wis.) Daily Journal, Mar. 12, 1968]

TAX-EXEMPT PRIVILEGE

An estimated $1 billion in tax-exempt bonds were issued last year by state and local governments to finance industrial facilities.

In the next several years, the financial offerings are expected to reach as high as $3 billion as more government bodies use this device to lure industry from other sections of the country. Although the White House has endorsed repeal of the tax exemption, Congress understandably has been cool to the idea because 41 states now authorize so-called industrial revenue bonds.

Wisconsin is not one of the 41, and this has been recognized as an important factor in industrial development efforts. It is a disheartening blow when Wisconsin industries have decided to expand by building a new plant or a branch operation in one of the states that can offer such a private pact. We also lose prospects contemplating moving into Wisconsin when they choose to locate where this tax advantage is offered. The cut-throat competition in this respect presents a strong temptation to either get into that degrading sort of dogfight, or work for federal rules to equalize the competition among the various states.

With the chances of Congress moving seemingly remote, the Treasury reportedly is now considering acting through administrative ruling to end the tax advantage. The Treasury's own agency, the Internal Revenue Service, established the tax-exempt status of these bonds in a 1954 decision. Now the original ruling has been opened to challenge.

Secretary of the Treasury Fowler would prefer to have Congress do the repealing instead of the Treasury. Obviously, Treasury action would not be without political risk.

INCREASE IN MUNICIPAL INTEREST RATES BECAUSE OF THE LARGE VOLUME OF MUNICIPAL INDUSTRIAL FINANCING

The following is a summary of a panel discussion at the Investment Bankers Association's Convention in December 1967 as reported by the Daily Bond Buyer and other news media. The speakers on this panel were:

Marsom B. Pratt, Partner, Estabrook & Co., Boston.

Truxton B. Pratt, V.P., Bankers Trust Company, New York.

Alan Weeden, President, Weeden & Co., New York.

Brainerd Whitbeck, Sr., V.P., The First Boston Corporation, New York.

Alan Browne, Sr., V.P., Bank of America, N.T. & S.A., San Francisco.

William Simon, Partner, Salomon Brothers & Hutzler, New York.

DeWitt Hornor, Vice Pres., First National City Bank, New York.

"This past year's mammoth increase in the issuance of tax-free industrial aid bonds in behalf of private business (from $500 million in 1966 to $1.3 billion in 1967) has raised the cost of local government borrowing on full-faith-and-credit bonds by about ¼ of 1 per cent, and the cost of other local government borrowing by perhaps twice that much, according to estimates made at the Convention of the Investment Bankers Association.

* * * * *

"It was further pointed out that the financing of the ordinary needs of local government—public safety, sanitation, transportation and education—is causing an annual net increase in the supply of municipal and other local government bonds of from $6 to $7 billion a year. If this net supply is to be swelled by another $1 to $2 billion a year of tax-free industrial aid financing, the tax-exempt part of the bond market will be overstrained, and will have to give ground for higher borrowing costs for all local government functions.

* * * * *

"When asked by reporters what might be the market impact of a projected future annual supply of $4 billion or more of tax-free industrial bonds, the panel hazarded the opinion that the rise in cost already attributable to the industrial aid bond conceivably might be tripled. This might raise the average cost of long-term local government borrowing—a cost, say, of about 4⅜%—by as much as 150 yield basis points, that is, to a cost of 5⅞%. The market specialist stressed that if related to the rise in standard market yield indices—such as the Bond Buyer's Index of 20 bonds—from 20 to 25 basis points of the rise is a consequence of tax-free industrial financing. However, most of the yield rises registered by the standard indices reflect the shifts in market value of standard full faith, and credit bonds secured by the taxing power of local government.

"It was explained that the market impact of the industrial aid revenue bond is felt more drastically by the large supply of tax-exempt bonds that are secured by special revenues, such as road and bridge tolls and water and other utility charges, probably the present structure of market yields reflects an increase of 50 basis points attributable to the mounting volume of tax-free industrial aid financing.

"Special emphasis was given by the panelists to the investment demand side of the market. It was noted that the big growth in investable savings is taking place in pension funds, institutions that, being tax exempt themselves, have little interest in buying bonds coming to market with interest coupons shrunken because the income is tax exempt.

"If the tax-exempt part of the market is thus forced increasingly to absorb financings that otherwise would find placement in the only part of the market where investable funds are growing, two questions must arise: (1) Who will buy the swollen new supply of tax-exempt bonds? and (2) On what cost terms?"

NOTE.—The above quotes were taken from the Weekly Bond Buyer of December 11, 1967.

INDUSTRIAL AID FINANCING BY TYPE OF ISSUER, 1956-67

[Dollar amounts in millions]

Year	States and statutory authority		Counties		Municipalities and townships		Special district		Total	
	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number
1956			$285	2	$1,236	7			$1,521	9
1957	$34	1	1,295	4	5,253	14	$750	1	7,332	20
1958	15,000	1	1,605	7	5,470	21	2,976	12	25,051	41
1959			2,815	8	22,623	21	2,568	8	28,006	37
1960	402	2	6,925	8	24,348	28	9,496	17	41,171	55
1961	17,915	5	18,471	8	32,742	22	2,643	11	71,771	46
1962	36,105	9	2,877	7	40,260	40	5,175	10	84,417	68
1963	25,028	9	5,287	13	101,295	43	1,875	4	133,485	69
1964	41,232	19	16,150	16	131,070	46	3,885	9	192,337	90
1965	121,850	35	13,112	11	75,032	39	1,937	6	211,931	91
1966	207,356	35	46,477	28	243,778	57	2,542	4	500,153	122
1967	599,760	59	214,632	36	572,641	82	3,500	5	1,390,533	184

INDUSTRIAL AID FINANCING BY STATE, 1956-66

[Dollar amounts in millions]

Year and State	General obligation		Revenue		Total	
	Amount	Number	Amount	Number	Amount	Number
1956						
Arkansas	$300	1			$300	1
Kentucky			$110	1	110	1
Mississippi	1,111	7			1,111	7
Total	1,411	8	110	1	1,521	9
1957						
Alabama			3,237	3	3,237	3
Kentucky			34	1	34	1
Louisiana	850	3			850	3
Mississippi	2,611	11	600	2	3,211	13
Total	3,461	14	3,871	6	7,332	20
1958						
Alabama			670	2	670	2
Kentucky			1,175	2	1,175	2
Louisiana			225	2	225	2
Mississippi	7,431	32			7,431	32
Puerto Rico			15,000	1	15,000	1
Tennessee	350	1	200	1	550	2
Total	7,781	33	17,270	8	25,051	41
1959						
Alabama			405	2	405	2
Arkansas	535	2			535	2
Kentucky			19,401	4	19,401	4
Louisiana	200	1			200	1
Mississippi	6,715	27			6,715	27
Tennessee	750	1			750	1
Total	8,200	31	19,806	6	28,006	37
1960						
Alabama			402	2	402	2
Arkansas	3,528	2	3,000	1	6,528	3
Kentucky	700	1	7,815	7	8,515	8
Mississippi	19,496	38			19,496	38
New Mexico	4,480	1			4,480	1
Pennsylvania			500	1	500	1
Tennessee	1,250	2			1,250	2
Total	29,454	44	11,717	11	41,171	55
1961						
Alabama			25,915	3	25,915	3
Arkansas	754	2	1,050	2	1,804	4
Kentucky			3,700	1	3,700	1
Mississippi	6,393	26			6,393	26
Oklahoma			2,000	1	2,000	1
Puerto Rico			15,000	2	15,000	2
Tennessee	2,384	7	14,575	2	16,959	9
Total	9,531	35	62,240	11	71,771	46
1962						
Alabama			28,955	7	28,955	7
Arkansas			7,396	3	7,396	3
Delaware	2,000	1			2,000	1
Kentucky	1,150	2	9,590	9	10,740	11
Louisiana			9,200	1	9,200	1
Mississippi	9,706	28			9,706	28
New Mexico			900	1	900	1
North Carolina	500	1			500	1
Oklahoma			500	1	500	1
Tennessee	3,480	7	11,040	5	14,520	12
Total	16,836	39	67,581	27	84,417	66
1963						
Alabama	582	3	15,770	7	16,352	10
Arkansas	18,417	7	9,165	4	27,582	11
California	365	1			365	1
Delaware	658	1			658	1
Georgia			8,500	1	8,500	1
Kansas			125	1	125	1
Kentucky			53,703	10	53,703	10
Louisiana	25	1			25	1
Mississippi	7,420	19	2,000	1	9,420	20
Missouri			5,000	1	5,000	1
Nebraska			1,750	1	1,750	1
Oklahoma			$500	1	$500	1
Tennessee	$2,105	7	7,400	3	9,505	10
Total	29,572	39	103,913	30	133,485	69
1964						
Alabama	125	1	63,672	18	63,797	19
Arizona	22,250	1			22,250	1
Arkansas	5,360	2	43,566	4	48,926	6
Georgia			4,785	4	4,785	4
Kansas			1,450	2	1,450	
Kentucky			14,545	12	14,545	12
Michigan	520	1	450	2	970	3
Mississippi	9,530	24	4,600	4	14,130	28
Missouri	3,940	5			3,940	5
Nebraska			7,000	1	7,000	1
Pennsylvania	5,000	1			5,000	1
Tennessee	1,940	4	400	1	2,340	5
Washington			600	1	600	1
West Virginia	674	1	1,930	5	2,604	2
Total	49,339	40	142,998	50	192,337	90
1965						
Alabama			153,810	30	153,810	30
Arkansas	525	2	6,510	5	7,035	7
Florida			10,110	2	10,110	2
Georgia			805	2	805	2
Kansas	44	1	1,150	2	1,194	3
Kentucky			20,845	19	20,845	19
Mississippi	6,375	16			6,375	16
Missouri	4,800	3	2,550	2	7,350	5
North Carolina	575	1			575	1
Oklahoma	2,042	2	125	1	2,167	3
Tennessee	1,665	3			1,665	3
Total	16,026	28	195,905	63	211,931	91
1966						
Alabama	150	1	91,356	22	91,506	23
Arkansas	1,568	4	46,000	1	47,568	5
Delaware			52,000	2	52,000	2
Georgia			51,000	8	51,000	8
Iowa			65,000	2	65,000	2
Kansas	850	1	10,605	6	11,455	7
Kentucky	1,950	2	105,515	22	107,465	24
Louisiana	450	1	750	1	1,200	2
Maryland			5,250	2	5,250	2
Michigan	1,190	1			1,190	1
Mississippi	8,935	22	6,130	7	15,065	29
Missouri	750	2	8,500	1	9,250	3
Nebraska			7,800	4	7,800	4
Oklahoma	1,997	2	5,100	2	7,097	4
Tennessee	1,507	5	1,800	2	3,307	7
West Virginia			24,000	1	24,000	1
Total	19,347	41	480,806	83	500,153	124
1967						
Alabama	600	1	252,960	33	253,560	34
Arkansas	3,721	4	111,000	5	114,721	9
Delaware			17,200	2	17,200	2
Georgia			86,700	10	86,700	10
Iowa			85,000	4	85,000	4
Kansas			34,824	14	34,824	14
Kentucky	613	2	163,500	30	164,113	32
Louisiana	2,000	1	51,350	3	53,350	4
Maryland			12,000	1	12,000	1
Michigan	820	1	55,300	3	56,120	4
Minnesota			950	1	950	1
Mississippi	132,600	10	22,335	8	154,935	18
Missouri	525	2	12,225	5	12,750	7
Nebraska			15,100	3	15,100	3
Ohio			131,450	12	131,450	12
Oklahoma	7,010	4	9,500	1	16,510	5
Puerto Rico			20,000	1	20,000	1
South Carolina			37,890	4	37,890	4
Tennessee	760	2	87,150	10	87,910	12
Texas			1,850	1	1,850	1
Virginia			11,300	2	11,300	2
West Virginia			2,300	1	2,300	1
Wyoming			20,000	1	20,000	1
Total	148,649	27	1,241,884	155	1,390,533	182

Case Against Municipal Industrial Financing

The Nature of the Problem

The growing use of industrial development bonds is a major financial problem. These bonds are costing all state and local government—both of those which use them and those which don't—many millions of dollars each year. Paralleling this growth has been a decline in the usefulness of these bonds in the states that authorize them with the result that much of the added cost borne by all states and municipalities is simply wasted. Since the rapid growth in the use of industrial development bonds is occurring at a time when our state and local governments are confronted with ever-increasing demands to provide additional services and facilities for their citizens, it is vital that the economic realities of industrial development bond financing be understood and that steps be taken to eliminate this costly device.

The Cost of Industrial Development Bonds

Superficially industrial development bonds are cost free. A municipality issues revenue bonds to finance a factory which is rented to a private corporation and the rental payments are geared to cover interest and principal payments on the bonds. In some cases the municipality may provide for payments in lieu of local property taxes and thereby further eliminate any direct costs associated with the transaction. Since the revenue bonds are exempt from Federal income tax, the corporation benefits because the rental payment needed to cover interest on the bonds are lower and the municipality may benefit from a new industry that might

have located elsewhere. The sole cost would appear to be limited to the Federal revenue loss. However, this analysis overlooks a vital aspect of the transaction. The bonds are sold in the tax exempt bond market and compete with school bonds, water and sewer bonds, and other governmental purpose bonds for the same limited supply of funds.

The benefits state and local governments receive because of the Federal tax exemption of the interest on their bonds is dependent on the fact that tax exempt bonds are a unique exception and that most bonds—both corporate and Federal—are fully subject to Federal income tax. As more industrial development bonds are issued the interest rate on all tax-exempt bonds must increase in order to make the total supply of exempt bonds attractive to lower bracket taxpayers. Moreover, in recent years some of the largest industrial corporations in the nation have used industrial development bonds and many of our smaller state and local governments find themselves severely handicapped when they are forced to compete for funds in the same limited market against these corporations.

It has been estimated that in recent years that the increase in normal state and local government bonds outstanding has been growing at the rate of $6.5 billion annually. In 1967 over $1.3 billion of industrial development bonds were added to this normal demand for new funds with the obvious result that the interest rates that state and local governments had to pay on bonds issued to finance governmental functions were higher than they need be—between ¼ and ½ of 1 per cent higher. This, of course, means increased property taxes, sales taxes and state income taxes.

Thus, it is clear that industrial development bonds are not cost free to state and local governments. In fact, they are very expensive and their cost is mounting dramatically each year—a cost which must be borne by all state and local governments not just those that issue the bonds.

THE USEFULNESS OF INDUSTRIAL DEVELOPMENT BONDS

Prior to 1960 when industrial development bonds were authorized in only 13 states, they were a useful means of attracting industry. Today over 40 states have authorized the local use of such bonds. With this number of states offering industrial development bonds as an inducement to industry, it is evident that such bonds no longer offer one state an advantage over its neighbors, and the usefulness of the bonds as a means of attracting industry has disappeared.

These facts highlight the dilemma confronting all our state and local governments today. On one hand, since a corporation seeking tax exempt financing has over 40 states to choose from, it is clear that industrial development bonds no longer serve as a method of attracting industry to any particular state. On the other hand, it is equally clear that no state can afford to end this abuse in its area unilaterally for fear of losing industry to another state. This means that industrial development bonds will continue to be issued in ever increasing amounts even though they have ceased to be an advantage to the issuing state, and in fact, have vastly increased the cost of providing legitimate state and local services in all states.

THE SOLUTION

Any solution to the problem of industrial development bonds must exhibit two characteristics: It must end their use and it must do so simultaneously in all the states that authorize them. This means that either 40 state legislatures must enact uniform legislation at the same time or else the Federal Government must be relied upon to enact a uniform law eliminating such bonds. Although many might prefer state action on this question, as a practical matter Federal legislation such as S. 2635, a bill pending before the Finance Committee of the United States Senate, is the only viable method of eliminating industrial issues from the exempt bond market. Moreover, in view of the rapidly rising interest rates on tax exempt bonds that is occurring today, it is vital that action to remove this added pressure on the market be taken promptly.

TAX EXEMPT CORPORATE BONDS: A TAX ABUSE

Municipal industrial financing—the sale of tax exempt municipal bonds for the benefit of private profit corporations—is seriously impairing the functioning of the municipal bond markets. Since the primary benefits arising from the issuance of muncipal industrial bonds accrue to the specific corporation involved, these securities properly might be called tax exempt corporate bonds.

Municipal industrial bonds (tax exempt corporate bonds), offering as they do yields in excess of 5½% for indirect obligations of corporations, some of which enjoy high credit ratings, have undeniable appeal to the buyer ever conscious of yield and have exercised a noticeably unfavorable effect on the price structure for normal municipal issues. The added volume and high interest rates of these hybrid bonds threaten the ability of many municipalities to borrow for schools, hospitals, roads and other long-accepted public benefit purposes. Furthermore, the use of this financing vehicle threatens the Federal-States political balance unique to America as well as government-free enterprise relationships.

It is argued that tax exempt corporate financing benefits the small depressed areas of our country seeking employment and income for their citizens. This argument may have had some justification thirty years ago, but the facts belie its validity today. The majority of recent municipal industrial bond issues have benefited *not* the small less fortunate community and the small struggling business but rather the big and powerful companies and the large affluent communities with built-in resources, facilities and manpower. Thus, those small towns and cities that may have once benefited from tax exempt corporate financing may now be harmed by the same device.

Borrowing through the sale of tax exempt corporate bonds to finance industrial plants for private companies has escalated one hundred fold since the early 1950's, when the annual totals of these offerings rarely exceeded $10 million, to an estimated $1 billion in 1967. At this rate of increase, the total annual volume may very well reach several billion within the next few years.

As recently as 1963 municipal industrial bond offerings amounted to but 1% of total new state and municipal tax exempt financing. In 1966 these issues accounted for 5% of the total, and in a one-month period late in 1967, they reached an alarming 13%.

HIGHER RATES FOR PUBLIC PURPOSES

The sharp jump in volume has contributed substantially to the financing problems faced generally by the nation's communities in these times of rising demand for public improvements in the face of higher interest rates. Without doubt the increased volume of tax exempt corporate issues has resulted in states and municipalities paying substantially higher rates to borrow for normal public purposes. For example, it was estimated by several market experts that the recent $55 million bond issue by the Fairfax County Water Authority carried a rate of interest of approximately ¼ to ⅜% higher than that which would have been necessary if at the same time Crossett, Arkansas, had not issued $75 million tax exempt corporate bonds at an interest rate of 5⅝%. This meant that the Fairfax County issue had to carry a rate of interest in excess of 5% rather than approximately 4¾% to compete for investors with the 5⅝% rate offered by Crossett. Over the life of the Fairfax County Water Authority issue, the citizens of Fairfax County will be required to pay approximately $3 to $4 million in unnecessary excess interest cost. Paradoxically it has been estimated that this new $75 million Crossett facility will produce only 140 permanent new jobs.

In many instances soaring interest rates caused by competition for investment funds have compelled communities to postpone or cancel financing plans for schools, water works, sewage systems and airports.

In recent years, the use of tax exempt industrial financing by states and municipalities has become a more important aspect of the highly-competitive contest between states to attract industry. Between 1936 and 1950 only Mississippi and Kentucky strained by the basic problem of little industry and surplus labor, issued tax exempt corporate bonds. During the 1950's, 21 other states adopted enabling legislation and issued bonds. Despite this national trend, until a few years ago, 90% of all industrial aid bond sales originated in a few southern states. The fact that many corporations closed plants in northern states and moved into new southern facilities financed with tax exempt bonds forced mid-central and northern states to go on the offensive in the use of industrial inducements, particularly tax exempt corporate bonds. The battle was joined in earnest in 1966. Consequently, during the first half of 1967, non-southern states accounted for nearly $287 million in municipal industrial financing or more than half the total for that period. Incidentally, two of the biggest projects—one for $140 million planned for 1968, the other for $70 million marketed in 1967—are substantially for the benefits of companies outside the United States.

EARLY FEARS REALIZED

Clearly, the long-standing fears of those who have opposed municipal industrial financing for private companies as an abuse of tax exemption have been realized.

Early opposition to the use of tax exempt corporate bonds was based on the predictions that (1) the practice would spread to all states and be self-defeating; (2) competition for investment funds would adversely affect interest rates on municipal bonds issued for public projects; (3) the abuse of tax exemption for borrowing on behalf of private corporations would lead to attacks on the right of local government to issue tax-exempt bonds for any purpose. All of these predictions have become a reality.

As early as 1951 the Board of Governors of the Investment Bankers Association adopted a resolution to discourage the use of tax exempt municipal bonds for the financing of industrial or commercial facilities to be leased to private companies, a position which has been reaffirmed many times. The IBA view has received strong public support from industrial and labor leaders, members of Congress, finance officers of municipalities, the press, and, indeed, by states which for their own protection, against their basic convictions, have been forced into the use of municipal industrial bonds by the intense interstate rivalry for industrial development.

CONGRESSIONAL ACTION NEEDED

Obviously, strong remedial action is demanded. Within the framework of state versus state competition in the field of industrial development, it is not practical to expect corrective action on the state level. Furthermore, the courts have consistently upheld state constitutional amendments designed to allow municipal industrial financing. Realistically then, only Congress can and must find a remedy. Two legislative actions offer an acceptable solution: (1) to deny deductions as a business expense for

any amount paid to a governmental unit by a private company for occupancy of an industrial facility financed by tax exempt bonds, as well as to eliminate the collateral tax advantages of the investment credit and depreciation allowances; (2) legislation to provide that industrial development bonds are not to be considered obligations of states and local governments, the interest on which is exempt from Federal income tax. The Investment Bankers Association prefers the first of these legislative remedies but supports the second if the Treasury chooses to move in that direction.

With a view to clarifying public understanding of municipal industrial financing, a series of questions and answers is set forth below.

QUESTIONS AND ANSWERS

Q. What are tax exempt corporate bonds or municipal industrial bonds?

A. Bonds issued by a state or local government to finance the construction of industrial plants for occupancy by private corporations. The interest on such bonds is exempt from Federal income taxes. The municipally-owned plant is then leased to the private company, often fully equipped, and the rental payments to the municipality are used to meet the interest and amortization requirements of the bonds.

Q. Why are municipal industrial bonds regarded as an abuse of tax exemption?

A. The right of state and local government to issue tax exempt securities was not intended:

(1) To permit corporations to gain tax advantages at the expense of other taxpayers.

(2) To permit private corporations to drain investment funds away from schools, hospitals and other public benefit needs.

(3) To permit the transfer of traditionally taxable corporate bond financing to tax exempt financing.

Q. What extra burden have municipal industrial bonds imposed on the taxpayer?

A. Higher taxes:

(1) Increased competition for investment funds results in higher interest rates which communities must pay to borrow money for proper public needs such as schools, hospitals, public recreation facilities, streets, sewers, etc.

(2) Industrial plants financed through municipal industrial bonds generate increased requirements for water and sewer works, roads, and schools. Since these plants are nominally owned by local government, they are exempt from direct property taxes. Unless reasonable in-lieu-of-tax payments are made public facilities will fall to a major degree on existing taxpayers.

(3) The loss of Federal taxes on interest income from industrial bonds is a subsidy to a private corporation at the expense of all other taxpayers.

Q. In what way does municipal industrial financing pose a threat to the political and financial independence of the states?

A. The tax exemption of interest on state and local debt is a keystone in our dual or federal system of government. It has enabled states and municipalities to borrow at interest costs well below those of the Federal Government. If this advantage is lost through excessive abuse of tax exemption, local government will be tempted to surrender tax exemption in exchange for guaranties or subsidies by the Federal Government, which would tend to bypass existing state control. Furthermore, broad abuse of the right to issue tax exempt bonds may be the door to the successful attack on tax exemption by those who oppose it.

Q. How does tax exempt corporate financing hurt the free enterprise system?

A. (1) A reliance by industry upon state and municipal financing of facilities for manufacture and trade is a betrayal of the free enterprise system, a step toward encouraging government ownership. Without doubt, government ownership of the productive facility is a great step toward government ownership and operation of such facilities.

(2) Expansion of this type of financing will (a) curtail and discourage private ownership, and (b) cause location of plants to be determined by political rather than economic consideration.

Q. In what other ways have tax exempt corporate bonds proved damaging to the public interest?

A. (1) Municipal industrial bonds have given some companies the unfair advantage of borrowing under the guise of government, a transparent practice that erodes the traditional American concept of free and fair competition.

(2) In various cases, they have created unemployment problems in communities when companies closed plants to move into community-financed plants in other areas.

(3) By draining funds from the available investment supply, they have increased financing cost or have caused the postponement or cancellation of many municipal projects needed for public use.

(4) Real estate tax concessions, which are one of the major considerations in the decision to occupy a municipally-owned industrial plant, often attract companies of questionable long-range benefit to a community. Extensive studies have been made of the factors which the best companies weigh in making a location decision. Taxes very often are not the most important consideration.

Q. What will be the impact of billions of dollars of tax exempt corporate bonds on the municipal bond market?

A. The net increase in normal tax exempt securities is about $7 billion each year. Several billion of tax exempt corporate bonds would mean that 25% more bonds would have to be absorbed by a market which is already under a strain. The market for tax exempts is far from unlimited. Substantial expansion of the market can only be accomplished by radical changes in interest levels which would drastically affect the value of tax exempts outstanding and load additional debt service burdens on our communities and states.

Q. Who are some of the people who have condemned municipal industrial financing?

A. (1) From Congress: Numerous U.S. Senators and Representatives from both sides of the aisle.

(2) Federal officials: Vice President Hubert Humphrey; Henry H. Fowler, Secretary of the Treasury; Manuel F. Cohen, Chairman of the Securities and Exchange Commission; Douglas Dillon, former Secretary of the Treasury.

(3) State officials: Raymond P. Shafer, Governor of Pennsylvania; Arthur Levitt, State Comptroller of New York; Edwin Gill, State Treasurer of North Carolina, North Carolina Legislature; Bert A. Betts, former State Treasurer of California; Municipal Finance Officers Association.

(4) From labor: I. W. Abel, President, United Steel Workers, and Frank Fernbach, economist for the AFL–CIO.

(5) From industry and finance: Frank L. Magee, Chairman of the Executive Committee of Aluminum Company of America; Carrol H. Blanchar, President, Public Service Indiana; National Association of Real Estate Boards; Mortgage Bankers Association; Investment Bankers Association of America; John F. Thompson, Scudder, Stevens & Clark, Investment Counselors.

(6) The Press: The New Republic; St. Louis Post-Dispatch; Newsweek; the Daily Bond Buyer; Barron's; Decatur Herald-Review; Joseph R. Slevin in Newsday.

Mr. PROXMIRE. Mr. President, I doubt that we will use all our time, and the distinguished Senator from Mississippi has asked me to yield him 3 minutes. He will not speak in opposition, but I believe we can afford to permit him to do so. I yield 3 minutes to the distinguished Senator from Mississippi.

Mr. STENNIS. I appreciate the generosity of the Senator from Wisconsin.

Mr. President, I do not know of anything that is more vital to the lifeblood of the small communities, the villages, the small towns of this Nation, where there are problems of employment, reemployment and shifting of the economy, and thus the need for industrial jobs, than is the subject of this amendment.

Do not call this a loophole. Do not worry about the hospital bonds and the school bonds. There will be no need for either, if we do not have some kind of payroll in those small communities, because the schools will close and the hospitals will close, because the people will be gone.

We talk about poverty and about doing something for ourselves. Our small community are doing exactly that, through the issuance of these bonds; the resulting industrial plant is a lifesaver to them. I do not know of anything that is more vital. Let us forget about the cities for a moment as being all controlling. It has been said that cities have to pay an extra tax rate on bonds. If true, it is very small. But this amendment relates to matters down where the little people live and where they are trying to do something for themselves, on their own credit. They may be abused some. I do not know about that. But that proves that whatever adjustment needs to be made, if any, should be made through the legislative process, where there is representation, where there is an opportunity to work things out and to consider carefully each point, one at a time, and to write a legislative policy on the problem and the subject.

That is all the proposed amendment would do. It would save this question for legislative adjustment. Whatever adjustment, if any, is needed, it would save the matter for the operation of the legislative processes. The Constitution says that all legislative power—it does not say "part"—of this Government shall be vested in Congress. And that is the substance of my plea here.

Let us put first things first and put everything in the proper place.

I urge again, from the economic standpoint of these little communities, small towns, and small cities who are trying to do something for themselves, let us not jerk them up by the seat of the pants and change the rules right in the middle of the game, except through our regular legislative processes, a congressional act.

I thank the Senator for yielding.

Mr. PROXMIRE. Mr. President, I yield 3 minutes to the distinguished Senator from South Carolina.

Mr. HOLLINGS. Mr. President, I rise to jerk up the little community by the seat of the pants, and to support the Treasury Department in closing this loophole. And I call it a loophole.

At the turn of the century, the State of South Carolina was in the liquor business and was selling through the dispensary system. The question came before the U.S. Supreme Court as to whether or not in its sale of alcoholic liquors,

the State could do away with the Federal tax stamp. That case, South Carolina against the United States, went before the court in 1905, and the court held:

The exemption of state agencies and instrumentalities from National taxation is limited to those which are of a strictly governmental character, and does not extend to those used by the State in carrying on an ordinary private business.

I submit, Mr. President [Mr. YOUNG of Ohio in the chair] that when the State gives over the full faith and credit to a private industry in this particular for revenue bonds, they are acting not as a State but as an individual, and they are subject to taxation.

We competed with the great State of Mississippi for 4 years, and we beat that State in attracting industry to the small community. In 4 years—we are not talking of hearsay but of actual experience—we attracted over $1 billion in new industry and 100,000 new jobs to South Carolina, without this loophole. But in the last year we adopted the loophole because we were pressured by the industrial giants of America who wanted to take advantage of it. The come-uppance of it all is that last week the city of Summerville, S.C., which is a very substantial and financially stable community, issued $800,000 of school bonds, 5-percent bonds, full faith and credit, and there was not a bidder. This is what will happen to small communities when they begin to transfer to industry their nontaxable status. They will not be able to provide for the schools. They will not be able to provide for the sewerage. They will not be able to provide for water systems.

So all those who are trying to get jobs and to help the little communities are bringing them back to the Federal Government to get into these projects, to go to HUD and this agency and that. And the very crowd which is crying "big government" is creating more big government than ever. The loophole should be closed, and they should be allowed to operate on their own basis. It is an injustice, and it does not attract industry to the small community.

Mr. President, recently the State newspaper, of Columbia, S.C., published an editorial entitled "End of a Gimmick." The article was concerned with the subject we are debating today, the status of industrial revenue bonds.

I found this editorial to be logical, concise, correct, and in line with my own opinions on this subject. I ask unanimous consent that it be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

END OF A GIMMICK

The ban being imposed by the U.S. Treasury Department on the use of tax-exempt industrial revenue bonds is neither unexpected nor unreasonable.

Such bonds are floated by counties and municipalities in some 40 states to build plants for lease to specific industries. Since the interest on these government bonds is not subject to federal income tax, the savings, normally about one per cent, can be passed along to industry.

The practice started in Mississippi in the late 1930's as an industry lure. It worked. Other states jumped on the bandwagon. South Carolina waited until last year before finally deciding that it had to authorize the issuance of these bonds to remain competitive in the hunt for new plants.

There is no doubt that it helped. Some 10 firms made use of industrial bonds. In fact, on the day before the Treasury ban went into effect, Chester County sold a $35 million issue for home-grown Springs Mills. At the same time, Lorain County, Ohio, put $80 million on sale for giant U.S. Steel. In all, some $200 million in industrial bonds were handled by underwriters just before the deadline for plants in various states.

This last-minute activity alone cost the federal government a million or so in lost tax revenues. The annual loss over the past few years has run into the billions.

The result, of course, is a federal subsidy for industry and an artificial interference with the placement of plants by market conditions and other business considerations.

This subsidy is unwarranted and adds to the strain being placed on all taxpayers.

When South Carolina was considering industrial revenue bonds last year, *The State* reluctantly endorsed passage of authorizing legislation, considering the bonds a necessary evil in the highly competitive quest for industry.

But now that the Treasury Department has acted to stop the practice, we oppose legislation, already in the U.S. Senate mill, to legalize the use of such bonds. Elimination of the tax-free feature on such revenue bonds should put all states back on an equal footing and make them compete for industry on the basis of the natural (and man-made) assets they can offer.

In such a competition, we have no doubt that South Carolina can hold its own.

Mr. PROXMIRE. Mr. President, I yield 3 minutes to the distinguished Senator from Pennsylvania.

Mr. CLARK. Mr. President, I commend the Senator from South Carolina for the very courageous and able statement he has just made against this iniquitous amendment. I hope it will be defeated. He has stated so well the reasons for opposing it—from a State which one might think would want to profit from this loophole—that there is little more that I can say.

I believe that the heading in the RECORD for a speech delivered on March 14, 1967, by the able junior Senator from Wisconsin summarizes the situation very well. I quote: "The Stealing of Private Industry Should Be Stopped Through the Present Practice of the Use of Tax-Free Municipal Bonds." That is just what it is. It is piracy, not on the high seas, but on the land, to take industry away from States such as Wisconsin and Pennsylvania and put it into areas where, at the expense of the taxpayer, industry can be brought into low-labor-cost areas, nonunionized, to create a situation which is socially and economically thoroughly unsound.

Mr. President, the Commonwealth of Pennsylvania, Republican and Democrat alike, is wholeheartedly opposed to the philosphy behind this amendment.

In 1967, my colleague, Senator SCOTT, spoke on the floor of the Senate, strongly opposing this type of industrial piracy through the medium of municipal-industrial financing. He pointed out that Governor Raymond Shafer, a Republican, whose views I honor in this regard, strongly supported Senator SCOTT's position. So did I. W. Abel, the president of the United Steelworkers of America. So did the Municipal Finance Officers Association and the Investment Bankers Association.

I want there to be no doubt whatever that in this position at least, the Commonwealth of Pennsylvania stands four-square behind the State of South Carolina.

I ask unanimous consent to have printed at this point in the RECORD a resolution adopted unanimously in December 1967, by the AFL–CIO convention.

There being no objection, the resolution was ordered to be printed in the RECORD, as follows:

RESOLUTION 219—THE MENACE OF INDUSTRIAL BOND FINANCING

(Unanimously adopted December 1967 by the AFL–CIO Convention)

Since its formation the AFL–CIO has been urging Federal legislation to end the misuse of tax free state and local bonds to build plants for private business. This malpractice under which public funds are used for private profit purposes in order to lure industry is known as industrial bond financing.

In recent years this industry-luring scheme—which saddles all tax-payers with the cost of an unjustifiable private subsidy—has been rapidly gaining momentum. First conceived in Mississippi in the 1930s and confined until recently to the South, it is now sanctioned by over 40 states. This vicious and spreading practice of industry luring subsidy competition among the states threatens workers' job security everywhere and the welfare of almost everyone.

Plant enticement via industrial bond financing is possible by deliberately perverting the privilege granted all states and localities to issue bonds on which interest payments are free of Federal tax. This Federal subsidy was intended, however, to help these governments provide schools and other public services—not to build plants for private use.

Because of the growing awareness of these evils important allies have recently joined the AFL–CIO in demanding the end of this malpractice. The President's Council of Economic Advisers, the Secretary of the Treasury, the Advisory Commission on Inter-governmental Relations, enlightened business groups and an increasing number of Democrats and Republicans in the House are expressing deep concern about industrial bond financing. Even the officials of several of the states that recently have authorized the use of this device to counteract plant-luring efforts by other states have called upon the Congress to finally end this evil practice nationwide. Therefore be it

Resolved that the AFL–CIO once again calls upon the Administration to propose and the Congress to enact legislation that will finally close the Federal tax loophole that for too long has given legal sanction to industrial bond financing. The time to end this menace is now.

Mr. PROXMIRE. Mr. President, as far as I know, my side has no further requests for time.

If the Senator from Arkansas [Mr. FULBRIGHT] would like 5 minutes, although he is opposed to my position, I yield him 5 minutes.

Mr. FULBRIGHT. Mr. President, I thank the Senator from Wisconsin. He is a very generous and fairminded person.

I appreciate the position of the Senator from Pennsylvania. His State has no need for capital having robbed the rest of the country, and particularly the South. They have no need for tax-exempt bonds. In the case of South Carolina, I

am not so surprised. South Carolina used to be in the same situation as some of the other States, but with the chairman of the House Armed Services Committee and the Pentagon pipeline they do not need money any more. There has been more money spent in South Carolina in connection with the Defense Establishment than has been spent in any other State, except possibly California. I can understand those people having no need for the money and being against the proposal.

However, I see no reason at all for them to oppose States which do have some need for industrial development; and I see no reason for them to oppose this device. It has not cost the Government very much. It has the great virtue of allowing these communities with local control, to look after their own business, without having to come to Washington or to the Pentagon to get their money. They make their own arrangements, plans, and deals with companies and they work the matter out on their own. They do not have to be approved by the Pentagon or Washington.

Mr. HOLLINGS. Mr. President, will the Senator yield?

Mr. FULBRIGHT. I will yield to the Senator on his time.

Mr. PROXMIRE. Mr. President, I yield to the Senator from South Carolina on our time.

Mr. HOLLINGS. I thank the Senator.

Does the Senator from Arkansas know that the Governor of Arkansas came to see what attracted industry in South Carolina and rather than looking at Federal facilities looked at the technical programs where we teach skills?

Mr. FULBRIGHT. I compliment South Carolina; and I am envious of them. They have developed one of the best job-training programs in the country. I am for it. However, the basic investment of Federal funds was there, primarily through the State's great projects such as dams, and especially the great defense programs. We envy him and the chairman of the Armed Services Committee of the House, which has a way of getting these things done. I am not complaining about it.

I am indicating that there are reasons why people who have sufficient capability are not interested in permitting the little community to have access to funds of this kind. The matter has been dsicussed by the distinguished Senator from Mississippi. I am personally familiar with one small community after another that could not possibly borrow money on any basis other than this basis, and the Senator would put up a block against it.

I can understand why Pennsylvania, Wisconsin, and New York have no need for this program, as do Arkansas and Mississippi and other areas. You cannot be elected by being for the State of Arkansas if you live in Pennsylvania or South Carolina. I understand that.

I do not think that for a matter of this kind obstacles should be placed in connection with local self-development by many small communities. This is made up of a great many small communities.

We do not have anything like they have in South Carolina for basic investments which give jobs, and so forth, with which they have done a wonderful job developing other programs, and particularly the development of job training programs which I think is the best in the country. I am not complaining about it; I envy South Carolina.

However, we do not have the kind of influence to get this basic Federal investment. We have to get the money in some other way, but there are obstacles in the way. Arkansas is beginning to make progress, as are Mississippi and other States in the so-called Colonial area of the United States, which since World War II have gained some degree of freedom. That area is one of the few areas in which there is a possibility of progress. I do not understand why the big and rich States want to go out of their way to do this. They should allow these people to develop their resources.

We are the ones who buy your automobiles and gadgets, many of which are superfluous to good living. We do buy them and we are bled most for most of the industry in Pennsylvania. It is very shortsighted for you not to allow us to participate in the growth of this country.

I hope the Senate will agree to the amendment.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. CLARK. The day the Commonwealth of Pennsylvania has to rely on customers in the State of Arkansas to purchase its products will, indeed, be a sad and unusual one.

Mr. FULBRIGHT. That is a strange thing for the Senator to say. One of the biggest industries in his State was the aluminum industry, the Aluminum Co. of America. Ninety-five percent of all bauxite was in Arkansas. They came down there and robbed the State without paying any tax whatsoever for years. One of the biggest companies had its base there. This demonstrates one of the ways other States have robbed the United States, which controls the situation, at least until World War II, when there was a certain degree of political control in this country. The facts are there for all to see. I would say there are many other fortunes in Pennsylvania and similar areas in the United States.

Mr. SPARKMAN. Mr. President, I support the pending legislation to extend the present 7-percent excise tax on automobiles, the 10-percent tax on telephone communication, and the acceleration of income tax payments by corporations.

While I do not think that any of us relish the idea of extending temporary taxes, in view of the current economic situation we do not have any other choice. We cannot avoid the fact that the Government badly needs revenues. This action should also be helpful to our present international financial position.

I was pleased to see that the Committee on Finance approved an amendment to the pending bill which would suspend the recent proposed Treasury ruling to rescind the tax exempt status of industrial development bonds. These bonds, which are issued by State and local governments, have contributed immeasurably to the economic development of many nonurban areas throughout the country.

It is my contention that the Treasury has exceeded its authority by this proposed regulation. Congress should not permit the executive branch of Government to take liberties with its constitutional power to impose taxes. The fact that Congress has refused repeatedly to act on removal of the tax-exempt status for these bonds indicates its position on this subject.

I cannot overemphasize the importance of the industrial development bond to the healthy growth and development for many local economies across the country. Areas that have been stagnant or deteriorating for years have begun to breathe new life.

As new industry grows, increased payrolls bring greater retail sales and services, property values increase and the area begins to progress toward full development. Taxes are generated as communities become revitalized and their tax base grows. The result will be more funds going into the Public Treasury than would otherwise be the case.

Industrial development bonds should also be considered from another perspective. As you know, the Housing Subcommittee last week completed hearings on legislation designed to improve the deplorable conditions in our cities. It may be possible to arrest or reverse the heavy migration into the cities if we can assure people of employment in rural areas. Productive rural areas would take a great deal of pressure off the cities. This is another important contribution that the industrial development bond can make to difficult national problems.

While the Treasury contends otherwise, the high interest rates that now prevail in the municipal and corporate bond markets are brought about by more fundamental economic factors than that of the increasing use of industrial development bonds. These factors are in many ways similar to those which brought on the recent international monetary crisis.

Industrial development bond financing for both new and expanding business has been of tremendous value to my State of Alabama as well as to many other States. To deny this investment incentive will have grave implications in terms of job opportunities and economic stability for these areas.

The Treasury has attempted to soften the effect of its proposed regulation by permitting many bond issues already initiated to be completed, provided the bonds are sold by September 15. The plans of many communities were thrown into utter chaos by the recent unexpected Treasury ruling. At least under the proposed regulation, these communities would be able to complete bond issues already under way.

In this age of subsidies and other assistance for the public welfare by the Federal Government, the present tax-

exempt status for industrial bonds is one of the best investments that the Government can make. I would think that this practice would be encouraged by the Treasury, rather than discouraged. Again, I want to commend the members of the Finance Committee for their good judgment in recommending that the Treasury regulation be suspended and urge that the full Senate concur in that action.

Mr. EASTLAND. Mr. President, on March 6, 1968, the Treasury Department announced that on or about March 15 it would issue and publish in the Federal Register an administrative ruling ending the tax-exempt status of industrial revenue bonds.

Subsequently, the Senate Finance Committee amended H.R. 15414 by adding section 5 providing that until otherwise provided by law, industrial revenue bonds will retain their tax-exempt status. On March 15 the Finance Committee reported H.R. 15414 to the Senate, as amended, and that bill is now the pending business.

On March 23, the Department of the Treasury disregarded the committee's action, and published its previously announced ruling in the Federal Register.

I know that each Senator will want to be fully apprised of the serious and far-reaching consequences that the IRS ruling will have if allowed to take effect as previously announced. I know that this will be particularly true of those Senators who have in the past expressed concern over the plight of the unemployed in Mississippi.

Mr. President, for the past several decades Mississippi has struggled to provide jobs for hundreds of thousands of farm laborers being displaced by mechanization, cutbacks in cotton allotments, minimum wage and other factors. From 1940 to 1960, agricultural employment dropped from 420,000 to 143,000, a total of 38 percent.

To cope with this problem Mississippi pioneered the concept of using industrial development bonds to provide jobs for our people. As the result of this industrial development program, manufacturing employment jumped 40 percent between 1957 and 1965. Between 1961 and 1965 manufacturing employment increased 28 percent. Only two other States have done as well in rate of growth since 1957, none has matched Mississippi's growth rate since 1961.

Yet, although the average Mississippian increased his per capita income by 60 percent in the past 15 years, it is falling farther behind the U.S. average as time progresses. In 1959, 50 percent of the families in the State had incomes below $2,900; 28 percent of the families—100,000 Negro and 70,000 white—had incomes below $1,000. If $3,000 is accepted as the poverty level, then 43 percent of the white and 86 percent of the Negro families were in that category in 1959.

The gap between Mississippi's per capita income and the U.S. average increased $400 between 1950 and 1965 for a percentage loss of 50 percent. Mississippi will need to increase its per capita income at a rate of $100 per year in order to reach the national average by the year 2000.

It is immediately obvious that our State must rapidly increase its industrial expansion just to maintain its present position in relation to the rest of the country.

It is equally obvious that any slowdown in our industrial development would be disastrous to the economy of our State.

What effect will the Treasury Department's ruling have on industrial development in Mississippi?

On March 7, 1968, in reply to an inquiry by the Mississippi Agricultural and Industrial Board, the Mississippi Employment Security Commission stated that an end to the tax-exempt status of industrial bonds "would almost sound the death knell for the very fine industrial development program being carried on throughout the State." The commission further stated that while a large number of individuals were being trained under the Manpower Development and Training Act of 1963, "our major problem has been in finding job opportunities for these persons after they have been successfully trained." The commission concluded:

> It is our opinion that unless more job opportunities are made available we will not be able to secure funding for the continuation of this badly needed training program, and certainly the enactment of legislation to tax Industrial Revenue Bonds would almost kill our chances for meeting the job needs of our people.

Mr. President, the same issues being raised today in opposition to industrial bond financing were raised and considered settled as early as 1938, in the landmark case of *Albritton* v. *City of Winona*, 181 Miss. 75, 178 So. 799, appeal dismissed by the Supreme Court of the United States in a per curiam opinion, 303 U.S. 627.

Chief Justice Smith, speaking for the Mississippi Supreme Court, in banc, in a comprehensive discussion of the issues raised, stated as follows:

[1] 1. The purpose for which the state exists is to promote the welfare of its citizens—their peace, happiness, and prosperity.

[2] 2. The government is the state's agent, created by its Constitution and charged thereby with the duty of accomplishing this purpose, which duty rests with equal force on each of the departments into which the government is separated—the executive, the legislative, and the judicial.

[3] 3. The legislative department is primarily charged with the duty of determining by what means this purpose can be accomplished. To that end it is invested, by section 33 of our State Constitution, with all legislative power, except in so far as other sections of the Constitution place a limitation thereon.

[4] 4. Upon the judicial department, because of the nature of its duties, devolves the duty of determining whether in specific instances the other two departments have exceeded the powers granted to them by the Constitution.

[5] 5. In determining whether an act of the Legislature violates the Constitution, the courts are without the right to substitute their judgment for that of the Legislature as to the wisdom and policy of the act and must enforce it, unless it appears beyond all reasonable doubt to violate the Constitution. Nor are the courts at liberty to declare an Act [of the legislature] void, because in their opinion it is opposed to a spirit supposed to pervade the Constitution, but not expressed in words.

With this preface we come to the specific questions presented for consideration, which will be disposed of seriatim.

[6] The state's taxing power can be resorted to only for a constitutionally valid public or governmental purpose, so that the question here is whether the purpose for which the tax is to be levied is constitutionally valid.

[7] 1. *Due Process of Law.* The vague and general phrase "due process of law" is not defined by the Constitution, consequently the courts have been compelled to develop its concept and content—to say what it means. In the course of so doing they have expanded it beyond its literal meaning of "due procedure" and have brought within it substantive as well as procedural rights. When applied to substantive rights it is now interpreted to mean that the government is without the right to deprive a person of life, liberty, or property by an act that has no reasonable relation to any proper governmental purpose, or which is so far beyond the necessity of the case as to be an arbitrary exercise of governmental power.

[8] Chapter 1, Laws of First Extraordinary Session of 1936, seeks to promote the public welfare (1) by providing an opportunity for laboring men to obtain employment, without which a large number of them would be without an opportunity to earn a livelihood; (2) to provide means for the processing of the natural resources and agricultural products of the state, for want of which these products are being carried beyond the borders of the state for processing, to the detriment of its citizens; and (3) to promote agriculture. The economic condition which here confronted the Legislature was this: (1) Thousands of our citizens, throughout the state, who are dependent on manual labor for a livelihood were without employment, and under the state's then economic and industrial setup would probably continue indefinitely so to be; and (2) agriculture, from which most of the state's citizens, either directly or indirectly, derive a livelihood, was at a low ebb with nothing to indicate that it would not indefinitely so continue. The care of the poor, the relief of unemployment, and the promotion of agriculture and industry are undoubtedly proper governmental purposes, are so recognized everywhere and by all. The question here then is: Has the method provided by the statute for those purposes a reasonable relation thereto, and is it not so far beyond the necessity of the case as to be an arbitrary exercise of governmental power? The statute authorizes municipalities to (1) own and operate manufacturing plants, and (2) to sell or lease them, in whole or in part, for operation by individuals or private corporations. The specific question here is the validity vel non of the lease provision of the statute, but, if the Legislature cannot constitutionally permit municipalities to own and operate industrial plants for the accomplishment of the intended purposes, it cannot, of course, accomplish such purposes by permitting them to acquire and lease such plants for operation by private persons and corporations. We will discuss first, therefore, the ownership provision of the statute.

[9, 10] The ownership by municipalities of business enterprises that are usually designated as public utilities has long been recognized as valid, but the enterprise here is not within that category and belongs to the class usually owned and operated by private individuals. That fact is not an insuperable obstacle, for the state and its subdivisions have long been permitted to engage in such enterprises, provided the public interest requires. Jones v. Portland, and Green v. Frazier, supra. This state owns a very large farm on which it produces and sells a large quantity of cotton and other crops—a business usually engaged in by private individuals—the necessity and, therefore, the justification therefor being to give its convicts employment. But the validity of

the exercise of the taxing power does not rest alone on necessity, as Judge Cooley has admonished us in People v. Township of Salem, 20 Mich. 452, 4 Am. Rep. 400, where in holding that taxes can be levied only for public purposes he said: "I do not understand that the word public, when employed in reference to this power, is to be construed or applied in any narrow or illiberal sense, or in any sense which would preclude the Legislature from taking broad views of State interest, necessity or policy, or from giving those views effect by means of the public revenues. Necessity alone is not the test by which the limits of State authority in this direction are to be defined, but a wise statesmanship must look beyond the expenditures which are absolutely needful to the continued existence of organized government, and embrace others which may tend to make that government subserve the general well-being of society, and advance the present and prospective happiness and prosperity of the people." "The end being legitimate [here, the relief of unemployment and the promotion of the state's agricultural and industrial welfare], the means is for the legislature to choose." Carmichael v. Southern Coal & Coke Co., 301 U.S. 495, 57 S.Ct. 868, 876, 81 L. Ed. 1245, 109 A.L.R. 1327, the only limitation thereon under due process being that the means chosen must not be so far beyond the necessity of the case as to be an arbitrary exercise of governmental power.

[11] Manufacturing enterprises, as all will agree, will tend to relieve unemployment and both directly and indirectly furnish markets for agricultural and other products. This state, in comparison with others, has few such enterprises, and it has long sought in vain to procure them by offering them special inducements, e.g., exemption from taxation. The Legislature has determined that the public interest, as set forth in the preamble to the statute, requires the adoption of another method for procuring them, to wit, municipal ownership in whole or in part thereof. The method thus adopted undoubtedly has a reasonable relation to the purpose sought to be accomplished, and whether it is so far beyond the necessity of the case as to be merely an arbitrary exercise of governmental power is a question of fact, or of an inference to be drawn from facts, the relative facts being of a social and economic character. Some of these facts are set out in the preamble to, and section 1 of, the statute, but the Legislature was not confined thereto, and we must take into consideration any other relative sustaining facts which may reasonably be conceived to exist. If from these facts the reasonableness of the method adopted for accomplishing the desired purpose appears, the statute is valid, or, if different reasonable inferences can be drawn therefrom, the Legislature is entitled to its judgment, and we must permit the statute to be enforced, even though we should doubt its wisdom and be of the opinion that a different and better method could be devised for accomplishing the desired purpose.

But it is said in effect that the engaging by a state or its political subdivisions in manufacturing enterprises is a complete departure from the concept our forefathers had of the powers and duties of the state and a step towards socialism. This ambiguous and ill-defined word which is given an "exceedingly wide range of specific connotations" according to the use desired to be made of it came first into use in its modern sense in 1827. 14 Ency. of The Social Sciences 188. Every intervention of any consequences by the state and national governments in the economic and social life of the citizen has been so branded beginning in the later part of the last century with governmental control and regulation of industries usually owned and operated by private individuals and which have come to be recognized as public utilities. We must not permit ourselves to be subjected to the tyranny of symbols. The due process of law provisions of our constitutions do not enact Adam Smith's concept of the negative state, one of the main functions of which would be to stand aloof from intervention in the social and economic life of its citizens. This concept of the state was probably acted upon in the early history of this country but has long since been discarded, beginning with the social and economic security statutes of the latter part of theh last century, and evidenced today by numerous such statutes of the states and federal government. "It is manifest" in the language of the Supreme Court of the United States in Home Building & Loan Association v. Blaisdell, 290 U.S. 398, 442, 54 S.Ct. 231, 241, 78 L.Ed. 413, 431, 88 A.L.R. 1481, from a "review of our decisions that there has been a growing appreciation of public needs and of the necessity of finding ground for a rational compromise between individual rights and public welfare. The settlement and consequent contraction of the public domain, the pressure of a constantly increasing density of population, the interrelation of the activities of our people and the complexity of our economic interests, have inevitably led to an increased use of the organization of society in order to protect the very bases of individual opportunity."

[12] Again it is said that, if the state and its subdivisions can own and operate a manufacturing enterprise, it can then take over and operate every business and industry, thereby bringing all its citizens into direct dependence on the state. This, of course, under due process of law could not be done, for the liberty of the citizen to acquire, own, and use private property cannot thereunder be destroyed or arbitrarily interfered with. The statute here under consideration does not create a state or municipal monopoly nor interfere with the right of individuals to engage in the business of manufacturing raw materials into finished products. The due process clauses of our constitutions must not be construed so as to put the state and federal governments into a strait-jacket and prevent them from adapting life to the continuous change in social and economic conditions. That the framers of our constitutions may not have visualized the present public needs is of no consequence, for, as the Supreme Court of the United States further said in Home Building & Loan Association v. Blaisdell, supra, "it is no answer to say that this public need was not apprehended a century ago or to insist that what the provision of the Constitution meant to the vision of that day it must mean to the vision of our time. If by the statement that what the Constitution meant at the time of its adoption it means today, it is intended to say that the great clauses of the Constitution must be confined to the interpretation which the framers, with the conditions and outlook of their time, would have placed upon them, the statement carries its own refutation."

We must never forget that, in the words of John Marshall, a constitution is "intended to endure for ages to come, and, consequently, to be adapted to the various crises of human affairs. To have prescribed the means by which government should, in all future time, execute its powers, would have been to change, entirely, the character of the instrument, and give it the properties of a legal code. It would have been an unwise attempt to provide, by immutable rules, for exigencies which, if foreseen at all, must have been seen dimly, and which can be best provided for as they occur." McCulloch v. Maryland, 4 Wheat. 316, 415, 4 L.Ed. 579. While the Federal Constitution was in process of adoption by the states, Alexander Hamilton, in No. 32 of the Federalist, said: "We are not to confine our view to the present period, but to look forward to remote futurity; constitutions of civil government are not to be framed upon a calculation of existing exigencies, but upon a combination of these with the probable exigencies of ages, according to the natural and tried course of human affairs. Nothing, therefore, can be more fallacious than to infer the extent of any power proper to be lodged in the national government, from an estimate of its immediate necessities. There ought to be a capacity to provide for future contingencies as they happen; and as these are illimitable in their nature, it is impossible to safely limit that capacity." See, also, 11 Am.Jur., Constitutional Law, § 51, and cases there cited.

Growth is the life of the law, and when it ceases to grow and to keep pace with social and economic needs it becomes a hindrance instead of an aid to the public welfare.

In 1963, the Advisory Commission on Intergovernmental Relations, in its report on industrial bond financing, stated as follows:

We concern ourselves with such questions as: Is the use of public credit for the acquisition of industrial plants for lease to private enterprise a constructive State and local government activity? Is it compatible with the division of governmental responsibilities under the Federal form of organization?

Governments in the United States since the beginnings of the Republic have freely intervened in and assisted the private economy to enable it better to achieve popular ends. This has occurred typically in the sweep of new patterns of growth and expansion, some national, others more limited. State and local government financing of privately owned canals, turnpikes, and railroads during expansion to the west is the conspicuous illustration. Less conspicuously, but quite commonly, governments financed banks, drainage areas, irrigation projects, and other internal improvements associated with the development of private interests. More recently, government ownership of utilities to foster the expansion of urbanization has become a common phenomenon.

The practice of State and local governments using their credit to help finance industrial facilities for private enterprise to further economic development and employment within their area bears some resemblance also to the investment of public funds (sometimes obtained through tax exempt financing) in baseball stadiums, sport arenas or recreation facilities to attract trade and commerce, particularly tourists.

In considering the propriety of State and local governments to engage in the stimulation of industrial development note should be taken also of the fact that the Federal Government is so engaged, with similar objectives, through such agencies as the Area Redevelopment Administration and the Small Business Administration.

Indeed, the phenomenon of two or three levels of government focusing on a common problem is the rule rather than the exception under our governmental system. If there be a preference for one particular pattern in the allocation of responsibilities among governments, it is biased toward relying in the first instance on local initiative.

Industrial development financing by State and local governments, as now practiced, appears typically to be associated with surplus labor problems. This conspicuously is the case with the hundreds of community programs scattered across a half dozen southern States where its objective is finding jobs for displaced agricultural workers. This appears also to be the case with the newer State programs concentrated in a few industrial States, where the motivation and statutory justification is the provision of jobs for chronically unemployed industrial workers.

Inherent in areas of substantial unemployment is the absence of property investment through which people can be productively employed. Rural areas are frequently deficient in credit facilities and in leasable industrial structures of substantial size. In both rural and industrial areas, the capital required by small, new innovating enterprises is often not readily available from conventional credit sources. In these kinds of situations, government can help to provide capital. Indeed, evidence suggests that public credit financing loosens and has a bellweather influence on private credit.

The communities in which employment has been generated with benefit of State and local financing assistance now number in the hundreds. Most are small places with small projects. From the viewpoint of some of these communities, particularly the smaller ones hitherto without industrial plants, the operations have succeeded. They have created some jobs, as was their objective. This at least appeared to be the consensus of those interviewed in the 17 communities with some 60 plants visited in the course of this project. Evidence of this kind, to be sure, casts insufficient light on the net effect of these activities on total national employment. The data required to illuminate that question are not available because the impact of these activities on the familiar economic indicators is indiscernible in the interplay of the legion of variables which shape nationwide and statewide business activity. While conclusive evaluation of the net contribution of industrial development bond financing to the national economy would be informative, it is not indispensable to the consideration of its intergovernmental aspects.

As we have already noted, there is nothing radically new or revolutionary in a local government's effort to use its fiscal powers in behalf of its economic objectives.

In regard to alleged abuses of industrial bond financing, the Commission found:

As pointed out below, local industrial development bond projects have in the main been small and orderly. We have not uncovered many examples of conspicuous abuse.

As to the charge that industrial bonds have been used to "pirate" industry away from the North, the Commission found:

The evidence we have been able to muster indicates that examples of pirating or runaway businesses associated with industrial revenue bonds are exceptions, not the rule.

As to the charge that the tax-exempt status of industrial revenue bonds causes a loss of Federal revenue, the Commission noted:

The government's revenue loss from the issuance of tax exempt industrial development bonds is partially offset, it should be noted, by the revenue gain resulting from the fact that the private business enterprise which receives the benefits of the tax exempt borrowing through lower rental charges is a taxable entity. To the extent that tax exempt financing (and other subsidies provided by State or local government) increases the business firm's taxable net income, its Federal tax liability is increased. In this respect the revenue effect of the industrial development bond differs from that of municipal bonds generally.

The Commission could have added that the industrial employees who obtain jobs because of these bond issues also pay taxes, as do others in these communities who benefit indirectly from industrial payrolls.

The Commission could also have noted that but for these industrial jobs most of these employees would be among the ranks of the unemployed, and many would be on the welfare rolls.

It should also be noted that most of those who fail to find employment in their own communities migrate to our great urban areas where they often become a far more costly burden on the local, State, and Federal Governments.

The Advisory Commission identified "leaders in corporate finance" concerned that the use of industrial bond issues "could conceivably divert significant portions of corporate financing from conventional channels." But is money readily available from these "leaders in corporate finance" for industrial development in rural areas? The Commission found that—

The incomplete inventory of projects financed with local industrial development bonds now lists substantially in excess of 500 separate issues. Most are located in areas of surplus farm labor, usually designated as redevelopment areas for Federal assistance.

* * * * *

The small and medium sized industrial concern thinking of starting manufacturing operations or expanding them into a rural community seldom has accumulated cash for construction; and such capital accumulations and credits as it is able to take to the new seat of operation are usually needed for sales promotion, research, and operating capital required in the new location. It is often impracticable for such industries to sell stock publicly because of the expense involved and the threat to ownership's control. In short, many concerns, particularly small, new and growth-industry firms, wanting to initiate or enlarge operations require external financing from within the area into which development is proposed.

* * * * *

Banks are the principal source of credit for industry and large banks are able to lend all of their resources allocated to industrial bonds and mortgages to prime borrowers and within select areas. Banks in most of those cities and counties which have issued industrial development bonds are small—seldom with more than $10 in deposits—and pursue a conservative investment policy. Some State laws restrict banks territorially. This further handicaps banks in providing capital for the construction of industrial buildings in rural areas. Banks in large commercial centers often make industrial loans at interest rates higher than allowed by some States where local industrial development bonds are issued. This impedes the flow of capital to some areas. When capital is available to relatively under developed areas interest rates tend to be higher than in financial centers.

Together these conditions lead to the conclusion that in rural areas conventional credit facilities do not adequately provide financing for industrial buildings, and the machinery for using credit to provide industrial buildings on a lease-back arrangement is lacking. In many areas local government is the only entity that has the motivation and power to command capital for this use. The use of industrial development bonds to bridge "credit gaps" is consistent with the role recognized as appropriate for Federal credit programs by a committee that recently reported to the President on this subject.

Mr. President, it has been further alleged that the increase in the sales of industrial revenue bonds has caused the interest rates on other tax-exempt bonds to go up. Of course, this charge is too shallow and superficial on its face to require lengthy rebuttal. Interest rates on all bonds, tax-exempt and non-tax-exempt, have increased rapidly in the past several years. As a matter of fact, all interest rates have increased to record highs and bond prices generally have dropped to record lows.

To blame this trend in finance on the small percent of industrial development bonds is, to be frank, ridiculous on its face.

In conclusion I would like to direct the Senate's attention to an overriding issue upon which all Members should agree, regardless of individual views as to the merits or demerits of industrial bond financing. I think every Senator should agree that the status of these bonds is a matter to be determined by Congress, not by a highhanded, arrogant attempt by the Department of Treasury to usurp the legislative powers of this body by administrative fiat. As stated by the Finance Committee report:

The Committee on Finance is concerned that the Treasury Department in taking this action is, in effect, legislating on this subject. It does not believe that a change should be made in the status of the interest on these bonds without specific legislative action on the part of the Congress.

The time has come for this Congress to reassert its authority and responsibility.

I urge the adoption of the committee amendment.

Mr. President, I ask unanimous consent that the following items be printed at the conclusion of my remarks: letter from the Mississippi Employment Security Commission, dated March 7, 1968; resolutions by the Mississippi Agricultural and Industrial Board and the Mississippi Industrial Development Council; Department of the Treasury Ruling appearing at page 4950 of the Federal Register of March 23, 1968; Summary of Mississippi BAWI Plants; Industries coming under the Revenue Bond Act; Box Score of Mississippi's Industrial Progress.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

MISSISSIPPI EMPLOYMENT SECURITY COMMISSION,
Jackson, Miss., March 7, 1968.

Mr. SAM E. SCOTT,
Attorney, Mississippi Agricultural & Industrial Board, Jackson, Miss.

DEAR MR. SCOTT: Reference is made to our telephone conservation of Wednesday, March 6, 1968, relative to proposed legislation in the Congress of the United States to impose a tax on Industrial Revenue Bonds.

As you know, this Agency is vitally interested in and has been actively working with industrial development organizations throughout the years to provide more job opportunities for our citizens. From information provided me by the various industrial development organizations located throughout Mississippi, the enactment of legislation to tax Industrial Revenue Bonds would almost sound the death knell for the very fine industrial development program being carried on throughout the state.

The latest figures of this Agency show that from 1956 to 1966 total non-agricultural employment increased from 346,400 to 519,300 with employment in manufacturing establishments increasing from 106,900 to 166,200. For each of the past five years there has been a net increase of 7,400 new jobs by new and expanding industries in Mississippi, which represents a 29% gain; however, without Industrial Revenue Bonds, these increases would have not been possible. Even so, these

figures give us no cause for complacency since today the per capita income for Mississippians is still $1,777 compared to the national average of $2,963. Our unemployment estimates for January, 1968, indicate that there were 42,500 persons unemployed or 5.3% of the total labor force. Certainly, all of these Mississippians need work opportunities and with the continued growth of our civilian labor force, it is imperative that more job opportunities be provided or our citizens will either have to leave the state for employment or Welfare rolls will materially increase.

Another indication of the drastic needs for more job opportunities in the state is reflected by the fact that 52 of the 82 counties are currently eligible for assistance under the Economic Development Act. Criteria for eligibility under this legislation is dependent upon a high rate of unemployment or an extremely low level of income. Additionally, the 18 Delta and part-Delta counties of Mississippi have been declared an area eligible for special consideration in bidding on Government contracts. The inclusions of these 18 Mississippi counties was based on the high rate of unemployment and provides that any firm located in this area or in the immediate environs of the area can negotiate Government contracts on a non-competitive basis.

This Agency, in cooperation with the Vocational Education Division of the State Department of Education, is currently involved in training a large number of individuals in specific skills under the Manpower Development and Training Act of 1963, and our major problem has been in finding job opportunities for these persons after they have been successfully trained. It is our opinion that unless more job opportunities are made available, we will not be able to secure funding for the continuation of this badly needed training program, and certainly, the enactment of legislation to tax Industrial Revenue Bonds would almost kill our chances for meeting the job needs of our people.

If we can provide additional information or be of any further service, please feel free to call on us.

Sincerely yours,

O. H. SIMMONS,
Chief, Operating Functions Department.

RESOLUTION

Whereas, The State of Mississippi has since 1936 had an effective and beneficial program for the economic development of this state known as the "Balance Agriculture with Industry" plan, which program has been declared by the Legislature of the State of Mississippi to be essential and necessary, and that the present and prospective health, safety, morals, pursuit of happiness, right to gainful employment and the general welfare of the citizens demand as a public purpose the development within Mississippi of commercial, industrial, agricultural and manufacturing enterprises, and

Whereas, The Mississippi Agriculture and Industrial Board has continued faith in and a vital concern for the Balance Agriculture with Industry program and the economic development of this state, and is desirous of doing everything necessary to further foster and promote the general welfare of Mississippi and to meet its responsibilities under the laws of this state, and

Whereas, This Board has been informed about and has inquired into the proposed regulations by The United States acting by and through the Securities and Exchange Commission, the Treasury Department and the Internal Revenue Service and on the basis of such inquiry feels that the proposed Rule 131 under the Securities Act of 1933, proposed Rule 3b-5 under the Securities Exchange Act of 1934 and the proposed regulation discussed in Internal Revenue Service Technical Information Release, TIR-972, will have a clear and present detrimental effect on Mississippi's industrial development program and thus adversely affect the public interest as announced by the Legislature of the State of Mississippi.

Be it therefore Resolved by the Mississippi Agricultural and Industrial Board That it opposes the proposed regulations set forth above; that it is the judgment of this Board that such proposed regulations, because of their adverse effect upon the economic development program and on the economy of this state, should be vigorously and firmly opposed by all means available to this Board; that the Director and staff of this Board be, and they are hereby directed to continue to carefully follow any developments pertaining thereto, and to take such action as is necessary to protect the interest of this Board and the State of Mississippi as expressed in this resolution.

Be it further Resolved That the Securities and Exchange Commission, the Treasury Department, the Internal Revenue Service, the entire Mississippi congressional delegation, all members of the Mississippi Legislature and the appropriate agencies of all states interested in these matters be advised of this Board's position.

ACTION OF MISSISSIPPI INDUSTRIAL DEVELOPMENT COUNCIL SEMIANNUAL BUSINESS SESSION, MAY 4, 1967

There followed a discussion of the Municipal Industrial Bond Program and reported efforts in Congress to adopt legislation to abolish the tax exempt feature of these municipal bonds and further administrative efforts to change the tax treatment of rentals paid by industries leasing these plants which are financed by Municipal Industrial Bonds or Municipal Industrial Revenue Bonds. It was brought out in the discussion that there have been over 500 Municipal Industrial or Municipal Industrial Revenue Bond issues approved in Mississippi since this program was initiated as the BAWI program in 1944 and this program continues to be an important element in the economic development of the State of Mississippi and any changes which would weaken our BAWI program would seriously hamper our economic development. It was further brought out that some 34 states now have Mundicipal Industrial Revenue Bond programs.

Upon motion duly made, seconded and unanimously adopted on this the 4th day of May, 1967, it was resolved that the Mississippi Industrial Development Council go on record as opposing any legislation or administrative action that would take away the tax exempt feature of Municipal Industrial or Municipal Industrial Revenue Bonds or that would change the long standing practice of allowing industries to write off as an operating expense the lease payments that are made to the municipalities that own these municipal enterprises. It was further resolved that the Mississippi Congressional delegation be and is hereby requested to actively oppose any efforts to change the existing tax treatment of Municipal Industrial or Municipal Industrial Revenue Bonds and the resulting leases.

MARVIN L. WYNN,
Secretary-Treasurer.

[From the Federal Register, vol. 33, No. 58, Mar. 23, 1968]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

[26 CFR Part 1]

INCOME TAX

Industrial Development Bonds; Hearing

The proposed amendment to the regulations under section 103 of the Internal Revenue Code relating to interest on certain governmental obligations appears in this issue of the FEDERAL REGISTER (Mar. 23, 1968).

A public hearing on the provisions of this proposed amendment to the regulations will be held starting on Monday, May 20, 1968, at 10 a.m., e.d.s.t., and continuing if necessary on May 21. The hearing will be held in Conference Room B, Departmental Auditorium, Constitution Avenue between 12th and 14th Streets NW., Washington, D.C.

Persons who plan to attend the hearing are requested to notify the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D.C. 20224, by May 13, 1968. Notification of intention to attend the hearing may be given by telephone, 202-964-3935.

LESTER R. URETZ,
Chief Counsel.
By: JAMES F. DRING,
Director, Legislation and Regulations Division.

[F.R. Doc. 66-3613; Filed, Mar. 22, 1968; 10:14 a.m.]

[26 CFR Part 1]

INCOME TAX

INDUSTRIAL DEVELOPMENT BONDS

Notice is hereby given that the regulations set forth in tentative form below are proposed to be prescribed by the Commissioner of Internal Revenue, with the approval of the Secretary of the Treasury or his delegate. Prior to the final adoption of such regulations, consideration will be given to any comments or suggestions pertaining thereto which are submitted in writing, in duplicate, to the Commissioner of Internal Revenue. Attention: CC:LR:T, Washington, D.C. 20224, within the period of 30 days from the date of publication of this notice in the FEDERAL REGISTER. Any written comments or suggestions not specifically designated as confidential in accordance with 26 CFR 601.601 (b) may be inspected by any person upon request. Any person submitting written comments or suggestions who desires an opportunity to comment orally at the public hearing which will be held on these proposed regulations should submit his request, in writing, to the Commissioner within the 30-day period. Notice of the time, place, and date of the public hearing is published simultaneously herewith. The proposed regulations are to be issued under the authority contained in section 7805 of the Internal Revenue Code of 1954 (68A Stat. 917, 26 U.S.C. 7805).

[SEAL] SHELDON S. COHEN,
Commissioner of Internal Revenue.

In order to provide rules for the treatment accorded interest on industrial development bonds, the Income Tax Regulations (26 CFR Part 1) under section 103 of the Code, relating to interest on certain governmental obligations, are amended by adding after § 1.103-6 the following new section:

"§ 1.103-7 Industrial development bonds.

"(a) *Treatment of industrial development bonds.* An industrial development bond (as defined in paragraph (b) of this section) shall not be considered to be an obligation of a State, a territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia within the meaning of section 103 (a) (1) and § 1.103-1 (hereinafter referred to as a 'governmental unit').

"(b) *Definition of industrial development bonds.* (1) The term 'industrial development bond' means any indebtedness issued by a governmental unit if under the terms of such indebtedness or any underlying lease, deferred payment sale, loan or similar arrangement—

"(i) One or more indentifiable persons other other than a governmental unit have the use of, or the right to use, all or a major portion of the proceeds, or property acquired with the proceeds, of such indebtedness.

"(ii) Such person is required to provide all or a major portion of the funds necessary

to pay the principal and interest on such indebtedness, and

"(iii) The payment of the principal and interest on such indebtedness is secured in whole or in major part—

"(a) By a security interest (as defined in subparagraph (2) of this paragraph) in such property, or

"(b) By an interest in (or to be derived from) payments to be made with respect to such property or to such loan.

Such indebtedness, although issued by a governmental unit, is in reality the indebtedness of a person other than a governmental unit since under the terms of the indebtedness or any underlying lease, deferred payment sale, loan or similar arrangement the governmental unit serves as a conduit for disbursing funds provided by such person, and the liability for providing the funds to pay the principal and interest on the indebtedness is that of such person. Similarly, the status of such indebtedness of a person other than a governmental unit is not changed by the agreement of a governmental unit to guarantee the indebtedness of such person.

"(2) For purposes of subparagraph (1) of this paragraph, the term 'security interest' means any interest in property acquired by contract for the purpose of securing payment or performance of an indebtedness.

"(3) For purposes of subparagraph (1) (i) of this paragraph, use of property by a person other than a governmental unit exists only if, under the lease, deferred payment sale, loan, or similar arrangement, a major portion of any direct economic benefit to be derived from property (other than property described in subdivision (ii) of this subparagraph) may inure to such a person. Thus, a person other than a governmental unit will not be considered, for purposes of subparagraph (1) (i) of this paragraph, to have the use of, or the right to use, property if—

"(i) Such property is owned by a governmental unit and such person is operating or managing the property on behalf of a governmental unit and does not have rights with respect to such property such that a major portion of any direct economic benefit to be derived from such property may inure to a person other than a governmental unit, or

"(ii) Such property is functionally related to a facility owned by a governmental unit that is or will be operated or managed by or on behalf of the governmental unit, and such property is operated as an integral part of the entire facility.

"(4) Examples: The provisions of this section may be illustrated by the following examples:

"Example (1). (a) Governmental unit A and corporation X enter into an agreement under which the governmental unit is to provide a factory which corporation X will lease for 20 years. The agreement provides (1) that the governmental unit will issue $10 million of bonds, (2) that the proceeds of the bond issue will be used to purchase land and to construct and equip a factory in accordance with corporation X's specifications, (3) that corporation X will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by corporation X and the facility itself shall be the security for the bonds.

(b) The bonds are industrial development bonds since (1) the facility will be used by corporation X, (2) corporation X is required to provide the funds needed to pay the principal and interest on the bonds, and (3) the payment of principal and interest on the bonds is secured by an interest in the payments by corporation X and the facility.

"Example (2). (a) The facts are the same as in example (1) except that, instead of providing that corporation X will lease the facility for 20 years, the agreement provides (1) that corporation X will purchase the facility and (2) that annual payments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds will be made by corporation X.

"(b) The bonds are industrial development bonds and, therefore, are not obligations of governmental unit A for the reasons set forth in example (1).

"Example (3). (a) Governmental unit A and corporation X enter into an agreement under which the governmental unit is to lend $10 million to corporation X. The agreement provides (1) that governmental unit will issue $10 million of bonds, (2) that the proceeds of the bond issue will be lent to corporation X to provide additional working capital and to finance the acquisition of certain new machinery, (3) that corporation X will repay the loan in annual installments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that the payments on the loan and the machinery shall be security for the bonds.

"(b) The bonds are industrial development bonds since (1) corporation X will use all of the proceeds, (2) corporation X is required to provide the funds necessary to pay the principal and interest on the bonds, and (3) the payment of the principal and interest on the bonds is secured by an interest in payments made with respect to the loan or property acquired with the proceeds of the loan.

"Example (4). (a) The facts are the same as in example (1), (2), or (3) except that the annual payments required to be made by corporation X exceed the amount necessary to amortize the principal and pay the interest on the outstanding bonds.

(b) The bonds are industrial development bonds since the conditions of subparagraph (1) of this paragraph are satisfied. The fact that corporation X is required to pay an amount in excess of the amount necessary to pay the principal and interest on the bonds does not affect their status as industrial development bonds.

"Example (5). (a) The facts are the same as in example (1), (2), (3), or (4) except that the bonds are general obligation bonds and governmental unit A is required to pay principal and interest out of general revenues in the event of a default by corporation X.

"(b) The bonds are industrial development bonds since (1) the proceeds of the bond issue or the property acquired with such proceeds will be used by corporation X, (2) corporation X is required to provide the funds needed to pay the principal and interest on the bonds, and (3) the payment of principal and interest on the bonds is secured by an interest in the payments by corporation X and by the property acquired with the proceeds of the bond issue. Governmental unit A's agreement to pay the principal and interest out of general revenues is, in effect, a guarantee of corporation X's indebtedness.

"Example (6). (a) Governmental unit A issues $10 million of general obligation bonds to purchase land and construct an apartment building. The bond indenture provides (1) that governmental unit A will operate the building as a rental facility and (2) that the building itself and the rental payments (if any) shall be the security for the bonds. At the time the bonds are initially sold there is no lease or other arrangement with any person to rent the building. Bond purchasers are relying on the revenues of governmental unit A, and the ability of A to secure tenants, rather than the obligation of any identifiable lessee to provide the funds necessary to pay the principal and interest on the bonds.

"(b) The bonds are not industrial development bonds since under the terms of the bond indenture (1) no identifiable person other than governmental unit A has the use or the right to use, the proceeds or property to be acquired with the proceeds of the bond issue at the time the bonds are initially sold, and (2) no identifiable person other than governmental unit A is required to provide any of the funds necessary to pay the principal and interest on the bonds.

"Example (7). (a) Governmental unit A and corporation X enter into an agreement under which corporation X will lease for 20 years the first three floors of a 12 story office building to be constructed by the governmental unit. The remaining nine floors of the building are to be occupied by the governmental unit. The agreement provides (1) that the governmental unit will issue $10 million of bonds, (2) that the proceeds of the bond issue will be used to purchase land and construct an office building, (3) that corporation X shall pay an annual rental of $200,000, and (4) that such rental payments and the building itself shall be security for the bonds.

"(b) The bonds are not industrial development bonds since (1) corporation X does not have a right to use a major portion of the property acquired with the proceeds of the bond issue and (2) corporation X will not provide a major portion of the funds necessary to pay the principal and interest on the bonds.

"Example (8). (a) Governmental unit A issues $20 million of bonds to build a stadium. The governmental unit had previously entered into 15-year leases with professional baseball team M and professional football team N. Both leases are limited to that portion of the stadium actually used for athletic purposes and do not include concessions. Both leases provide that governmental unit A shall (1) be responsible for maintenance of the stadium, (2) enter into agreements with concessionaires to provide appropriate services, and (3) have the use of the stadium when neither team is using it for athletic purposes. The bond indenture provides that payments to be received from M and N, revenues to be derived from concessions, and any other revenues to be derived from the operation of the stadium shall be security for the bonds.

"(b) The bonds are not industrial development bonds since the stadium will be owned and operated by governmental unit A and no other person has rights with respect to the stadium such that a major portion of the economic benefits to be derived from the stadium will inure to such person.

"Example (9). (a) The facts are the same as in example (8) except that governmental unit A enters into an agreement with corporation X under which corporation X, for a fixed reasonable fee, agrees to manage and operate the stadium in a manner that will provide revenue to pay the principal and interest on the bonds. Corporation X enters into lease arrangements with professional baseball team M and professional football team N that are identical to the leases described in example (8). Under the terms of the management agreement, any revenues from the operation of the stadium in excess of the fixed reasonable fee provided for in the agreement must be paid over to governmental unit A. The bond indenture provides that the stadium and the net operating revenues of the stadium shall be the security for the bonds.

"(b) The bonds are not industrial development bonds since the stadium is owned by governmental unit A and corporation X is operating or managing the property on behalf of governmental unit A under a contract that does not permit a major portion of the economic benefit to be derived from the stadium to inure to corporation X.

"Example (10). (a) Governmental unit A issues $5 million of bonds to purchase land and construct a public parking facility. The

governmental unit had previously entered into an agreement with corporation X under which corporation X, for a reasonable fee, is to operate the parking facility in a manner that will provide the funds necessary to pay the principal and interest on the bonds. Any revenues from the operation of the parking facility in excess of the reasonable fee provided in the agreement must be paid to governmental unit A.

"(b) The bonds are not industrial development bonds for the reasons as set forth in example (9).

"*Example (11).* (a) Governmental unit A issues $50 million of bonds to acquire land and construct an airport, including a terminal building, runways, and cargo areas. The governmental unit had previously entered into an agreement with airline corporations X and Y to lease portions of terminal building and cargo areas. The bond indenture provides that the rental payments from airline corporation X and Y, landing fees, and revenues derived from various airport concessions shall be the security for the bonds.

"(b) The bonds are not industrial development bonds since the airport will be owned and operated by governmental unit A and no other person has rights with respect to the airport such that a substantial portion of the economic benefit to be derived from the airport will inure to such person.

"*Example (12).* (a) The facts are the same as in example (11) except that 5 years after the airport bonds are issued governmental unit A enters into an agreement with airline corporation Z to lease a portion of the terminal building and cargo areas. In addition, the agreement provides that governmental unit A will provide airplane hangars for the use of airline Z on the airport property. The agreement provides (1) that governmental unit A will issue $5 million of bonds, (2) that the proceeds of the bond issue will be used to construct a hangar and other maintenance facilities in accordance with airline corporation Z's specifications, (3) that airline corporation Z will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the bonds, and (4) that such payments by airline corporation Z and the facility itself shall be the security for the bonds.

"(b) The bonds are not industrial development bonds since the hangars provided for airline corporation Z are functionally related to the airport property owned and operated by governmental unit A and the hangars are an integral part of the entire airport property.

"*Example (13).* (a) The facts are the same as in example (12) except that instead of hangars governmental unit A agrees to construct a $20 million general office building and stewardess school for airline corporation Z.

"(b) The bonds are indutrial development bonds since the operation of a general office building and flight stewardess school is not functionally related to the airport property owned and operated by governmental unit A and the operation of such properties is not an integral part of the operation of the entire airport facility.

"(c) *Applicability.* (1) Except as otherwise provided in subparagraph (2) of this paragraph, the provisions of this section are applicable to any indebtedness initially sold (within the meaning of subparagraph (3) of this paragraph) after March 15, 1968.

"(2) The provisions of this section are not applicable to any indebtedness initially sold (within the meaning of subparagraph (3) of this paragraph) at any time prior to September 15, 1968, if, on or before March 15, 1968—

"(i) The issuance of such indebtedness was approved by the governing body of the governmental unit issuing such indebtedness or by the voters of such governmental unit;

"(ii) In connection with the issuance of such indebtedness or with the use of the proceeds to be derived from the sale of such indebtedness or property to be acquired with such proceeds, the governmental unit issuing such indebtedness has made a significant financial commitment;

"(iii) Any person other than a governmental unit who will use (within the meaning of paragraph (b)(3) of this section) the proceeds to be derived from the sale of such indebtedness or the property to be acquired with such proceeds has expended, or has entered into a binding contract to expend, for purposes which are related to the use of such proceeds or such property, an amount equal to or in excess of 20 percent of such proceeds; or

"(iv) In the case of an indebtedness issued in conjunction with a project where financial assistance will be provided by a Federal or State agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

"(3) For purposes of this paragraph, an indebtedness will be considered "initially sold" on the date on which a buyer or underwriter enters into a binding contract with the issuer for the purchase of such indebtedness at a fixed price. An agreement between a buyer or underwriter and an issuer will be considered to be a binding contract for the sale of an indebtedness although the obligations of one or both parties to such agreement are subject to one or more conditions which are beyond the control of such party or parties. Thus, for example, if a sale of bonds to be issued by a county at a fixed price must first be approved by the voters of the county, such agreement will be considered a binding contract, if it is otherwise unconditional, and the bonds will be considered initially sold on the date on which the agreement is executed."

[F.R. Doc. 66-3614; Filed, Mar. 22, 1968; 10:16 a.m.]

Summary of Mississippi BAWI Plants

The first BAWI plants were built during the period 1936–40; data are, in some cases, incomplete for the early plant. In 1944, the A & I Board was created. Data from 1946 show the year in which Certificate of Public Convenience and Necessity were first issued for a given enterprise and details on bond issues voted for the construction of plants. Plant names listed are those of manufacturers presently occupying and leasing plants. No record is made of employees for a BAWI plant expansion; total approximate number of employees, including expansion, is listed for the original plant. Data for approximate number of employees are based on records as of _____.

No.	Date	Name and location	Vote		Amount	Maturity (years)	Average rate of interest	Buyer	Employment
			Yes	No					
	1938	Real Silk Hosiery Mills, Durant (lease transferred to Talon, Inc., Jan. 10, 1958).	330	19	$25,000				60
					60,000				
	1938	Grenada Industries, Grenada	412	69	32,000				800
					6,000				
					15,000				
					50,000				
	1938	Ingalls Shipbuilding Corp., Pascagoula	1,259	110	100,000				4,300
	1938	Jackson County Mills, Pascagoula	514	9	150,000				
	1939	Crystal Springs Shirt. Co., Crystal Springs			(1)				450
	1939	Armstrong Tire & Rubber Co., Natchez	2,408	68	300,000				1,000
	1939	Pascagoula Decoy Co., Pascagoula			10,000				5
	1939	Lebanon Shirt Co., Union (now Midland Shirt Co., 1954).			35,000				450
	1940	Reliance Manufacturing Co., Hattiesburg			67,500				610
	1940	ILS Manufacturing Co., New Albany			25,000				250
	1940	Winoa Bedspread Co., Winona			35,000				200
	1940	Ellisville Hosiery Mills, Ellisville			30,000				11
	1946	Batesville Co., Batesville	249	19	60,000	20	1.75	Schariff & Jones	475
	1946	Berry Motors, Corinth (Reynolds Metals)	650	2	25,000	5		No bonds sold	25
2	1946	Wells-Lamont Glove Corp., Philadelphia	647	39	80,000	20	[2] 2.00	Walton-Hamp Jones	450
46, 46A	1947	Qualitex Hosiery Mills, Bassfield	474	2	50,000	20	[2] 2.12	1st National Bank of Memphis	25
5, 5A	1947	Calhoun Garment Co., Calhoun City	658	56	75,000	20	[2] 3.00	Cady & Co	350
27	1947	Binswanger Mirror Corp., Grenada	699	0	75,000	20	1.25	Harrington & Co	80
10	1947	Rice Stix Co., Houston. (On June 20, 1957, Rice Stix was purchased by Reliance Manufacturing Co.) (Gulf States Ceramic Tile Corp. took over Jan. 18, 1962).	694	39	100,000	25	2.00	Houston State Bank	380
12	1947	Monticello Garment Co., Monticello	104	6	25,000	15		No bonds sold	400
30	1947	Johns-Mansville Corp., Natchez	1,404	17	100,000	10	1.50	Britton & Koontz National Bank	500
25	1947	Nettleton Garment Co., Nettleton	127	4	56,500	20	[2] 2.50	Cady & Co	310
42, 42A	1947	Haspel Bros., Tylertown	336	11	135,000	10	[2] 1.95	Scharff & Jones	500
	1948	Edward Hyman Co., Hazlehurst	447	4	50,000	20	2.00	Merchants & Planters Bank	150
31	1948 [3]	Sanson Hosiery Mills, Corinth	1,041	8	25,000	11		No bond sold	195
9	1948	Rebel Garment Co., Magee	256	1	75,000	20		do	85
22	1948	Newton Co., Newton	401	10	150,000	20	1.75	Newton County Bank	300
59, 59A	1948	Stratford Furniture Co., New Albany	1,171	67	185,000	20	[2] 2.75	First National Bank of Memphis	650
20	1948	Day-Brite Lighting, Inc., Tupelo	779	14	200,000	20	1.12	Peoples Bank & Trust Co., Tupelo	360
11, 11A	1948	Rice Stix Co., Water Valley (assigned to Reliance Mfg. Co.).	654	3	160,000	20	[2] 1.83	Union Planters Bank	435
57	1949	Blue Bell, Inc., Belmont	836	13	100,000	15	[3] 3.65	M. A. Saunders & Co	400
19	1949	Howard Zink Corp., Charleston	362	5	100,000	25	2.65	Herman Bensdorf	85
32	1949	Wells-Lamont Glove Corp., Eupora	320	33	118,500	20	3.25	Walton-Hamp Jones	275
40	1949	Basila Manufacturing Co., Leakesville	246	10	100,000	20	2.25	M. A. Saunders	340
58	1949	Lucedale Veneer Co., Lucedale	185	25	140,000	10	2.50	Max T. Allen	60

Footnotes at end of table.

No.	Date	Name and location	Vote Yes	Vote No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
52, 52A	1949	Movie Star of Miss., Purvis	724	17	$160,000	25	[2] 3.16	Max T. Allen	165
63	1949	Mid-South Manufacturing Co., Richton	732	18	150,000	25	3.58	White, Hattier, & Sanford	125
67	1949	J. A. Olson Co., Winona	1,100	38	150,000	20	3.00	First National Bank of Memphis	175
80	1950	Delta Trousers, Okolona	488	10	110,000	15	[2] 2.67	M. A. Saunders	435
75	1950	Baxter Laboratories, Inc., Cleveland	780	7	540,000	20	2.69	J. S. Love	450
78	1950	Stuart Packing Corp., Columbus	1,474	131	100,000	10	1.75	Cady & Co	150
7	1950	I. Taitel & Sons, Drew	270	2	100,000	20	2.00	Planters Bank & Trust Co	65
69	1950	International Paper Co., Natchez	2,408	68	300,000			No bonds sold	1,500
77	1950	E. R. Moore Co., Ocean Springs	849	27	100,000	20	2.75	Southern Bond Co	150
73	1950	Foot-Caress Shoes, Ripley	380	13	250,000	25	2.87	M. A. Saunders	325
84	1950	Blue Bell, Inc., Fulton	286	32	80,000	20	3.50	do	300
88	1950	Indianapolis Wirebound Box Co., Fernwood (Altamil Corp. took over May 11, 1961).	3,274	189	335,000	20	[2] 2.25	Scharff & Jones	415
90	1950 [3]	Weaver Pants Corp., Corinth	1,283	124	100,000	20	2.07	E. C. Thomas	440
18	1951	Neco Electrical Products, Bay Springs	1,155	125	75,000	25	3.00	M. A. Saunders	200
79	1951	Madison Co. Dairies, Canton	755	92	60,000	25	[2] 2.34	Canton Exchange Bank	
91	1951	Kuhlman Electric Co., Crystal Springs	427	69	100,000	20	[2] 2.30	Truckers Exchange bank	100
3, 53	1951	Indianapolis Glove Co., Houlka	345	40	90,000	25	[2] 2.10	Bank of Houston	150
86	1951	Superior Coach, Kosciusko	1,435	18	650,000	20	3.00	Merchants & Farmers Bank	350
85	1951	Wiggins Veneer Co., Wiggins	714	2	65,000	10	2.00	Bank of Wiggins	60
71	1951	Mississippi Chemical Corp., Yazoo City	3,843	16	750,000	25	[2] 2.37	Equitable Security Corp	330
109	1951	Carthage Corp., Carthage	507	12	175,000	25	[2] 3.40	Leland Speed	300
104	1951	Greenville Mills, Greenville	2,306	31	4,750,000	20	[2] 2.30	Scharff & Jones	925
98	1951	Wells-Lamont Glove Corp., Waynesboro	1,944	60	200,000	20	[2] 2.10	Hamp Jones Co	250
99	1951	Gotcher Engineering & Manufacturing Co., Clarksdale.	1,646	49	75,000	25	[2] 2.50	M. A. Saunders	30
106	1951 [4]	Baxter Laboratories, Inc., Cleveland	836	7	250,000	16	[2] 2.90	Union Planters National Bank	
103	1951 [4]	Grenada Industries, Grenada	901	14	200,000	25	2.12	M. A. Saunders	
100	1951	Strutwear, Inc., Clarksdale	1,702	32	145,000	25	[2] 2.35	do	110
					230,000		2.77		
97	1951 [4]	Stratford Furniture Co., New Albany	1,304	47	85,000	20	2.95	Cady & Co	
105	1951 [4]	Knickerbocker Manufacturing Co., West Point	958	38	100,000	25	[2] 2.40	Scharff & Jones	425
108	1951 [4]	Newton Company, Newton	312	77	42,000	20	[2] 2.90	do	
102	1951 [4]	Sanson Hosiery Mills, Corinth	1,497	38	48,500	20	2.42	do	
94	1951	Cudahy Packing Co., Forest	533	20	150,000	15	[2] 2.43	Allen & Company	115
111	1951	Coated Abrasive Co., Holly Springs	528	4	150,000	20	2.50	M. A. Saunders	100
112	1951	Monroe County Cooperative Dairies, Aberdeen	546	20	60,000	25	2.46	First National Bank of Memphis	10
116	1951	Dickey Clay Manufacturing Co., Meridian	3,965	11	1,650,000	20	2.41	Leland Speed	130
113	1951	Macon Garment Co., Macon	386	7	135,000	20	2.39	First National Bank of Memphis	135
119	1951	Movie Star of Poplarville, Poplarville	1,300	378	450,000	20	[2] 3.40	Leland Speed	350
124	1951	The Sardis Luggage Co., Sardis	361	11	200,000	20	[2] 2.85	Union Planters National Bank	100
122	1951	Croft Aluminum Co., McComb	1,749	134	150,000	20	[2] 2.87	Leland Speed	150
128	1952	Johnston Lawn Mower Corp., Brookhaven	1,286	16	600,000	20	3.09	do	
129	1952 [4]	Calhoun Garment Co., Calhoun City (leased to warehouse).	306	79	75,000	20	[2] 3.43	do	
136	1952	Holly Springs Brick & Tile Co., Holly Springs	575	10	200,000	20	2.37	Union Planters National Bank	100
138	1952	Ashland-Benton Corp., Ashland	549	10	80,000	20	3.50	do	40
139	1952	Screw Conveyor Corp., Winona	1,306	27	275,000	25	3.17	First National Bank of Memphis	150
132	1952	Gem, Inc., Byhalia	2,143	55	100,000	20	[2] 2.47	do	90
141	1952 [4]	Mississippi Chemical Corp., Yazoo City	2,501	594	750,000	25	2.62	Leland Speed	
112A	1952 [4]	Monroe County Cooperative Dairies, Aberdeen	646	11	35,000	25	2.75	Monroe Banking & Trust Co	
137	1952	Ludlow Manufacturing & Sales Co., Indianola	[5] 1,025	11	1,295,000	20	3.22	M. A. Saunders	330
			[6] 652	5					
148	1952 [3]	McComb Manufacturing Co., McComb	1,671	83	100,000	15	3.25	Leland Speed	650
146	1952	Futorian-Stratford Furniture Co., Okolona	797	28	335,000	25	3.60	M.A. Saunders & Co	325
143	1952 [4]	Neco Electrical Products Corp., Bay Springs	850	112	150,000	25	4.00	Scharff & Jones	
144	1952	American Paper Tube Co., Port Gibson	273	19	400,000	20	3.33	Port Gibson Bank	85
151	1953 [4]	Superior Coach Corp., Kosciusko	850	112	150,000	25	4.00	Scharff & Jones	
150	1953	Blue Bell, Inc., Tishomingo	575	27	100,000	20	[2] 3.30	Cady & Co	290
125	1953	William Carter Co., Senatobia	424	12	375,000	20	3.34	First National Bank of Memphis	350
154	1953	Kickernick, Inc., Lexington	538	5	100,000	20	3.36	M. A. Saunders & Co	100
157	1953	Phalo Corp., Monticello (sold to Monticello Manufacturing Co.).	1,433	74	150,000	20	3.73	First National Bank of Memphis	400
157-A					100,000		3.20		
162	1953	New Orleans Furniture Manufacturing Co., Columbia.	1,304	3	550,000	20	2.93	M. A. Saunders & Co	360
161	1953	Rich Industries, Tupelo	2,112	41	300,000	20	3.37	First National Bank of Memphis	185
158	1953	George C. Manufacturing Co., Lucedale	2,077	41	170,000	20	2.65	Hamp Jones Co	125
149	1953	Mississippi Aluminum Corp., Gulfport	2,862	230	550,000	20	4.00	Scharff & Jones	250
130	1953	Erie Resistor Corp., Holly Springs	2,167	49	300,000	20	3.25	Union Planters National Bank	300
156	1953 [4]	Grenada Industries, Grenada	759	16	60,000	20	3.34	Lewis & Co	
159	1953 [4]	Batesville Co., Batesville	427	6	40,000	25	3.46	Kroeze, McLarty & Co	
153	1953 [4]	Delta Trouser Co., Okolona	348	3	30,000	25	2.50	Bank of Okolona	
160	1953	Lockport Felt Co., Starkville	1,298	8	300,000	20	2.50	M. S. Saunders & Co	60
155	1953	Conmar Products Corp., Greenwood	2,535	39	750,000	20	2.40	Bank of Greenwood	150
164	1953	Alabama Metals Co., Rosedale	236	2	300,000	20		Not offered	90
121	1953 [3]	Quitman Knitting Mills, Quitman	228	15	350,000	20	2.53	First National Bank of Memphis	350
152	1953	American Hardware Co., Clarksdale	849	34	750,000	20	3.47	Union Planters National Bank	200
165	1944 [4]	Day-Brite Lighting, Tupelo	2,135	146	500,000	20	2.56	White, Hattier & Sanford	
168	1954 [4]	Reliance Manufacturing Co, Hattiesburg	3,688	96	420,000	20	[2] 2.68	M. A. Saunders & Co	
169	1954	Tucker-Brame Athletic Manufacturing Co., Batesville.	460	22	80,000	20	2.67	Union Planters National Bank	100
170	1954 [4]	Stratford Furniture Co., New Albany	4,092	91	320 000	20	2.24	Herman Bensdorf & Co	
166	1954	National Pants Co., Louisville	1,145	12	127,000	20	[2] 3.33	First National Bank of Memphis	100
171	1954 [4]	Wells-Lamont Corp., Philadelphia	986	38	63,000	20	2.75	Hamp Jones Co	
173	1954	McQuay, Inc., Grenada	1,664	27	1,075,000	20	2.96	First National Bank of Memphis	270
174	1954 [4]	Stuart Packing Corp., Columbus	1,218	348	83,000	20	1.75	Cady & Co	
175	1954	Pascagoula Veneer Co., Pascagoula	[5] 1,699	77	350,000	20	2.61	First National Bank of Memphis	150
			[6] 283	21					
177	1954 [4]	Coated Abrasive Co., Holly Springs	440	10	50,000	17	2.48	Leland Speed	
178	1954	Chambers Corp., Oxford	3,024	18	750,000	25	2.49	Kroeze, McLarty & Co	150
179	1954	E. & W. Manufacturing Co., Yazoo City	3,105	71	400,000	25	2.39	Leland Speed	250
180	1955	E. & W. Manufacturing Co., Canton	1,146	10	400,000	25	2.48	Harrington & Co	250
181	1955 [4]	Gem, Inc., Byhalia	459	8	50,000	18	2.48	First National Bank of Memphis	
133	1955	Southern Brick & Tile Co., Byhalia	2,154	55	100,000	10	1.79	T. W. Woodward	90
182	1955	Decatur-Shirt Corp., Decatur	726	19	170,000	25	2.87	Alvis & Company	325
183	1955	General Shoe Corp., Iuka	2,189	15	300,000	25	2.85	First National Bank of Memphis	400
184	1955	Summit Mills, Summit	2,113	94	250,000	20	2.45	Scharff & Jones	120
185	1955	The Rudolph Wurlitzer Co., Corinth	1,844	20	850,000	20	2.62	Southern Bond Co	250
186	1955	Sklar Furniture Corp., Canton (sold to No-Sag Spring Co. in October of 1957)	1,055	8	100,000	25	2.51	Harrington & Co	100
187	1955 [3]	Madison Woodworking Co., Canton	1,053	12	85,000	20	2.44	Canton Exchange Bank	145
188	1955	Standard Wire Cloth & Screen, Brookhaven	4,110	77	350,000	25	2.61	Allen & Co	100
189	1955 [4]	The Batesville Co., Batesville	448	7	100,000	25	2.75	First National Bank of Memphis	
190	1955	Griffin Lamp Co., Shelby	268	0	85,000	20	2.58	do	50
191	1955	Super Sagless Spring Corp., Tupelo, Miss	1,436	127	200,000	20	2.79	do	80
192	1955	Morris Futorian, Tupelo	1,636	123	250,000	25	[2] 2.79	John R. Nunnery	100
193	1955	Dean Industries, Inc., Pontotoc		132	125,000	20	2.89	M. A. Saunders	70
194	1955	Furniture Frames, Inc., New Albany	4,838	603	60,000	20	2.62	First National Bank of Memphis	60
195	1955	Monte Glove Co., Inc., Maben	155	9	55,000	20	3.68	Do.	40

Footnotes at end of table.

No.	Date	Name and location	Vote: Yes	Vote: No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
196	1955 [3]	American Tent Co., Canton	903	58	$130,000	15	2.59	Allen & Co., Hazlehurst	300
197	1955	Funsten Pecan Co., Hattiesburg	3,547	81	200,000	10	2.34	Hamp Jones, Jackson	60
198	1955	Windon Mfg. Co., Inc., Winona	722	25	300,000	25	2.85	Herman Bensdorf and Company	280
199	1955 [4]	Screw Conveyor Corp., Winona	1,062	21	125,000	25	2.92	First National Bank	
200	1955 [4]	Delta Trousers, Okolona	376	1	100,000	10	2.75	Cady & Company, Columbus	
201	1955 [4]	Haspel, Inc., Tylertown	367	7	115,000	12	2.46	First National Bank of Memphis	
202	1955	Cooper's, Inc., Belzoni	575	4	300,000	20		No bonds sold	200
203	1956	Kona Textile Corp., Rolling Fork (Apparel Industries, Inc. took over July 29, 1961).	372	3	300,000	25	3.94	Malvin Gamburg, New York	90
163	1956	Ackerman Mfg. Co., Ackerman	355	12	200,000	20	2.90	First National Bank of Memphis	125
204	1956	Southern Guernsey Dairies, Hernando	153	22	60,000	20	3.25	M. A. Saunders	15
205	1956	Kellog Switchboard & Supply Co., Corinth (contract was canceled Aug. 15, 1956); reissued as certificate No. 324.	3,511	15	1,250,000	20			
206	1956	Coastal Chemical Corp., Pascagoula	3,169	159	750,000	25	3.965	Pascagoula-Moss Bank, Pascagoula	200
207	1956	I. Splewak & Sons, Inc., Ruleville	227	4	106,000	20	3.23	Sharp & Jones, New Orleans	100
208	1956	Utility Appliance Corp., New Albany (industry did not materialize).	4,213	50	750,000	20			
209	1956	Luger Furniture Co., Eupora (now Stratford-Futorian).	2,804	52	225,000	20	3.4	First National Bank of Memphis	
211	1956	Dixie Aluminum Corp., Hattiesburg (Merchants Co. took over May 4, 1961).	3,726	44	400,000	20	3.13	Alvis & Co., Jackson	150
210	1956 [4]	Wells-Lamont, Philadelphia	897	48	140,000	20	3.30	Harrington & Co	
212	1956	General Shoe Corp., Fulton	3,044	13	400,000	25	3.97	First National Bank of Memphis	350
213	1956 [4]	Batesville Co., Batesville	461	4	200,000	25	3.819	do	
216	1956	Movie Star, Inc., Magnolia	285	8	133,000	25		do	100
217	1956	Raleigh Corp., Raleigh	2,334	21	600,000	20	3.83	Leland Speed	250
218	1956	Wayne Knitting Mills, Kosciusko	832	44	188,000	20	3.4188	M. A. Saunders, & Co	200
219	1957 [4]	L. R. Moore Co., Ocean Springs	851	45	60,000	20	3.538	Merchants & Marine Bank	
220	1957 [3]	M-P Cotton Felt Co., Houston	413	13	80,000	20		No bonds sold	30
221	1957	Stephens-Adamson Manufacturing Co., Clarksdale.	2,110	35	377,000	20	3.361	Leland Speed Co., Rod Russ Co	
222	1957	Blue Bell, Inc., Ripley	520	29	130,000	20	3.85	Fred B. Smith, Ripley	150
223	1957	Modglin Mop Co., Inc., Hazlehurst	1,093	5	150,000	20	3.749246	Allen & Co., Hazlehurst	60
224	1957	McCandless Packing Co., Inc., Hernando (Vernon Packing Co. took over Oct. 12, 1961).	624	8	300,000	20	3.999	First National Bank of Memphis	75
225	1957 [4]	Kickernick, Inc., Lexington	404	22	100,000	20	3.6697	M. A. Saunders & Co	
226	1957 [4]	Sardis Luggage Co., Sardis	340	3	67,500	25	4.0	Bank of Sardis	
227	1957	Acme Quilting Co., Inc., Tunica	884	7	395,000	20	3.6755	Union Planters Bank	275
228	1957	Polar Kraft Mfg., Co., Olive Branch	118	17	75,000	10	3.995	First National Bank of Memphis	50
229	1957 [4]	Super Sagless Spring Corp., Tupelo	2,165	86	100,000	25	3.92	Leland Speed	
230	1957	Cushioning Craftsmen Corp., Tupelo (Walled Lake Door Co. took over July 20, 1961).	2,163	72	150,000	20	3.92	Scharff & Jones; J. R. Nunnery & Co	80
231	1957	Associated Piping & Engineering Co., Gulfport	3,127	125	250,000	20	3.824	Scharff & Jones; First National Bank of Memphis.	100
232	1957 [4]	Stratford Futorian Furniture Co., Okolona	423	8	[6] 200,000	20	3.875	Leland Speed	
			215	13	[5] 250,000		3.85	Jackson	
234	1957 [4]	Futorian Stratford Furniture Co., New Albany	1,384	46	265,000	20	3.518	First National Bank of Memphis	
235	1957	Jackes-Evans Mfg., Co., Greenwood	2,459	18	350,000	25	3.7528	Leflore Bank & Trust Co., Greenwood	100
236	1957 [3]	Supreme Electronics Corp., Greenwood	2,418	34	250,000	25	3.9997	Bank of Greenwood and Bank of Commerce.	175
237	1957 [4]	Wurlitzer Co., Corinth	1,407	64	575,000	25	3.606	Southern Bond Co	
					25,000		2.99	do	
238	1957 [4]	Decatur Shirt Corp., Decatur	592	11	65,000	25	3.58	First National Bank of Memphis	
239	1957 [4]	Futorian-Stratford Furniture Co., Eupora	2,334	91	275,000	20	3.28934	Alvis & Co., Jackson	
240	1958 [4]	Modglin Mop Co., Hazlehurst	1,007	4	175,000	20	4	Allen & Co	
241	1958	Walker Manufacturing Co., Aberdeen ($1,200,000 authorized).	1,421	3	[6] 725,000	23	3.39	Harrington & Co	125
					[5] 425,000		3.41	Alvis & Co	
242	1958 [4]	Windon Manufacturing Co., Winona	612	12	200,000	25	3.458	First National Bank of Memphis	
243	1958 [4]	Dean Industries, Inc., Pontotoc	2,705	26	125,000	20	3.3899	do	
244	1958 [4]	Acme Quilting Co., Tunica (name changed to Tunica Manufacturing Co.).	770	5	55,000	20	3.1238	do	
245	1958	Jackson Manufacturing Co., Houston			300,000	20		No bonds sold	
246	1958	Wiggins Saw Mill Co., Wiggins	608	32	225,000	15		First National Bank of Memphis	40
247	1958	Continental Piston Ring Co., Inc., Hernando	147	9	90,000	20	3.425	Cady & Co	40
248	1958	DeSoto Furniture Manufacturing Co., Inc. (ComoPure Atuomotive Products took over July 20, 1961).	175	4	50,000	20	3.238	State Bank of Como	
249	1958	National Impacted Metals Corp., New Albany	1,502	20	250,000	20	3.4452	Bill F. Sutton, Memphis	75
					[7] (115,000)			First National Bank of Memphis	
250	1958 [4]	Gem, Inc., Byhalia	368	22	125,000	20	3.149	Herman Bensdorf	
251	1958	Mize Manufacturing Co., Mize (transferred to Mount Olive).	912	11	40,000	20	3.423	John R. Nunnery & Co	80
252	1958	Sunshine Mills, Inc., Tupelo (Verona)	953	31	250,000	20	3.6075	First National Bank of Memphis	
253	1958	Lambert Manufacturing Co., Lambert (Myrna Mills took over Mar. 24, 1961).	142	1	140,000	25	3.946	Harrington & Co	
254	1958	Art Publishing Co., Greenwood (Greenwood Manufacturing Co.).	2,156	19	200,000	25	3.445	Lewis & Co. Jackson	85
255	1958	Siesta Furniture Manufacturing Co., Shannon (Shannon Manufacturing Co. took over Dec. 14, 1961).	942	22	100,000	20	3.6356	Scharff & Jones	75
256	1958	Big M. Metal Products Co., Inc., Batesville	2,565	23	1,000,000	25	3.645	First National Bank of Memphis	150
257	1958 [4]	Basila Manufacturing Co., Leakesville	1,786	122	80,000	25	3.9134	Bank of Leakesville	
258	1958	Poultry Products, Inc., Taylorsville (Merchants Co., Hattiesburg, took over June 8, 1961).	545	30	175,000	20	3.932	First National Bank of Memphis	125
259	1958	Northern Electric Co., Waynesboro	2,273	18	500,000	25	3.649	John R. Nunnery & Co., Meridian	200
260	1958	Mississippi Federated Cooperative (AAL), New Albany.	1,524	25	340,000	20	4	Bank of Commerce New Albany	80
261	1958	Clay Products Co., Holly Springs	836	14	200,000	10	3.083	First U.S. Corp	40
262	1958 [4]	Holly Springs Brick & Tile Co., Holly Springs (canceled; no bonds sold).			200,000	10			
263	1958	General Equipment Manufacturers, Crystal Springs.	568	8	120,000	20	3.786	Hamp Jones Co	75
264	1959	First Mississippi Corp., Yazoo City	3,030	117	700,000	25			
					[8] (175,000)		3.6721	Delta National Bank	125
					428,000		3.96	Leland Speed	
					100,000			First National Bank	
265	1959	Merchants Co., Hattiesburg	4,402	585	400,000	20	3.473	First National Bank of Hattiesburg	150
266	1959	Charm Toys, Inc., Ruleville	170	0	75,000	20	3.7352	First National Bank of Memphis	90
267	1959	Atlas Tile & Brick Co., Inc., Shuqualak	523	16	280,000	20	3.7615	Cady & Co	140
268	1959	Crescent Casework Corp., Belzoni (present contract with the Yeoman Corp., Feb. 16, 1961).	458	4	80,000	20	3.5	Guaranty Bank & Trust Co	60
269	1959 [4]	McQuay, Inc., Grenada	1,426	13	250,000	20	4	Grenada Bank	
270	1959	Southeastern Hatcheries, Forest	577	164	500,000	20	3.999967	Allen & Co	300
271	1959 [4]	J. A. Olson Co., Winona	1,166	14	[6] 150,000	25	3.8775	First National Bank of Memphis	100
					[5] 50,000				

Footnotes at end of table.

No.	Date	Name and location	Vote: Yes	Vote: No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
272	1959	Laher Spring & Tire Corp., New Albany	4,444	30	$750,000	25		First National Bank of Memphis	250
273	1959 [4]	Binswanger, Grenada	941	16	165,000	20	4.30	Lewis & Co	40
274	1959	International Molded Plastics, Port Gibson	1,017	100	800,000	25	3.9995	Port Gibson Bank	50
275	1959 [3]	Cleveland Industries, Inc., Union	334	8	50,000	20	4.000	Peoples Bank of Union	50
276	1959	R. & R. Hatchery, Carthage (no bonds sold)	3,601	152	250,000	20			125
277	1959 [3]	King Industries Corinth	1,250	21	90,000	20	4.0	Cady & Co	25
278	1959	Light & Power Utilities, Olive Branch	806	31	575,000	25	4.14329	Leland Speed	250
279	1959 [4]	Grenada Industries, Grenada	1,042	2	400,000	20	3.999	Grenada Bank	150
280	1959	Edward L. Williams, Duck Hill	107	14	20,000	20	4.000	First U.S. Corp.	
281	1959	O. V. Clements & Sons Lumber Co., Bude (Individuals took over Nov. 30, 1961)	170	8	80,000	15		Allen & Co., Hazlehurst	85
282	1959	Charldon Manufacturing Co., Charleston	648	2	60,000	25	3.999	Grenada Bank	150
283	1959	Southern Container Corp., Houston	1,563	159	740,000	20		Union Planters Bank, Memphis	250
284	1959	Marks Manufacturing Co., Marks	912	0	220,000 188,000	20	3.9999	First National Bank of Memphis	100
285	1959	First Carton Corp., Clinton	327	71	275,000	20	4.176	Scharff & Jones	
286	1959 [4]	Kuhlman Electric Co., Cyrstal Springs	442	12	250,000	20	4	Allen & Co	
287	1959 [4]	Futorian-Stratford Furniture Co., New Albany	4,800	12	275,000	20	3.9999	First National Bank of Memphis	
288	1959	Delta Undies, Inc., Sumner	1,262	737	100,000	20	4	Kroeze, McLarty & Co., Jackson	40
289	1959 [4]	Screw Conveyor Corp., Winona	1,626	105	325,000	25	3.9998	First National of Memphis	
290	1959	Penn Tire & Rubber Co., Tupelo	6,532	442	600,000	20	4	Leland Speed	400
291	1959 [4]	Furniture Frames, Inc., New Albany	4,669	699	50,000	20	3.965	1st National Bank of Memphis	
292	1959	Metalcraft Manufacturing Co., Holly Springs (Knapp-Monarch took over Dec. 29, 1961).	3,021	161	550,000	20	4	M. A. Saunders, Memphis, Tenn	200
293	1959 [4]	Wells-Lamont Corp., Philadelphia	930	13	310,000	10	3.8383	Lewis & Co	100
294	1959	Panocular Corp., Starkville	1,157	14	300,000	20		First National Bank of Memphis	160
295	1959 [4]	Madison Woodworking Co., Canton	659	68	25,000	20	4	First National Bank of Canton and Canton Exchange Bank.	
296	1959	Mississippi Federated Cooperatives, Canton	647	92	175,000	20	3.77	First National Bank of Canton	80
297	1959	Shelby Die Casting Co., Shelby	242	0	150,000	20	4	Bank of Shelby, Shelby	100
298	1959	Coffeeville Development Association Coffeeville (closed down, not enough employees. Normandie Mills took over May 4, 1961).	785	1	300,000	20	4	Alvis & Co.	
299	1959	Contract Battery Manufacturing Co., Florence	129	5	150,000	20	4.3388	First U.S. Corp	50
300	1959 [4]	Waldon Manufacturing Co., Walnut	2,849	74	250,000	25	4.072	First National Bank of Memphis	200
301	1959	Quitman Knitting Mills, Quitman	976	23	250,000	20	4.3462	Leland Speed	175
302	1959	Biltrite Rubber Co., Ripley	4,599	34	1,200,000	20	4.15	J. S. Love, Southern Bond	400
303	1959	Dillingham Manufacturing Co., Leland	1,174	9	650,000	25	3.969	First U.S. Corp., Memphis	250
304	1959	Delta Architectural Products, Cleveland	1,728	15	500,000	20	3.872	First National Bank of Memphis and others	125
305	1959	W. R. Williams Oxford (Oxford Manufacturing Co.).	1,687	8	130,000	20	4.085	Harrington & Co	100
306	1959 [3]	Ferson Optical Co., Ocean Springs	1,725	139	190,000	20	4.125	Ocean Springs Bank	22
307	1960 [4]	Baldwin Piano Co., Greenwood	5,447	14	3,000,000	25	4.035	Deposit Guaranty Bank and Leland Speed	250
308	1960	Liberty Mills, Inc., Liberty	583	23	300,000 [9] 200,000	25	4.1378	Alvis & Co Union National Planters	100
309	1960 [4]	Coffeeville Development Association, Coffeeville (closed down, not enough employees. Normandie Mills took over May 4, 1961).	430	0	[9] 20 60,000	20	3.9180 4.0214	Alvis & Co., Bank of Water Valley	
310	1960	Endicott Johnson Corp., Ackerman	2,172	27	650,000	25	4.1298	First National Bank of Memphis and Mer-	250
311	1960	Hernado Products (Copper Y. Robinson) Hernando (Rector Wire & Manufacturing Co. took over Nov. 30, 1961).	142	21	50,000	20	4.286	First National Bank of Memphis chants & Farmers Bank.	100
312	1960	Mize Manufacturing Co., Mount Olive	189	3	90,000	20	4.143	Lewis & Co., Jackson	
313	1960	Stephens-Adamson Manufacturing, Clarksdale.	1,985	70	500,000	20	3.7089	First National Bank of Memphis and others	50
314	1960 [4]	McComb Manufacturing Co., McComb (Summit Mills).	182	9	175,000	25		Max T. Allen Co., Scharff & Jones	25
315	1960	Jupiter Sportswear, Inc., Booneville	3,341	87	300,000	25	4.238	First U.S. Corp., Memphis	300
316	1960	Lancer Industries, Inc., Booneville	3,317	95	265,000	20	4.2967	Alvis & Co	150
317	1960	Champion Industries, Baldwyn	783	10	230,000	20	4.2747	do	75
318	1960	Wurlitzer Co., Holly Springs	1,806	31	900,000 [10] (1,200,000)	20	3.97975	First National Bank	400
319	1960 [3]	Edman Hyman Co., Hazlehurst			180,000	25			
320	1960	La-Z-Boy Chair Co., Newton	566	4	250,000	20	3.97975	Newton Co. Bank	250
321	1960 [4]	Jackes-Evans Manufacturing Co., Greenwood	2,100	20	250,000	25	3.795	Guy C. Billups, Bank of Greenwood	50
322	1960 [4]	Durant Sportswear, Inc., Durant	410	15	250,000	25	3.944	M. A. Saunders	400
323 [11]	1960 [4]	Gulfport Piping Co., Gulfport			300,000	20			
324	1960	Kellogg Switchboard, Corinth	3,242	20	1,250,000	20	4.1905	First National Bank of Memphis	275
325	1960	Modern Line Products, Indianola			[5] 840,000 [6] 560,000	20 20	4.43 4.43	do	250
326	1960	Delta Brick & Tile Co., Macon	150	8	300,000	20	3.80	First National Bank and others	65
327	1960	Indianapolis Glove Co., New Houlka			136,000	13			60
328	1960	Lawrin Co., Kosciusko	846	32	300,000	25	3.988	Merchants & Farmers Bank, Kosciusko	250
329 [11]	1960 [4]	Futorian-Stratford, Tupelo			450,000	20			
330 [11]	1960 [4]	Super-Sagless Co., Tupelo			75,000	20			
331	1960 [4]	Batesville Co., Batesville	459	3	40,000	25	4.35	First National Bank of Memphis	45
332	1960	Southern Seating Co., Booneville	879	7	[5] 655,000	25	4.72	do	300
			1,586	3	[6] 420,000				
333	1960 [4]	Grenada Industries, Grenada	940	28	450,000	20	4.18	Lewis & Co	350
334	1960	American Packing Co., Booneville	2,675	34	520,000	20	4.72	First National Bank of Memphis	160
335	1960	B & S Parts Co., Winona	2,234	50	200,000	25	3.865	do	75
336	1960	Hankins Container Corp., Magnolia	1,104	6	600,000	20	4.0874	Citizens Savings Bank and others	200
337	1960 [4]	Haspel, Inc., Tylertown	348	14	120,000	15	3.8813	First National Bank of Memphis	130
338	1960	Lifetime Pools Equipment, Rienzi	602	22	225,000	25	4.40	First National Bank of Memphis and others	150
339	1960	Borg-Warner Corp., Greenville	4,596	32	2,500,000	25	4.04769	Leland Speed	500
340	1960 [4]	Chambers Corp., Inc., Oxford	1,626	211	250,000	25	3.8383	First U.S. Corp	80
341	1960 [4]	Cudahy Packing Co., Forest	5,529	19	60,000	20	3.58035	Allen & Co., Hazelhurst, and J. R. Nunnery & Co., Meridian.	
342	1960	W. W. Sly Manufacturing Co., Mathiston	143	0	100,000	20	3.986	U.S. Corp., First Securities	40
343	1960	Masterbilt Refrigeration Co., New Albany	1,893	77	425,000	20	3.6367	First National Bank of Memphis	100
344	1960	Beatrice Food Co., Wiggins	1,325	19	450,000	20	3.6343	Leland Speed Co	
345	1960 [4]	I. Spiewak & Sons, Ruleville	240	22	50,000	20		Planters Bank & Trust Co	
346	1961	Southbridge Plastic Products, Corinth	4,148	18	1,850,000	25	4.045	John R. Nunnery	400
347	1961 [4]	Futorian-Stratford, Okolona	1,141	36	400,000	20	3.988	First National Bank of Memphis	200
348	1961 [4]	Charm Step Shoes, Inc., Fulton	2,514	74	250,000	22	3.735	First U.S. Corp	25
349	1961	Lundell-Eckberg Manufacturing Co., Inc., Osyka.	482	0	[5] 200,000	25	3.89265	Leland Speed Co	150
			152	0	[6] 100,000		4.1737	Scharff and Jones & Hamp & Jones	
350	1961	Southern Paper Co., Wiggins	482	1	250,000	20	3.922	First U.S. Corp., Memphis	80
351	1961	Chromcraft Corp., Senatobia			1,500,000	20	3.6333	First National Bank	450
352	1961	Morton Manufacturing Plant, Morton	399	66	100,000 (80,000)	20	3.8156	First National Bank, Memphis	40
353	1961	Memphis Sales Manufacturing Co., Hernando	262	15	370,000	20	3.8065	First National Bank, Memphis	150
354	1961 [4]	Grenada Industries, Inc., Grenada	831	38	250,000	25	3.94333	Scharff & Jones	125
355	1961	Fireproof Products, Inc., Terry	140	13	140,000	25		do	40

Footnotes at end of table.

No.	Date	Name and location	Vote Yes	Vote No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
356	1961	Copiah Milling & Livestock Feed Co., Hazelhurst	853	102	$133,000	20	3.8	Bank of Merchants Bank	20
357	1961 [4]	Nettleton Garment Co., Nettleton	225	20	135,000	20	3.97	Cady & Co	100
358	1961 [4]	Sardis Luggage Co., Sardis	342	40	340,000	21		First National Bank, Memphis	50
			335	41	[12] 170,000	([13])			
359	1961 [4]	Poloron Products of Mississippi, Inc., Batesville.	1,621	33	50,000	22	3.8254	First National Bank, Memphis	30
360	1961	Industrial Electric, Inc., Bay St. Louis	1,451	12	300,000	25	3.9599	First National Bank, Memphis	100
361	1961	Dryden Manufacturing Co., Amory	649	14	140,000	20	3.5039	First National Bank, Memphis	70
362	1961 [4]	General Equipment Co., Crystal Springs	450	60	60,000	20	3.6675	do	5
363	1961	Mississippi Federated Co-op, Collins	2,035	72	800,000	20	3.52901	Byron Speed Co., Leland Speed Co	150
364	1961 [4]	Tishomingo Shoe Co., Iuka	1,260	20	350,000	25	3.8166	First U.S. Corp., Mempnhis	
					[14] (333,000)				
365	1961 [4]	Foot Caress Shoe Co., Ripley	1,519	16	350,000	25	3.845	First U.S. Corp	
366	1961	Garan, Inc., Corinth	1,318	51	[9] 400,000	20	3.9655	First National Bank, Memphis Allen & Co	240
					(350,000)				
					50,000		3.9670	First National Bank and Scharff & Jones	
367	1961	Dizzy Dean, Inc., Pachuta	460	7	150,000	20	3.7537	First National Bank, Memphis	100
368	1961	Carondelet Manufacturing Co., Aberdeen	830	106	90,000	25	3.649	Cady & Co	50
369	1961 [4]	Grenada Industries, Inc., Grenada	930	62	100,000	25	3.5905	M. A. Saunders, Memphis	200
370	1961 [4]	Wurlitzer Co., Corinth	1,459	19	750,000	25	3.80	Kroeze, McLarty & Duddleston	250
371	1962	U.S. Electrical Motors, Inc., Philadelphia (Emerson took over June 28, 1962).	1,353	7	800,000	20		FNB, Memphis	400
372	1962 [3]	Taylor Machine Works, Louisville	957	57	350,000	20	3.812	First U.S. Corp	100
373	1962	Drusteel Company, Drew	348	8	210,000	25	3.583	FNB, Memphis	125
374	1962 [4]	Talon, Inc., Durant	367	15	60,000	20	3.5929	Hamp and Jones	50
375	1962 [4]	McQuay, Inc., Grenada	1,528	7	600,000	20	3.7053	FNB, Memphis	100
376	1962 [4]	Walker Manufacturing Co., Aberdeen	1,152	46	750,000	23	3.6355	do	125
377	1962	Milcraft Products, Inc., Canton	880	23	140,000	20		do	50
378	1962	Universal Manufacturing Co., Simpson County	4,187	81	1,000,000	25			350
379	1962 [4]	Madison Lumber Co., Canton (16th section land).	903	29	165,000	20	3.3912	Canton Exchange Bank	40
380	1962	Universal Manufacturing Co., Simpson County	4,070	69	200,000	25	3.4943	Leland Speed and others	350
381	1962 [4]	Knapp-Monarch Co. Holly Springs	394	22	100,000	20	3.347	M. A. Saunders	30
382	1962 [4]	J. A. Olson Co., Winona	1,073	68	125,000	25	3.749	First U.S. Corp	60
383	1962 [4]	Hazlehurst Realty Co., Hazlehurst	2,338	218	290,000	25	3.59870	Leland Speed	
384	1962 [4]	Reliance Manufacturing Co., Water Valley	632	22	140,000	20	3.54166	Hamp Jones	125
385	1962	Monroe Manufacturing Co., Aberdeen	1,677	50	[15] 1,000,000	25	3.5969	FNB, Memphis	100
					[12] 1,000,000	10			
386	1962	William Carter Co. Centreville (Adjacent Counties).	752	12	675,000	20	3.6673	FNB, Memphis Allen & Co., Leland Speed	600
					550,000				
387	1962	Sinclair Wire Works, Florence	1,067	54	110,000	20	3.55	FNB, Memphis	30
388	1962 [4]	Medart Lockers, Greenwood	2,031	23	250,000	25	3.23668	First U.S. Corp. and First Jackson Securities	50
					[14] (162,000)				
389	1962 [4]	Supreme Electronics Corp., Greenwood	2,017	26	250,000	25	3.24875	do	50
					[14] (150,000)				
390	1962	Air Capitol Manufacturing Co., Tupelo	2,060	51	400,000	25	3.5637	FNB, Memphis	180
391	1962	DeSoto Metal, Inc., Hernando			1,600,000	25			700
392	1962	Forest Industries Co., Forest	2,097	49	900,000	20	3.4263	First U.S. Corp., and others	300
393	1962 [4]	ITT Kellogg Co., Corinth	3,322	41	200,000	20			200
394	1962 [4]	Cleveland Industries, Inc., Union	296	15	75,000	20	3.6011	FNB, Memphis	65
395	1962	Garan, Inc. (canceled)	770	12	(300,000)	20		Bank of Wesson	
		Wesson Supervisors District No. 2, Copiah County, taken over by Monticello Manufacturing Co., a division of Kellwood Co.			90,000				
					[14] (75,000)		3.37742		
396	1962 [4]	Blue Ridge Manufacturing, Inc., Sherman (warehouse).	1,447	31	450,000	25	3.5829	Leland Speed Co	50
397	1962	Griffin Manufacturing Co., Tupelo	1,486	93	400,000	25	3.3894	FNB, Memphis	150
398	1962	Cleaver-Brooks Co., Greenville	2,784	52	1,000,000	20	3.284	do	125
					[14] (650,000)				
399	1962 [4]	Jacobsen Manufacturing Co., Brookhaven	1,269	25	50,000	10	2.9473	do	30
					[14] (45,000)				
400	1962 [4]	Baxter Laboratories, Inc., Cleveland	1,040	6	390,000	20	3.379467	Herman Bensdorf, Alvis & Co.; Union Planters National Bank.	
401	1962	S. L. F. Manufacturing Co., Hernando	197	32	[15] 240,000	20	3.496	First National Bank, Memphis; J. B. Bond, Chicago.	125
			199	33	[12] 60,000		5		
402	1962	Alexander Manufacturing Co., Yazoo City	3,462	91	275,000	25	3.2302	M. A. Saunders & Co., Inc.; Woodward & Co.	100
403	1962 [4]	Mississippi Chemical Corp., Yazoo City	3,459	85	800,000	20			20
404	1962	Garan, Inc., Kosciusko	3,638	24	400,000	25	3.2481	M. A. Saunders & Co., Inc.; Woodward & Co.	
405	1962	Universal Saw & Tool Co., Tylertown	838	13	40,000	25	3.4603	First National Bank, Memphis	25
406	1963	Remple Manufacturing Co., West Point, Miss.	1,160	25	175,000	20	3.378555	Hamp Jones Co., Jackson, Miss.	
407	1963 [4]	La-Z-Boy Chair Co., Newton	529	12	225,000	20	3.376364	Wm. F. Galtney Co. & Associates, Jackson	
					[14] (200,000)				
408	1963	General Cable Co., District 2, Rankin County	2,517	15	1,000,000	20	3⅜	Deposit Guaranty Bank & Trust Co.; Leland Speed Co.	
					[14] (625,000)				
409	1963 [4]	New Orleans Furniture Co., Columbia	1,180	8	100,000	20	2.9994	Allen & Co	50
410	1963	The Melvin Lumber Co., Quitman, Miss	415	10	225,000	15	2.9758	First National Bank, Memphis	
411	1963	Spartus Corp., Winston County (Louisville)	4,612	46	[15] 1,200,000	20	3.3537	First National Bank, Memphis; Allen & Co.;	400
					[12] 650,000		5.42245	Citizens Bank & Trust Co., Louisville, Miss.	
412	1963	Donald-Thrash Lumber Co., City of Laurel	3,982	244	515,000	25	3.2659	Hattier & Sanford, N.O., First National Bank of Laurel; Kroeze, McLarty & Duddleston.	
413	1963 [4]	Futorian Manufacturing Co., Union County (New Albany).	4,438	317	590,000	20	3.4345	First National Bank, Memphis	
414	1963 [4]	Reliance Manufacturing Co., Hattiesburg (Forrest County).	3,500	93	115,000	20	3.2041	Scharff & Jones, Inc., New Orleans, La	
415	1963 [4]	Quitman Knitting Mills, Inc., Clarke County, district No. 1.	877	16	100,000	20	3.3308	First National Bank, Memphis	
416	1963	Clarke County Land Corp., Clarke County, district No. 1.	859	16	70,000	20	3.3597	do	
417	1963	Garan, Inc., Europa	383	3	100,000	25	3.5796	Bank of Europa	
418	1963	Garan, Inc., Starkville	995	23	400,000	25	3.37531	Scharff & Jones, Inc. & Associates	300
419	1963	Stanwood Corp., Rankin County, district No. 4	798	9	200,000	20	3.31666	Deposit Guaranty Bank & Trust Co. of Jackson.	100
420	1963 [4]	The Herschede Hall Clock Co., Starkville	984	32	110,000	20	3.33443	M. A. Saunders & Co., Inc., Memphis	
421	1963 [4]	Virginia Realty Co., George County (Lucedale)	2,457	66	250,000	20	3.3236042	Leland Speed Co	
422	1963	Cramco, Inc., City of Amory	1,224	14	[15] 400,000	209	3.3998	First National Bank, Memphis Alvis & Co.;	60
					[12] 500,000		4.639624	Allen & Co.	
423	1963 [4]	Wells-Lamont Corp., Eupora	355	5	150,000	10	3.089	First U.S. Corp. & First Jackson Securities Corp.	
424	1963 [4]	Boys-Tone Shirt Co., District 1, Newton County.	736	17	150,000	18	3.427261	John R. Nunnery Co.; Allen & Co	150
425	1963 [4]	Atlas Title & Brick Co., District 4, Noxubee County.	503	134	100,000	18	3.15	Cady & Co., Inc. & Associates; M. A. Saunders & Co.	10

Footnotes at end of table.

No.	Date	Name and location	Vote Yes	Vote No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
426	1963	Udico Manufacturing Co., District 1, Madison County.	1,339	64	$365,000	20	3.291	First National Bank, Memphis	300
427	1963	Mississippi Federated Cooperatives AAL, District 1, Madison County.	1,339	64	350,000	20	3.35053	Leland Speed, Inc	50
428	1963	Caradco, Inc., District 2, Harrison County			2,500,000	20			250
429	1963	Krueger Metal Products, Inc., Districts 3 and 4, Lee County.	2,295	332	450,000	20	3.3027	First National Bank, Memphis	200
430	1963, joint	Mississippi Federated Cooperatives, City of Collins and District 3 ($125,000 each).	1,466	48	[5] 250,000 [5] 125,000 [6] 125,000	20	[5] 3.3729 [6] 3.4381	Byron Speed & Leland Speed Co., First National Bank Memphis; State Bank and Trust Co. (Collins).	60
431	1963 [4]	Gem, Inc., Supervisors District 3, Marshall County.			200,000	20	3.4697	First National Bank, Memphis	130
432	Sept. 26, 1963	Leake Manufacturing Co., Carthage	670	5	125,000 [14] (75,000) [14] (50,000)	25	3.597 3.7828	First National Bank, Memphis; Merchants & Farmers Bank of Kosciusko.	50
433	Oct. 3, 1963 [4]	Ferson Optics of Delaware, Inc., Supervisors District 4, Jackson County.	1,771	322	205,000	20	3.5425	First National Bank, Memphis	150
434	Oct. 10, 1963, Joint	True Temper Corp., Supervisors District 1, Monroe County ($1,300,000) and city of Armory ($900,000) joint certificate.	3,382 2,197	23 14	2,200,000	20	[5] 3.63490 [6] 3.5987	Deposit Guaranty Bank & Trust Co.; First National Bank, Memphis.	400
435	Nov. 29, 1963	Miss Eaton Corp., Pontotoc	527	2	200,000	20	3.427	Byron Speed Co	150
436	Nov. 7, 1963	Consolidated Aluminum Corp., Districts 1, 2, and 3, Tishomingo County.	2,469	28	150,000	20	3.679	M. A. Saunders & Co., Inc., and Cady Co	50
437	Nov. 14, 1963 [4]	Dizzy Dean Enterprises, Inc., District 2, Clarke County.	357	59	150,000	20	3.4123	First National Bank, Memphis	50
438	Nov. 29, 1963	Carthage Garment Corp., Leake County	3,128	70	300,000	25	3.4778	Scharff & Jones, Inc	150
439	Dec. 19, 1963	Oliver Electric Co., Warren County	7,606	63	850,000	25	3.4894	First National Bank, Memphis	250
440	Dec. 26, 1963	Swift Homes, District 3, Amite County	671	21	300,000 [14] (250,000)	20	3.50175	Amite County Bank, Gloster, Miss	100
441	Feb. 4, 1964 [4]	Slacks, Inc., Okolona	373	8	100,000 [14] (75,000)	15	3½	Leland Speed Co	25
442	Feb. 4, 1964 [4]	Lambert Mills, Inc., District 5, Quitman County.	641	5	200,000	25	3.669322	Herman Bensdorf & Co.; Union Planters National Bank and Alvis & Co.	200
443	Feb. 4, 1964 [4] Joint	A. Stein & Co., Inc., District 3, Sharkey County and town of Rolling Fork ($125,000 each).	609	2	250,000 [14] (240,000)	25	3.5419	First National Bank, Memphis & Bank of Anguilla—First U.S. Corp.	50
444	Feb. 20, 1964 [4]	Movie Star, Inc., Districts 1, 2, and 3, Pearl River County.	1478	78	300,000	20	3.46428571	Leland Speed Co	125
445	Mar. 5, 1964 [4]	Wurlitzer Co., Holly Springs	512	7	300,000	25	3.4760	First National Bank, Memphis	60
446	Mar. 12, 1964 [4]	Madison Furniture Industries, Canton	758	63	300,000	20	3.4561	First National Bank, Memphis	35
447	Mar. 12, 1964	Solar Hardware Products, Inc., Taylorsville	755	73	60,000	25	3.7354	First National Bank, Memphis	25
448	Mar. 12, 1964 [4]	Delta-Macon Brick & Tile Co., Inc., District 3, Noxubee County.	696	9	200,000	20	3.395	Andersen & Co., Birmingham, Ala	30
449	Mar. 26, 1964	Mississippi Federated Cooperatives, AAL, District 5, Copiah County.	1,335	38	1,000,000	20	3.4575	Truckers Exchange Bank	200
450	Apr. 15, 1964 [4]	Forest Industries Co., Districts 1, 2, and 5, Scott County.	2,272	58	475,000	20	3.5348	First National Bank, Memphis	100
451	May 14, 1964	Hamilton Manufacturing Co., Attala County	3,893	34	1,200,000	20	3.2715	Merchants & Farmers Bank, Kosciusko, and First National Bank, Memphis.	400
452	May 14, 1964 [4]	La-Z-Boy Chair Co., city of Newton	504	11	125,000	20	3.5341	Howard Weil, Labouisse, Friedricks & Co	75
453	May 22, 1964 [4]	Baxter Laboratories, Inc., city of Cleveland	1,157	9	1,000,000	20	3.3631	Weil, Labouisse, Friedricks & Gultney	100
454	May 22, 1964	Jet Tool, Inc., Enterprise	123	4	62,000	20	4.1591	John R. Nunnery & Co.; Allen & Co	25
455	June 12, 1964 [4]	Southbridge Plastic Products, Inc., District 1, Alcorn County.	1,950	29	200,000	25	3.699	First National Bank, Memphis	75
456	July 17, 1964 [4]	Futorian Manufacturing Corp. of New York, Webster County.	2,520	120	[16] 632,000 [12] 400,000	20 20	3.899 5¼	do	200
457	Aug. 6, 1964	Sanderson Farms, Inc., city of Laurel	3,399	402	1,050,000	25	3.375	do	225
458	Aug. 6, 1964 [4]	General Equipment Manufacturers, Crystal Springs.	498	5	130,000	20	3.73772	do	60
459	Aug. 13, 1964	Fontaine Truck Equipment Co., Inc., Districts 1, 3, and 5, Covington County.	1,745	52	350,000	20	3.5152	do	100
460	Aug. 20, 1964	Taylorsville Manufacturing Co., Inc., District 2, Smith County.	968	16	100,000	20	3.5613	do	50
461	Aug. 27, 1964 [4]	Alexander Manufacturing Co., Yazoo County	4,540	281	75,000	25	3.2469	do	25
462	Sept. 25, 1964	Corr-Williams Manufacturing Co., district No. 5, Leake County.	1,126	75	150,000 [12] 100,000	25 10	3.75 6	The Carthage Bank, Deposit Guaranty Bank & Trust Co.	40
463	Oct. 8, 1964 [4]	Quitman Knitting Mills, Inc., districts No. 1 and 5, Clarke County.			225,000	20	3.6241	FNB, Memphis	75
464	Nov. 7, 1964	Sportsman's Golf Corp., City of Pontotoc	541	5	270,000 [12] 150,000	20 10	3.7046 5.50	do do	125
465	Nov. 7, 1964	Sledge Manufacturing Co., Town of Sledge	112	14	86,000	20	3.67195	First U.S. Corporation of Memphis	50
466	Nov. 12, 1964 [4]	Panola, Inc., City of Batesville	491	3	280,000	25	3.605977	Herman Bensdorf & Co	250
467	Dec. 23, 1964 [4]	Rivera, Inc., district No. 4, Pontotoc County	1,167	6	112,000	20	3.5479	FNB, Memphis	100
468	Feb. 18, 1965 [5]	Charm Originals, Inc., Town of Ruleville	231	4	40,000	20	3.50	Bank of Ruleville & Planters Bank & Trust Co.	10
469	Mar. 4, 1965 [1] Joint	Emerson Electric Co., City of Philadelphia and district No. 1, Neshoba County.	2,196	19	550,000 [14] (300,000) [14] (250,000)	20	3.60 3.4659	FNB, Memphis do do	300
470	Mar. 4, 1965 [4]	Northern Electric Co., Wayne County	2,206	161	600,000	25	3.55328	Scharff, and Jones & Hamp Jones Co	100
471	Mar. 11, 1965	Moran Tank Co., Inc., district No. 1, Adams County.	1,330	578	392,000	25	4.1851	FNB, Memphis	70
472	Mar. 11, 1965	International Textiles, Limited, City of West Point.	947	48	75,000	20	3.5975	Cady & Co., Inc	50
473	Apr. 8, 1965 [4]	Jackes-Evans Manufacturing Co., Greenwood			300,000	25	3.472	Hatiter & Sanford of New Orleans and Kroeze, McLarty & Duddleston.	55
474	May 13, 1965	Jackson Ready-Mix Concrete, Perry County	2,150	50	$ 1,230,000 [13] 1,875,000	25 20	3.9191 5.303461	FNB Memphis Leland Speed Co	225
475	May 28, 1965	Blazon, Inc., City of West Point	864	46	295,000 [12] 340,000	25 12	3.6328 4.73646	DGNB Allen & Co	100
476	June 21, 1965 [4]	Waldon Manufacturing Co., Inc., district No. 1, Tippah County.			250,000	25	4.4320	FNB, Memphis	100
477	June 21, 1965 [4]	Udico Manufacturing Co., district No. 1, Madison County.	1,293	183	100,000	17	3.4340	do	50
478	July 1, 1965 [4]	Laher Spring & Electric Car Corp., Union County.	3,505	137	325,000	20	3.5624	do	100
479	July 15, 1965 [4]	Screw Conveyor Corp., district No. 1, Montgomery County.	965	79	75,000	25	3.7672	M. A. Saunders & Co., Inc	15
480	July 15, 1965 [4]	La-Z-Boy Chair Co., City of Newton	512	2	152,000	20	3.5514	FNB, Memphis and FNB of Newton	75
481	July 15, 1965 [4]	Spartus Corp., Winston County	2,973	143	500,000	20	4.2500	FNB of Memphis	200
456	Supplement, Sept. 9, 1965	Futorian Manufacturing Corp., of New York, Webster County.			[13] 125,000	15	4.25	do	
482	Sept. 9, 1965	Philadelphia Garment Corp., Neshoba County.	4,022	90	600,000 [14] (550,000)	25	3.9717	do	250
483	Sept. 23, 1965	Winfield Manufacturing Co., Inc., district 5, Tishomingo County.	772	8	60,000	20	4.48	do	100
484	Oct. 14, 1965	R & R Processors, Inc., district 2, Leake County.	1,220	58	450,000	25	3.9181	First National Bank of Memphis and Merchant & Farmers Bank, Kosciusko.	150
485	do	Gilbert Wood Products, Inc., city of Canton	905	26	350,000	20	3.97221	Allen & Co	100

Footnotes at end of table.

No.	Date	Name and location	Vote: Yes	Vote: No	Amount	Maturity (years)	Average rate of interest	Buyer	Employment
486	Nov. 18, 1965 [4]	The Wurlitzer Co., district 1, Marshall County	860	40	$550,000 [14] ($500,000)	25	4.1393	Andersen & Co	125
487	Dec. 16, 1965	Neco Electrical Products Corp., Kemper County.	2,336	7	250,000 [14] ($138,000)	25	4.1064	First National Bank of Memphis	100
488	do [4]	Carthage Garment Corp., Leake County	3,677	77	150,000 [14] ($100,000)	23	4.019	First U.S. Corp	25
489	do [4]	Taylor Machine Works, city of Louisville	925	57	1,000,000 [14] ($500,000)	20	4.148	First National Bank of Memphis	100
490	Feb. 17, 1966 [4]	Indianapolis Glove Co., Inc., district 2, Chickasaw County.	430	7	182,000	20	4.1940	First U.S. Corp	100
491	Feb. 24, 1966 [4]	Chromcraft, Inc., Tate County	2,620	39	450,000	15	4	First National Bank of Memphis	150
492	Mar. 31, 1966 [4]	Jacobsen Manufacturing Co., city of Brookhaven.	1,411	24	250,000	20	4.0795	do	50
493	do [4]	Hartley Gove's & Sons, city of Brookhaven	1,411	24	150,000	20	4.0890	do	25
494	Mar. 31, 1966 [4]	Douglas & Lomason Co., city of Cleveland	1,678	17	250,000	12	4⅜	First National Bank of Bolivar County	150
495 joint.	Apr. 7, 1966	Burris Manufacturing Co., Inc., city of Aberdeen and district 4, Monroe County ($200,000 each).	1,604 1,138	64 42	400,000	25	4.1949 4.2303	First National Bank of Memphis	300
496	May 12, 1966 [4]	U.S. Industries, Inc., city of Batesville	623	3	120,000	25	4.2372	Deposit Guaranty National Bank	60
497	May 19, 1966 [4]	Kellwood Co., district 4, Pike County	2,233	112	160,000	20	4.54913	Leland Speed Co	70
498	June 9, 1966 [4]	Wells Lamont, Philadelphia	948	22	100,000	10	4.43898	First National Bank of Memphis	25
499	June 16, 1966 [4]	Sardis Luggage Co., city of Sardis			50,000 [12] ($450,000)	20			50
500	do [4]	Futorian Manufacturing Corp. of New York, New Albany.			625,000	15	4	do	150
497 supplemental.	June 23, 1966 [4]	Kellwood Co., district 4, Pike County	2,233	112	40,000	20	4.54913	Leland Speed Co	70
501	do [4]	Emerson Electric Co., Neshoba County	4,368	92	900,000	20	4.3380	First National Bank of Memphis	150
502	do [4]	Superior Coach Co., Kosciusko	1,239	146	810,000	20	4.72648	Alvis & Co. & Associates	250
503	July 14, 1966	Middle South Industries, Inc., district 1, Humphreys County.	1,125	10	400,000	20	4.375	Alvis & Co., et al	50
504	July 21, 1966 [4]	Boys [2] Tone Shirt Co., district 1, Newton County.			75,000	15			50
505	July 21, 1966 [4]	Baxter Laboratories, city of Cleveland	1,365	6	700,000	20	4.23809	First U.S. Corp	100
506	July 30, 1966 [4]	Marks Manufacturing Co., District 3, Quitman County.	755	50	60,000	25	4.4565	FNB of Memphis	30
507	Aug. 12, 1966 [4]	W. W. Sly Co., town of Mathiston	127	8	25,000	20	5.25	Security State Bank, Starkville, and Maben Home Bank, Maben.	10
508	Aug. 25, 1966	Ram Tool Corp., Yalobusha County	2,487	51	1,575,000 [14] ($450,000)	25	4.4177	FNB of Memphis	100
509	Sept. 22, 1966	Ertel Manufacturing Corp., District 3, Union County.			300,000	15			50
510	Oct. 6, 1966 [4]	Keystone-Seneca Wire Cloth Co., Lincoln County.	5,129	769	190,000	25	4.02016	Alvis & Co. and Union Planters National Bank.	20
511	Oct. 24, 1966 [4]	Shelby Die Casting Co., city of Shelby	220	11	50,000	20	4.4413	Bank of Shelby	10
512	Nov. 3, 1966, [4] joint	Modern Line Products, city of Indianola and District 3, Sunflower County.			525,000	20			200
513	Dec. 8, 1966, [4] joint	A. Stein & Co., Inc	345	2	200,000	25	4.2848	FNB of Memphis and Bank of Anguilla	
		District No. 3 Sharkey County, town of Rolling Fork ($100,000 each).	345	2					
514	Dec. 15, 1966 [4]	Madison Furniture Industries, city of Canton			160,000	20			10
515	Feb. 9, 1967	Southern Household Products Co., Inc., Districts 2 and 5, Clarke County.	1,125	17	600,000	20	4.1482	FNB of Memphis	200
516	Feb. 9, 1967 [4]	Meadow Sportswear, Inc., and the B.V.D. Co., Inc., city of Okolona.			250,000	20	4.0731	First U.S. Corp	
517	Mar. 16, 1967	C. V. Dehner Co., district 3, Tate County	625	45	500,000 [12] ($100,000)	25	4.3566	FNB of Memphis	100
518	Mar. 24, 1967	Modern Textiles, Inc., city of Sardis			80,000	20	4.1919	do	100
519	Apr. 27, 1967 [4]	Binswanger Mirrow Co., city of Grenada	1,596	17	320,000	20	4.8227	Grenada Bank and FNB of Memphis	50
520	May 4, 1967 [4]	Garan, Inc., district No. 1, Webster County	865	30	500,000	25	4.414	First U.S. Corp., Memphis, Tenn	200
521	May 24, 1967 [4]	McQuay, Inc., district No. 1, Grenada County	2,782	19	1,150,000 [12] ($825,000)	20	4.8336	FNB of Memphis	100
522	June 8, 1967 [4]	Gem, Inc., district No. 3, Marshall County	687	38	250,000	20	4.2904	A. S. Hart & Co., Memphis	100
515	July 13, 1967, supplement	Southern Household Products, districts 2 and 5, Clarke County.	1,223	191	65,000	20	4.3653	Speed-Ferguson, Inc	
523	July 29, 1967 [4]	Winfield Manufacturing Co., district No. 5, Tishomingo County.			50,000	20	4.747	Firt U.S. Corp	
524	Oct. 5, 1967 [4]	Kellwood Co., Pike County			1,500,000	20			50
525	do	MFC Services (AAL), districts 2, 3, 4, and, 5 of Covington County.			350,000 [12] ($150,000)	20			25
526	do	Poloron Products of Mississippi., Inc., districts 3, 4, and 5, Panola County.	3,737	242	200,000	25	4.687	First U.S. Corp	25
527	Oct. 5, 1967	Munsingwear, Inc., district No. 3, Union County.			350,000	20			40
514	Supplement, Nov. 30.1967 [4]	Madison Furniture Industries, City of Canton			260,000				10
528	Dec. 20, 1967 [4]	Garan, Inc., District 5, Quitman County			250,000	25			25
529	Jan. 18, 1968	Midland Manufacturing Co., Kemper County			350,000	25			
530	Jan. 25, 1968	Howard Industries, Inc., City of Laurel			350,000 [12] (175,000)	25			25
531	Jan. 25, 1968 [4]	National Picture Frame Manufacturing Co., City of Greenwood.			200,000	20			50
532	Feb. 15, 1968 [4]	Consolidated Aluminum Corp., districts 1, 2 and 3, Tishomingo County.			225,000	20			50
533	Feb. 15, 1968 [4]	Ripley Shoe Products Co., Tippah County			675,000	20			150
534	Feb. 22, 1968 [4]	U.S. Industries, Inc., City of Batesville			280,000 [12] (120,000)	20 12			100
535	Mar. 5, 1968 [4]	Kuhlman Corp., City of Crystal Springs			376,000	20			25

[1] No bonds.
[2] Approximate average interest rate; available data from bond buyers show series of interest rates for 2 or more groupings of bonds in total issue.
[3] Expansion of an already established, non-BAWI, plant.
[4] Expansion of a BAWI plant.
[5] District.
[6] City.
[7] Amount sold. $50,000 of issue.
[8] Amount sold.
[9] Amount of issue.
[10] Amount authorized.
[11] Elections failed due to failure of 50 percent to vote.
[12] Revenue.
[13] 6 months.
[14] Amount used.
[15] BAWI.
[16] GO.

INDUSTRIES COMING UNDER THE REVENUE BOND ACT

Certificate No.	Date	Name and location	Amount	Maturity (years)	Interest (percent)	Buyer or underwriter's agreement
358	June 29, 1961[1]	Sardis Luggage Co., town of Sardis	$170,000	21 years, 6 months	5.66106	Herman Bensdorf & Co., Memphis.
2R	Dec. 14, 1961[1]	Pennsylvania Tire & Rubber Co., District Nos. 3, 4, Lee County.	$200,000	18 years	4.7606	Leland Speed Co.
3R	May 10, 1962[2]	Grenada Industries, Inc., city of Granada (machinery).	$300,000	12	5.3093	Max Allen Co.
4R	May 24, 1962[1]	The Batesville Co., city of Batesville	$500,000	12	5.2992	Allen & Co.
385	May 24, 1962	Monroe Manufacturing Co., District 3, 4, Monroe County.	$1,000,000	10	5	R. B. Wooten Co.
401	Oct. 4, 1962	S. L. B. Manufacturing Co., Hernando	$60,000	20	5	J. B. Bond, Chicago, Ill. (guarantor also).
5R	Nov. 1, 1962[1]	Southern Paper Co., Wiggins, Miss	$400,000	20	4	Clement Evans, Atlanta, Ga.
6R	Feb. 28, 1963	Zinsco Electric Products of Mississippi, Inc., city of Jackson.	$850,000	20	4.75	J. S. Love Co., Account Manager & Associates.
411	Mar. 7, 1963	Spartus Corp., Winston County (Louisville)	$650,000	12	5.42245	Allen & Co.
7R	do	Ames American Co., Columbus	$200,000	20	4.25	John C. Standish.
8R	April 4, 1963	Dover Corp., De Soto County, District 2	$2,500,000 ($1,500,000 used)	15	4.29208	Scharff & Jones, Inc.
			($1,000,000 used)	15	4.287182	and Allen & Co.
422	May 28, 1963	Cramco, Inc., Amory	$500,000	15	4.639624	Allen & Co. and Alvis & Co.
9R	Aug. 2, 1963	Western Textile Co., Columbus	$80,000	25	4.50	First Columbus National Bank.
10R	Sept. 12, 1963	Futorian Manufacturing Co., Okolona	$550 000	15	4.6786	Allen & Co.
11R	Nov. 7, 1963[1]	Zinsco Electrical Products of Mississippi, Inc., Jackson.	$250,000	20	4.75	J. S. Love, Co., Account Manager.
12R	Nov. 29, 1963[1]	The Emerson Electric Manufacturing Co., Tupelo.	$750,000	20	4.129	Cady & Co., Inc., Cherokee Securities Co.
13R	Dec. 19, 1963	True Temper, Amory	$2,000,000	15	4.128	Thornton, Farish & Gauntt, Inc.
14R	Jan. 3, 1964	Oliver Electric Co., Warren County	$650,000	12	5.5875	J. S. Love Co., Lewis & Co.
15R	Feb. 6, 1964[1]	Super Sagless Spring Corp., of Mississippi, Tupelo.	$165,000	15	4.75	The Bank of Tupelo & FNB, Memphis.
16R	Mar. 12, 1964[1]	Monroe Manufacturing Co., Districts 3 and 4, Monroe County.	$1,500,000	10	4.60	R. B. Wooten & Co., Memphis, Tenn.
17R	Mar. 18, 1964	American Creosote Works, Inc., District 1, Clarke County.	$175,000	15	5.20231	Allen & Co.
18R	June 2, 1964[1]	Southern Bag Corp., Yazoo County	$200,000	10	4	Byron Speed Co., Wm. F. Galtney & Co. and Hamp Jones Co.
19R	June 2, 1964	R. D. Seating Co., Inc., city of Tupelo	$125,000	20	4¾	Romito-Donnelly Corp. and L. S. Romito, Indiv.
8R (Sup)	June 12, 1964 (supplemental)	Dover Corp., District 2, DeSoto County	$200,000	15	4.28718	Scharff & Jones and Allen & Co.
20R	June 26, 1964[1]	R. G. LeTourneau, Warren County	$750,000	15	4.737615	Allen & Co.
21R	July 7, 1964[1]	Hamilton Manufacturing Co., Attala County	$1,000,000	15	3.8	First Wisconsin National Bank of Milwaukee; First Wisconsin Trust Co.
22R	July 17, 1964[1]	Cramco, Inc., Armory	$300,000	15	4.45	First National Bank, Memphis.
456	do[1]	Futorian Manufacturing Corp. of New York, Webster County.	$400,000	20	5¼	Do.
23R	July 30, 1964	Reichhold Chemicals, Inc., Harrison County	$3,000,000 ($2,000,000 used).	20	3.93276	Stern Bros. & Co. and Parker, Eisen, Waeckerle, Adams & Purcell.
24R	Aug. 6, 1964[1]	Magnavox Wood Products, District 2, Madison County.	$495,000	15	3.9491	Deposit Guaranty Bank & Trust Co.
25R	Aug. 13, 1964[1]	Kellwood Corp., District 1, Calhoun County	$80,000	15	4.25	First National Bank, Memphis.
462	Sept. 25, 1964	Corr-Williams Manufacturing Co., District 5, Leake County.	$100,000	10	6	Deposit Guaranty Bank & Trust Co.
26R	do[1]	E. R. Moore Co., District 4, Jackson County	$31,400	7	4	Pascagoula-Moss Point Bank.
27R	Oct. 6, 1964[1]	Consolidated Packaging Corp., city of Clinton.	$250,000	15	4.4836	Byron Speed Co., Wm. F. Galtney & Co. and Hamp Jones Co.
28R	Oct. 8, 1964[1]	Kellwood Co., District 1, Lafayette County	$150,000	16	4.34948	First National Bank of Memphis.
29R	Nov. 3, 1964[1]	Futorian Manufacturers & Co. of New York, Union County.	$375,000	20	4.25	Do.
464	Nov. 7, 1964	Sportsman's Golf Co., Pontotoc	$150,000	10	5.130471	Alvis & Co.
30R	Dec. 14, 1964[1]	Pennsylvania Tire & Rubber Co., Lee County, Districts 3 and 4.	$445,000	20	4.1784	Byron Speed Co.
31R	do[1]	U.S. Industries, Inc., Grenada	$200,000	20	4.718939	Allen & Co. and Scharff & Jones, Inc.
32R	Dec. 23, 1964	Mississippi Federated Cooperatives, AAL, District 5, Copiah County.	$1,000,000	15	4.47619	Allen & Co.
33R	Feb. 11, 1965	Magnolia Mobile Homes Manufacturing Corp., Warren County.	$325,000	15	5.115596	Alvis & Co.
474	May 13, 1965	Jackson Ready-Mix Concrete, Perry County	$1,875,000	20	6	Leland Speed Co.
475	May 28, 1965	Blazon, Inc., city of West Point	$340,000	12	4.73646	Allen & Co.
34R	July 15, 1965[1]	Industrial Electric, Inc., city of Bay St. Louis.	$115,000	22	5	Hancock Bank.
35R	July 22, 1965[1]	Carthage Corp., Carthage	$125,000	10	4.40	DGNB.
36R	do[1]	Raleigh Corp., Districts 1, 4, and 5, Smith County.	$125,000	10	4.40	DGNB.
37R	Aug. 19, 1965[1]	Futorian Manufacturing Corp., of New York, Okolona.	$800,000	20	4.375	First National Bank, Memphis.
456	Sept. 9, 1965[1] supplemental	Futorian Manufacturing Corp., of New York, Webster County.	$125,000	15	4.25	Do.
38R	Sept. 30, 1965	Reasor Chemical Corp., city of Columbia	$1,000,000	20	5.999047	Citizens Bank, Columbia, Miss.
39R	do	Baldor Electric Co., city of Columbus	$140,000	18	4.66	Southern Bond Co.
40R	Oct. 14, 1965[1]	Krueger Metal Products, Inc., Districts 3 and 4, Lee County.	$250,000	17	4.46	Byron Speed Co.
41R	Oct. 14, 1965	Mississippi Federated Cooperatives, AAL, city of Magee.	$500,000	15	4.22	Leland Speed Co.
42R	Oct. 21, 1965	Geo. L. Mesker Steel Corp., Union County	$250,000	20	5.61837	Andresen & Co.
43R	Nov. 10, 1965	Reliance Universal, Inc., Lee County	$4,000,000	20	4.42155	First National Bank, Memphis.
44R	Dec. 2, 1965[1]	Mid-States Metal Products, Inc., District 3, Washington County.	$200,000	14	4.36333	Scharff & Jones.
45R	Dec. 16, 1965	Georgia Pacific, Louisville	$9,000,000	21	4.15	Stephens, Inc.; Wm. F. Galtney & Co.; and Byron Speed Co.
46R	do	Georgia Pacific, Town of Gloster	$5,000,000	21	4.15	Stephens, Inc.; Wm. F. Galtney & Co.; and Byron Speed Co.
47R	Jan. 6, 1966[1]	ITT (International Telephone & Telegraph Co.), Districts 1 and 4, Alcorn County.	$650,000	20	4.188	First National Bank, Memphis.
48R	do[1]	Emerson Electric Co., city of Tupelo	$375,000	20	4.1029	First National Bank, Memphis.
49R	Jan. 13, 1966[1]	True Temper Corp., city of Amory	$700,000	20	4.33886	Thornton, Farish & Gauntt.
50R	do[1]	Coastal Chemical Corp., District 3, Jackson County.	$1,200,000	12	4.125	Leland Speed Co.
51R	Jan. 20, 1966	Hunter-Sadler Co., Inc., city of Tupelo	$500,000	20	3⅞	Trust Co. of Georgia.
52R	Jan. 27, 1966[1]	Kellwood Corp., District 1, Calhoun County	$175,000	14	4.3	First National Bank, Memphis.
53R	do[1]	General Cable Corp., District 2, Rankin County.	$150,000	19	4.24372	Alvis & Co.
54R	Feb. 3, 1966	Mississippi Federated Cooperatives (AAL), city of Macon.	$750,000	15	4.51	Leland Speed Co.
55R	do	Magna American Corp. and Mississippi Steel Corp., Hinds County.	$1,000,000	25	6	Do.
56R	Feb. 17, 1966	Lapeyrouse Grain Corp., George County	$61,000	20	5½	Thornton, Farish & Gauntt, Inc.
57R	do[1]	Blue Bell, Inc., District 5, Tishomingo County.	$175,000	10	4	Hendrix, Mohr & Head, Inc.

Footnotes at end of table.

Certificate No.	Date	Name and location	Amount	Maturity (years)	Interest (percent)	Buyer or underwriter's agreement
58R	Mar. 10, 1966 [1]	U.S. Industries, Inc., Grenada	$500,000 ($310,000 used).	10	4.77689	Allen & Co. and Scharff & Jones, Inc.
59R	Mar. 17, 1966 [1]	Masterson, Inc., Districts 1, 2, 4, and 5, Prentiss County.	$55,000	10	6	Sutton & Schoenbrod.
60R	Apr. 14, 1966 [1]	Atlas Tank Co., Warren County	$500,000	15	5.408	Kroeze, McLarty & Duddleston.
61R	do [1]	Dryden Manufacturing Co., Inc., District 5, Monroe County.	$35,000	10	5	Do.
62R	June 2, 1966 [1]	Pennsylvania Tire & Rubber Co., Districts 3 and 4, Lee County.	$1,200,000	15	4.98365	Byron Speed Co.
63R	June 6, 1966 [1]	Western Textile Products Co., city of Columbus.	$75,000 ($63,000 used).	15	4⅝	First National Bank of St. Louis.
499	June 16, 1966 [1]	Sardis Luggage Co., city of Sardis	$50,000 ($450,000 GO).	20	[2] 6	Do.
64R	do	U.S. Industries, Inc., Batesville	$500,000	10	5.96555	Allen & Co. and Scharff & Jones.
65R	June 23, 1966 [1]	Tyrone Hydraulics, Inc., city of Corinth	$300,000	10	5½	First National Bank of Memphis and Security Bank of Corinth.
66R	July 14, 1966	Southern Precision Steel Co., Harrison County.	$1,450,000	20	5.82940	J. S. Love Co. as manager.
67R	Aug. 4, 1966	Belden Manufacturing Co., city of Pontotoc	$3,000,000	20	4.70	Andersen & Co.
68R	Aug. 11, 1966 [1]	True Temper Corp., city of Amory	$1,000,000	20	[2] 6	Thornton, Farish & Gauntt, Inc.
508	Aug. 25, 1966	Ram Tool Co., Yalobusha County	$350,000	12	5.998673	First National Bank of Memphis.
69R	Sept. 1, 1966 [1]	Zinsco Electrical Products, Inc., city of Jackson.	$500,000	20	5.82756	J. S. Love Co. & Associates.
70R	do	Riverside Oil Mill, Oktibbeha County	$250,000	10	[2] 5	Deposit Guaranty National Bank.
71R	do	Riverside Oil Mill, city of Marks	$250,000	10	5	Do.
72R	Oct. 6, 1966	Century Electric Co., Alcorn County	$2,000,000	20	[3] 5⅞ [4] 5.99439	Reinholdt & Gardner. Do.
73R	do	Hemenway Furniture Co., Inc., Harrison County.	$225,000	20	6	Howard, Weil, LaBouisse, Friedrichs & Co.
74R	Dec. 1, 1966	Mid-States Steel & Wire Co., District 3, Washington County.	{$2,250,000 ($1,000,000 used) ($1,250,000 used).	20	{5.74686 5.80	Allen & Co.; John Nuveen & Co; Nagley, Jens & Rowe.
75R	Jan. 26, 1967 [1]	U.S. Industries, Inc., city of Grenada	$110,000	20	[2] 6	Allen & Co.
76R	Feb. 9, 1967 [1]	Pennsylvania Tire & Rubber Co., Districts 3 and 4, Lee County.	$1,050,000	15	5.875374	Speed-Ferguson, Inc.
77R	Mar. 2, 1967 [1]	Century Electric Co., Alcorn County	$1,000,000	20	5.99068	Reinholdt & Gardner.
517	Mar. 16, 1967	C. V. Dehner Co., District 3, Tate County	$100,000	7	[2] 6	
78R	Apr. 13, 1967	Corinth Manufacturing Co., Inc., Alcorn County.	$250,000	20	6	First National Bank of Memphis.
79R	Apr. 27, 1967 [1]	Riverside Oil Mill, city of Marks	$1,000,000	10	5	Deposit Guaranty National Bank.
521	May 24, 1967 [1]	McQuay, Inc., District 1, Grenada County	$825,000	20	[2] 6	United Municipal Investment Association.
80R	do [1]	Alexander Manufacturing Co., Yazoo County.	$50,000	10	5	Delta National Bank, Bank of Yazoo City.
81R	June 8, 1967 [1]	Indianapolis Glove Co., New Houlka	$35,000	10	[1] 6	Cady & Co.
82R	June 29, 1967	Atlantic Co., city of Jackson	$560,000	20	5.4062	Deposit Guaranty National Bank—Jackson.
83R	July 13, 1967	North Pacific Lumber Co., city of Waynesboro.	$1,450,000	10	5	Citizens of Bank Oregon et al.
84R	July 29, 1967 [1]	Baxter Laboratories, city of Cleveland	$3,600,000	25	[2] 6	First National Bank of Memphis.
85R	July 29, 1967	Combustion Engineering, Harrison County	$3,700,000	20	4.69033	Thornton, Farish & Gauntt, Inc.
86R	August 3, 1967 [1]	Mid-States Metal Products, Inc., district 3, Washington County.	$150,000	13	5.894	Scharff & Jones.
87R	August 17, 1967 [1]	Super Sagless, city of Tupelo	$325,000	15	5.2	First National Bank of Memphis.
88R	August 27, 1967	STACO International, Inc., Adams County	$300,000	20		First National Bank of Houston.
525	October 5, 1967 [1]	MFC Services (AAL) districts 2, 3, 4, 5, Covington County.	$150,000	15		Plaza Investment Co., Inc.
89R	October 19, 1967	U.S. Plywood-Champion Paper Co., Lafayette County.	$9,500,000	25		Eastman Dillon Union Securities & Co. and Goldman Sachs & Co.
90R	October 26, 1967 [1]	Century Electric Co., Alcorn County	$300,000	12		Reinholdt & Gardner.
91R	October 26, 1967	Armstrong Rubber Co., Hinds County	$1,900,000	30		Equitable Securities Corp.
92R	do	M. H. Graham Co., city of Biloxi	$225,000	25		Gates, Carter & Co.
93R	Oct. 26, 1967	Klean Steel Manufacturing Corp., Rankin County.	$750,000	30	[2] 6	Douglas Securities, Inc.
94R	[1] Nov. 9, 1967	La-Z-Boy Chair Co., city of Newton	$100,000	5	5½	Newton County Bank.
95R	[1] Nov. 17 1967	Quaker Oats Co., Inc., city of Pascagoula	$525,000	25		Scharff & Jones.
85R SUP	[1] do	Baxter Laboratories, city of Cleveland	$300,000	25		John Nuveen & Co. (Inc.) & Associates.
96R	[1] do	Belden Corp., city of Pontotoc	$300,000	25	5	Andresen & Co. Inc.
522 SUP	[1] do	Gem, Inc., Supervisors District 3, Marshall County.	$100,000	10	[2] 6	First National Bank of Memphis.

[1] Includes $125,000,000 Standard Oil Refinery at Pascagoula.
[2] NTE.
[3] Percent of $800,000.
[4] Percent of $1,200,000.

"BOX SCORE" OF MISSISSIPPI'S INDUSTRIAL PROGRESS SINCE CREATION OF THE AGRICULTURAL AND INDUSTRIAL BOARD IN 1944

Year	New industries	Jobs provided	Capital investment	Expanded industries	Jobs provided	Capital investment	Total jobs	Total investment [1]
1944–45 [2]	18	[3]	[3]	5	[3]	[3]	[3]	[3]
1946–47 [2]	66	[3]	[3]	2	[3]	[3]	[3]	[3]
1948–49 [2]	44	[3]	[3]	1	[3]	[3]	[3]	[3]
1950	22	2,475	[3]	4	250	[3]	2,725	$9,800,000
1951	40	5,726	[3]	6	510	[3]	6,236	66,600,000
1952	29	2,531	[3]	11	625	[3]	3,156	19,500,000
1953	44	6,815	[3]	9	689	[3]	7,504	20,500,000
1954	41	3,544	[3]	31	3,318	[3]	6,862	27,300,000
1955	63	6,755	[3]	31	3,215	[3]	9,971	35,000,000
1956	52	4,842	$31,245,000	34	3,045	$48,815,000	7,887	80,060,000
1957	59	3,421	37,175,000	30	1,745	5,534,000	5,166	42,709,000
1958	70	3,876	29,338,000	42	2,252	9,350,000	6,128	38,688,000
1959	91	8,370	29,680,000	60	3,850	16,040,000	12,220	45,720,000
1960	81	7,715	54,552,000	45	2,293	8,876,000	10,008	63,398,000
1961	83	7,018	[4] 157,890,000	68	3,305	24,270,000	10,323	182,160,000
1962	84	7,664	35,275,000	60	3,502	17,972,000	11,166	53,247,000
1963	72	6,268	51,492,000	53	2,464	23,216,000	8,732	74,708,000
1964	65	5,448	36,864,500	55	3,187	34,919,500	8,635	71,784,000
1965	67	6,210	234,177,000	58	6,496	52,203,500	12,706	286,380,500
1966	111	8,551	126,238,000	121	6,717	91,179,700	15,268	217,417,700
1967	88	8,839	175,563,000	89	3,398	42,585,000	12,237	218,148,000
As of Mar. 1, 1968	2	50	1,025,000	11	724	6,166,000	774	7,191,000

[1] Investment not broken down into new and expanded industries before 1956.
[2] No year-by-year listings kept before 1950. Figures show number of "typical new industries" listed in biennial report.
[3] Information not available.
[4] Includes $125,000,000 Standard Oil refinery at Pascagoula.

Mr. SCOTT. Mr. President, today, we address ourselves to an issue which has long had my attention.

During the Senate's consideration of the investment tax credit suspension bill in October 1966, I expressed concern about the growing tendency among the States to adopt legislation permitting the use of tax-free industrial financing. The subsidizing of private corporations—including some very large corporations in recent years—through tax-exempt municipal bond sales is incompatible with the principles underlying our free enterprise system and represents an abuse of the tax-exempt privilege. Gov. Raymond P. Shafer, of Pennsylvania, has asked President Johnson to press for the elimination of the tax-free status of State and local government revenue bonds for industrial purposes, warning that unless this were done, competitive circumstances would require Pennsylvania to join the parade of States already per-

mitting the use of tax-free industrial financing.

High ranking officials of the AFL–CIO, including Mr. I. W. Abel, as well as members of the Investment Bankers Association and the Municipal Finance Officers Association—to name a few—have consistently attacked the concept of municipal industrial revenue bonds as being morally wrong and a threat to the tax-exempt status of all municipal bonds.

Joseph R. Slevin, financial analyst for Newsday, Inc., has written an excellent article on the subject of municipal industrial financing which appeared in the March 30 edition of the Washington Post. I ask unanimous consent that the article, entitled "Industrial Tax Gimmick Under Scrutiny" be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

INDUSTRIAL TAX GIMMICK UNDER SCRUTINY

(By Joseph R. Slevin)

The administration is getting ready to crack down on a tax gimmick that industrial companies use to get new plants at a bargain price.

It's called municipal industrial financing and the practice costs the Federal Government—which means the American taxpayer—tens of millions of dollars a year.

Many of the best known corporations use municipal industrial financing. They include American Can, Armco Steel, International Telephone and Telegraph, Minnesota Mining and Manufacturing, Revere Copper and Brass, Skelly Oil, United Fruit and U.S. Rubber.

The companies achieve their savings by renting plants that local communites build for them. Some firms used to be loathe to make the rental deals. They considered it socialistic for a local government to own a factory. But they have been changing their minds for the reason that they have to save every penny that they can for their stockholders.

A local community can build a plant more cheaply than a private company because it pays less to borrow money. The interest payments on local bonds are exemtp from Federal income tax. Since investors do not have to pay any tax to Uncle Sam, they are willing to acept a lower interest rate from a town or a county than they would demand from a corporation.

The industrial financing dodge stretches the tax exemption privilege far beyond its original bounds. Communities supposedly enjoy tax exemption to help them build schools, hospitals, sewers, and other public facilities.

Secretary of the Treasury Henry H. Fowler says bluntly that the local governments are abusing their tax exemption privilege. Assistant Secretary Stanley S. Surrery, the Treasury's top tax expert, charges that the participating corporations are "accomplishes" of the local communities in schemes that improperly force the Federal Government to support their borrowing operations.

Municipal industrial financing initially was designed to help small, poor communities attract plants that would bring them needed jobs and payrolls. Mississippi started it all back in 1936 when Durant sold an $85,000 bond issue to build a factory for Realsilk Hosiery Mills.

But bigger towns and richer states are getting into the act now. Middletown, Ohio, floated the largest industrial financing issue on record just last month. It totaled a strapping $82.5 million and will be used to build new facilities for Armco.

Worried officials point out that the volume of tax exempt offerings jumped to over $500 million in 1966 from only $212 million in 1965. A new peak of close to $700 million appears in the making for 1967.

While the red seals of the local governments are stamped on the tax exempt bonds, the transparent fact is that the communities could not find buyers if investors did not know that there was a profitable business corporation behind each big issue. The corporate rental payments customarily are set at a sum that will cover both the community's interest payments to investors and the redemption of the bonds when they come due.

A number of ways to halt the industrial financing spree have been suggested in recent years. Treasury experts currently are taking a close look at a new plan that they have received from Rep. John W. Byrnes of Wisconsin, the ranking Republican member of the tax-writing House Ways and Means Committee.

The Byrnes plan would wipe out industrial financing by granting tax exemption only to bonds that are backed by the full credit of the issuing community. It would exempt public revenue-producing activities such as airports, toll roads, and recreational facilities.

Some of the strongest support for ending the industrial financing practice comes from the Investment Bankers Association of America. The conservative investment bankers are not fretting about the Treasury's lost tax revenue. But they sell more than $11 billion of tax-exempt securities a year and fear that the entire tax-exemption privilege may be jeopardized if the industrial financing abuse is not brought under control.

The PRESIDING OFFICER. Who yields time?

Mr. LONG of Louisiana. Mr. President, I do not believe there will be a request for additional time. I have 5 minutes remaining, and I believe the Senator has 5 minutes remaining.

Mr. AIKEN. Mr. President, I have to go to my office. I have waited for 20 minutes now.

Mr. LONG of Louisiana. Mr. President, I yield back the remainder of my time.

Mr. PROXMIRE. I yield back the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on agreeing to the committee amendment on page 18. The yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. HOLLINGS (when his name was called). On this vote I have a pair with the Senator from Oklahoma [Mr. MONRONEY]. If he were present and voting, he would vote "yea." If I were at liberty to vote, I would vote "nay." I withhold my vote.

Mr. BYRD of Virginia (after having voted in the affirmative). On this vote I have a pair with the Senator from Connecticut [Mr. RIBICOFF]. If he were present and voting, he would vote "nay." If I were at liberty to vote, I would vote "yea." I withdraw my vote.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Massachusetts [Mr. KENNEDY], the Senator New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Washington [Mr. MAGNUSON], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Oklahoma [Mr. MONRONEY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from West Virginia [Mr. RANDOLPH], and the Senator from Connecticut [Mr. RIBICOFF] are necessarily absent.

I also announce that the Senator from Missouri [Mr. LONG] and the Senator from Georgia [Mr. TALMADGE] are absent on official business.

I further announce that, if present and voting, the Senator from West Virginia [Mr. RANDOLPH] and the Senator from Georgia [Mr. TALMADGE] would each vote "yea."

On this vote, the Senator from Massachusetts [Mr. KENNEDY] is paired with the Senator from Washington [Mr. MAGNUSON]. If present and voting, the Senator from Massachusetts would vote "yea," and the Senator from Washington would vote "nay."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from Ohio [Mr. LAUSCHE]. If present and voting, the Senator from Rhode Island would vote "yea," and the Senator from Ohio would vote "nay."

Mr. KUCHEL. I announce that the Senator from Massachusetts [Mr. BROOKE] is necessarily absent.

The Senator from North Dakota [Mr. YOUNG] is detained on official business, and if present and voting, would vote "yea."

If present and voting, the Senator from Massachusetts [Mr. BROOKE] would vote "yea."

The result was announced—yeas 51, nays 32, as follows:

[No. 77 Leg.]

YEAS—51

Aiken	Fong	Montoya
Allott	Fulbright	Morse
Anderson	Griffin	Morton
Baker	Hansen	Moss
Bennett	Harris	Mundt
Boggs	Hatfield	Muskie
Brewster	Hayden	Pearson
Burdick	Hickenlooper	Prouty
Byrd, W. Va.	Hill	Smith
Carlson	Hruska	Sparkman
Cooper	Inouye	Spong
Curtis	Jordan, Idaho	Stennis
Dirksen	Long, La.	Symington
Dominick	McClellan	Thurmond
Eastland	McGee	Tower
Ellender	McGovern	Tydings
Fannin	Miller	Williams, Del.

NAYS—32

Bartlett	Hart	Murphy
Bible	Hartke	Nelson
Cannon	Holland	Percy
Case	Jackson	Proxmire
Church	Javits	Russell
Clark	Jordan, N.C.	Scott
Cotton	Kuchel	Smathers
Dodd	Mansfield	Williams, N.J.
Ervin	McIntyre	Yarborough
Gore	Metcalf	Young, Ohio
Gruening	Mondale	

PRESENT AND GIVING LIVE PAIRS, AS PREVIOUSLY RECORDED—2

Hollings, against.
Byrd of Virginia, for.

NOT VOTING—15

Bayh	Long, Mo.	Pell
Brooke	Magnuson	Randolph
Kennedy, Mass.	McCarthy	Ribicoff
Kennedy, N.Y.	Monroney	Talmadge
Lausche	Pastore	Young, N. Dak.

So the committee amendment was agreed to.

Mr. CURTIS. Mr. President, I move to reconsider the vote by which the amendment was adopted.

Mr. TOWER and Mr. MILLER moved to lay the motion to reconsider on the table.

The motion to lay on the table was agreed to.

SUBCOMMITTEE MEETING DURING SENATE SESSION

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary be authorized to meet during the session of the Senate today.

The PRESIDING OFFICER. Is there objection?

Mr. KUCHEL. Mr. President, reserving the right to object, what was the request?

Mr. LONG of Louisiana. That the Subcommittee on Antitrust and Monopoly may meet. It has been cleared on the Senator's side of the aisle.

Mr. KUCHEL. Mr. President, I have no objection.

The PRESIDING OFFICER. The Chair hears no objection, and it is so ordered.

MESSAGES FROM THE PRESIDENT

Messages in writing from the President of the United States submitting nominations were communicated to the Senate by Mr. Jones, one of his secretaries.

EXECUTIVE MESSAGES REFERRED

As in executive session,

The PRESIDING OFFICER laid before the Senate messages from the President of the United States submitting sundry nominations, which were referred to the appropriate committees.

(For nominations this day received, see the end of Senate proceedings.)

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

AMENDMENT NO. 662

Mr. WILLIAMS of Delaware. Mr. President, on behalf of the Senator from Florida [Mr. SMATHERS], the Senator from Ohio [Mr. LAUSCHE], and myself, I call up amendment No. 662.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with and that it be printed in the RECORD at this point.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment (No. 662) is on page 1, strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. SHORT TITLE.

This Act may be cited as the "Balance of Payments and Domestic Economy Act of 1968".

SEC. 2. REDUCTION IN NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) During any period in which the aggregate number of full-time civilian officers and employees (including the full-time equivalent of part-time employment) in the executive branch of the Government exceeds the aggregate number employed on September 20, 1966, no vacancy in any office or position in any department or agency in the executive branch of the Government resulting from the resignation, retirement, transfer, removal, or death of the incumbent of such office or position shall be filled, except pursuant to a determination of the Director of the Bureau of the Budget (hereinafter referred to as the "Director") under subsection (b).

(b) The Director shall make continuing studies of the personnel needs of the various departments and agencies of the Government during any period referred to in subsection (a), and shall determine which of the vacancies occurring in such departments and agencies may be filled. Such determinations shall be so made that the aggregate number of vacancies filled during any calendar quarter, beginning with the quarter ending June 30, 1968, in the executive branch of the Government, shall not exceed 50 percent of the aggregate number of vacancies occurring during such quarter. The determinations of the Director under this subsection shall be made on the basis of the relative needs of the various departments and agencies for personnel, having in mind the importance to the national health, security, and welfare of their respective functions and activities. Such determinations may be made by such appropriation units or organization units as the Director may deem appropriate.

(c) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(d) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(e) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending June 30, 1968, a report of his activities under this section.

(f) This section shall not apply to officers and employees in the Department of Defense, the postal field service, and the Federal Bureau of Investigation, to casual employees, as defined by the Director, employees employed without compensation, to offices filled by appointment by the President, by and with the advice and consent of the Senate, or to offices or positions filled by transfer from another position within the same or other department or agency, except that such employees, offices, and positions shall be taken into consideration in determining the aggregate number of officers and employees for the purposes of subsection (a).

(g) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

(h) This section shall take effect on April 1, 1968.

SEC. 3. MORATORIUM ON PUBLIC WORKS PROJECTS.

(a)(1) Notwithstanding any other provision of law, no Federal department or agency shall, during the period in which this section is in effect—

(A) initiate the planning or construction of any public works project (including projects for recreational facilities but excluding projects for highways), or

(B) make any grant to any State or local government agency for initiating the planning or construction of any such public works project.

(2) Upon request of the head of the Federal department or agency concerned, the Director of the Office of Emergency Planning shall investigate a public works project with respect to which paragraph (1) applies for the purpose of determining whether the delay in planning or construction of such public works project required by paragraph (1) will cause irreparable damage to the public health or welfare. If with respect to any planning or construction of any such public works project, the Director determines that such delay will cause such irreparable damage, paragraph (1) shall cease to apply with respect to such planning or construction effective on the date on which the Director publishes such determination.

(3) The Director shall report, from time to time, the results of his investigations and determinations under paragraph (2) to the President and the Congress.

(b)(1) The Director of the Office of Emergency Planning shall make an investigation of all public works projects (including projects for recreational facilities but excluding highway projects), the planning or construction of which has been initiated on or before the date of the enactment of this Act and is being carried out by a Federal department or agency or by a State or local government agency with Federal assistance, for the purpose of determining what planning and construction on such public works projects can be temporarily halted without causing irreparable damage to the public health or welfare.

(2) Notwithstanding any other provision of law, no Federal department or agency shall—

(A) continue any planning or construction, or

(B) make any grant (or payment of a grant previously made) to any State or local government agency for continuing any planning or construction,

which the Director determines under paragraph (1) can be so temporarily halted, during the remainder of the period in which this section is in effect beginning with the day after the date on which the Director publishes such determination.

(3) The Director shall, as soon as practicable, report the results of his investigation and determinations under paragraph (2) to the President and the Congress.

(c) This section shall apply during the period beginning on the day after the date of the enactment of this Act and ending on the last day on which the tax required to be deducted and withheld on wages under section 3402 of the Internal Revenue Code of 1954 includes any amount attributable to the tax surcharge imposed by section 51 of such Code.

SEC. 4. LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures under the budget of the United States (referred to in the 1968 state of the Union address of the President as totaling $186,000,000,000) during the fiscal year ending June 30, 1969, shall not exceed $180,000,000,000, except by—

(1) those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia,

(2) those expenditures for interest in excess of the amounts shown for interest in the budget of the United States for such fiscal year,

(3) those expenditures for benefits administered by the Veterans' Administration under the provisions of title 38, United States Code, or any other veterans' benefit law, in excess of the amounts shown for such expenditures in the budget of the United States for such fiscal year, and

(4) those expenditures from trust funds established by the Social Security Act, as amended, in excess of the amounts shown for

such expenditures in the budget of the United States for such fiscal year.

For purposes of paragraphs (3) and (4), there shall be taken into account only those expenditures required to be made under laws enacted prior to March 1, 1968.

(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe.

SEC. 5. REEXAMINATION OF THE BUDGET.

The Director of the Bureau of the Budget is directed to make a full and complete reexamination of the budget of the United States Government for the fiscal year 1969, and to submit to the Congress, within 30 days after the date of the enactment of this Act, a report setting forth (1) proposed reductions aggregating at least $10,000,000,000 in obligational authority requested therein for such fiscal year, and (2) priorities for allocation of such reductions among the various agencies and activities of the Government in such manner as, in the pudgment of the Director, will least impair the efficiency of the operation of the Government as a whole.

SEC. 6. AMENDMENT OF EXISTING LAW.

Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 7. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobile, et cetera) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMNG AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969" and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—"
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 8. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be $40 or more.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), of subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) the amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for the taxable year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be, by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) the amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for the taxable year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional

exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the excess determined under paragraph (1) without regard to classes (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) SPECIAL RULE FOR SUBSECTION (d)(1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $500.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"(v) surtax exemption, and one $100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax."

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated incom tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 9. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 10. INTEREST ON INDUSTRIAL DEVELOPMENT BONDS.

(a) EXCLUSION FROM GROSS INCOME.—Until otherwise provided by law hereafter enacted, interest on obligations which are so-called industrial development bonds shall be excluded from gross income under section 103 of the Internal Revenue Code of 1954 in accordance with—

(1) the regulations prescribed under such section by the Secretary of the Treasury or his delegate, as in effect on March 13, 1968, and

(2) the principles set forth in Revenue Ruling 54–106 (CB 1954–1, 28), Revenue Ruling 57–187 (CB 1957–1, 65), and Revenue Ruling 63–20 (CB 1963–1, 24).

(b) RULINGS.—The Secretary of the Treasury or his delegate is authorized and directed to issue ruling letters with respect to so-called industrial development bonds in conformity with the provisions of subsection (a).

SEC. 11. AMENDMENTS TO TITLE IV OF THE SOCIAL SECURITY ACT.

(a)(1) Section 403(a) of the Social Security Act is amended by striking out "(subject to subsection (d))" in the matter preceding paragraph (1) thereof.

(2) Section 403(d) of such Act is repealed.

(b)(1) Section 407(b)(1)(A) of the Social Security Act is amended by adding "and" at the end thereof.

(2) Section 407(b)(1)(B) of such Act is amended by striking out ", and" at the end thereof and inserting in lieu thereof "; and".

(3) Section 407(b)(1)(C) of such Act is repealed.

(c) Section 407(b)(2)(C) of the Social Security Act is amended by striking out "such child's father" and all that follows and inserting in lieu thereof "such child's father is not currently registered with the public employment office in the State."

(d)(1) Subsection (c) of section 407 of the Social Security Act is amended to read as follows:

"(c) Notwithstanding any other provisions of this section—

"(1) a State plan may, at the option of the State, provide for denial of all (or any part) of the aid under the plan with respect to a dependent child as defined in subsection (a) to which any child or relative might otherwise be entitled for any month if the father of such child received unemployment compensation under an unemployment compensation law of a State or of the United States

for any week any part of which is included in such month, and

"(2) expenditures pursuant to this section shall be excluded from aid to families with dependent children (A) where such expenditures are made under the plan with respect to any dependent child as defined in subsection (a), (i) for any part of the 30-day period referred to in subparagraph (A) of subsection (b)(1), or (ii) for any period prior to the time when the father satisfies subparagraph (B) of such subsection, and (B) if, and for as long as, no action is taken (after the 30-day period referred to in subparagraph (A) of subsection (b)(2)), under the program therein specified, to refer such father to the Secretary of Labor pursuant to section 402(a)(19)".

(2) Subsection (d) of section 407 of such Act is repealed.

(3) Section 203(b) of the Social Security Amendments of 1967 is repealed.

SEC. 12. AMENDMENT TO TITLE XIX OF THE SOCIAL SECURITY ACT.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.

SEC. 13. IMPOSITION OF TAX SURCHARGE.

(a) Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) 10 percent of the adjusted tax for the taxable year, multiplied by

"(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) EXEMPTIONS AND LIMITATIONS.—

"(1) EXEMPTIONS.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(A) $290, in the case of a joint return of a husband and wife under section 6013,

"(B) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"(C) $145, in the case of any other individual (other than an estate or trust).

"(2) LIMITATIONS.—The tax imposed by subsection (a) shall not be greater than—

"(A) in the case of a joint return of a husband and wife under section 6013, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $290,

"(B) in the case of an individual who is a head of a household to whom section 1(b) applies, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $220, and

"(C) in the case of any other individual (other than an estate or trust), an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $145.

"(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a tax able year means the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871(a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 615(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation), and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(d) AUTHORITY TO PRESCRIBE NEW OPTIONAL TAX TABLES.—The Secretary or his delegate may prescribe regulations setting forth modified optional tax tables for calendar years 1968 and 1969 computed upon the basis of composite rates incorporating the rate at which tax is imposed by this section. The composite rates so determined may be rounded to the nearest whole percentage point and the tax tables so determined may be rounded to the nearest whole dollar. If the Secretary or his delegate prescribes regulations pursuant to this subsection, then notwithstanding section 144(a), in the case of a taxpayer (whose taxable year is the calendar year) to whom a credit is allowable for 1968 or 1969 under section 37, the standard deduction may be elected for such year regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the enactment of this section—

"(1) in the case of a corporation, so much of any tax imposed by this section as is attribuable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201(a) or subchapter L;

"(2) the term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654(d)(1), and the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if tax had been imposed by this section for such preceding taxable year at the rate applicable to the current taxable year.

"(f) WITHHOLDING ON WAGES.—In the case of wages paid after the 10th day following the date of the enactment of the Tax Adjustment Act of 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402(a) or (c)(1).

"(g) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(h) SPECIAL RULE.—For purposes of this title, except as otherwise expressly provided in this section, to the extent the tax imposed by this section in attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.

"(i) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a)."

(b) Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", and

(3) by adding after the table in paragraph (3) the following: "In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the close of the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year. As used in this subsection, the term 'surcharge period' means the period beginning on January 1, 1968, and ending at the close of June 30, 1969."

(c) The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"PART V. TAX SURCHARGE."

(d) The amendments made by this section shall apply—

(1) Insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

Mr. WILLIAMS of Delaware. Mr. President, there are two corrections to be made in this amendment, and I would like to modify it accordingly.

On page 6, in line 21, the printer has the figure "$186,000,000,000." The figure should be "$186,100,000,000."

On line 22 there is a similar error; the figure "$180,000,000,000" should be "$180,100,000,000."

The PRESIDING OFFICER. Without objection, the corrections will be made.

Mr. WILLIAMS of Delaware. Then there is a modification at the request of the Treasury Department, on page 31, line 1, after the words "tax due," to insert the language "by an individual."

I so modify the amendment.

The PRESIDING OFFICER. The amendment is so modified.

Mr. WILLIAMS of Delaware. Then, on line 1, page 31, strike out the language "(15 days in the case of a corporation)" and insert, after the words, on line 2, "after the enactment of," the words "the Tax Adjustment Act of 1968, or by a corporation on or after April 15, 1968", and strike out the words, on line 3, "this section".

I send these modifications to the desk, in order to clarify the request.

The PRESIDING OFFICER. Without objection, the modifications will be made.

Mr. WILLIAMS of Delaware. Mr. President, I point out that the reason for the correction by the Treasury is to make sure that the 10-percent tax increase on corporations falls due and will be collectible in the first quarterly installment filed by the corporation. This is a technical correction requested by the Treasury in both instances.

Mr. CURTIS. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. CURTIS. I notice that the Senator's amendment is in the nature of a substitute. Does it incorporate as a part of the substitute the provisions in the bill as reported by the Finance Committee?

Mr. WILLIAMS of Delaware. That is correct; in their entirety.

Mr. CURTIS. Including the amendments adopted en bloc and the one adopted this morning?

Mr. WILLIAMS of Delaware. That is correct.

Mr. CURTIS. I thank the Senator.

Mr. WILLIAMS of Delaware. Mr. President, as the Senator from Nebraska has pointed out, the substitute embraces in its entirety the bill as reported by the committee, including the committee amendments and including the so-called Curtis committee amendment which was adopted a while ago, along with the recommendations included in the original amendment offered by the Senator from Florida and myself.

Mr. President, the economic position of the United States today insistently emphasizes the necessity for prompt consideration of both a meaningful expenditure reduction and an income tax increase. The present situation is equally urgent whether considered from the international economic viewpoint or the domestic economic viewpoint.

Just the weekend before last we reached the climax of the growing lack of confidence in the value of the dollar as a reliable form of foreign exchange reserve. In order to cope with the crisis of confidence our Government—with the support of six other nations—made an important change in our international monetary system. I am, of course, referring to the two-price system for gold and to the freezing of the amount of gold to be used or monetary reserves.

This will do no good, however, unless we place our own balance-of-payments house in order.

U.S. official gold reserves have declined rather steadily since about 1949, from $24.4 billion at the end of that year to $12.1 billion at the end of 1967—a decline by more than half.

At the present time it is near $10 billion.

Undoubtedly, the present state of the U.S. balance of payments is due to varying causes. Among these are our military expenditures abroad—both in Europe and in the Far East—the gradual decline in our favorable balance of trade as industry has developed both in the European Common Market area and in Japan, our foreign aid expenditures, tourist spending abroad, and extensive direct investment in Europe.

Throughout the postwar period the dollar has played a unique role in international finance. All other currencies were defined in terms of the dollar, and the dollar came to be acceptable as a reserve currency. This system could perform its role only so long as the United States managed its monetary and fiscal affairs in such a manner as to maintain the confidence of the rest of the world in the stable value of the dollar.

When a gold drain persists through many years it is obvious to everyone, however, that some aspects of our policy are not operating properly or are just plain wrong. When the outflow of gold continues coincidentally with deficits in the Federal Government's budget at home it should be clear that domestic economic policies must be adjusted to eliminate or drastically reduce the budget deficit until the gold drain ceases.

THE DOMESTIC ECONOMY

The gold crisis in the months since the devaluation of the pound is a reflection of increasing doubts about the stability of the present international monetary structure based on the dollar. It also reflects grave doubt about the ability of this Government to control its domestic economy.

The economy is at full employment, producing a combination of goods and services for military and civilian purposes which cannot be matched anywhere else. Yet our Government is currently running an annual deficit of over $20 billion.

We must reduce and eventually eliminate this deficit of we are to prevent a dangerous inflationary spiral from developing. This is not only needed for our economy here at home but also to encourage exports and discourage imports and in that manner reduce our balance-of-payments deficit. This will do more to encourage foreign financial experts as to the soundness of the dollar than any other action we could take.

This is the reason for both the expenditure reduction and the surtax on the income tax provided by this amendment. When the Federal Government's budget is balanced, then it is not contributing to inflationary forces. Inflation, with the present status of employment, increases the demand for imports and decreases the demand for exports. As a result, under such conditions countries which are concerned with the consequences of our inflation on the balance of payments will request gold for their monetary reserves in the belief that this is the surest way to protect themselves against further deterioration in the value of the dollar.

Let me now turn to an analysis of the amendment that the junior Senator from Florida [Mr. SMATHERS] and I have introduced. There are two principal provisions in this amendment—the third section of the amendment, which provides a limitation on expenditures in the fiscal year 1969 and the fourth section of the bill, which provides for the imposition of a tax surcharge of 10 percent.

The expenditure reduction called for is a $6-billion expenditure cut from the level of $186 billion provided in the budget for the fiscal year 1969. This is the new, or so-called unified budget. However, should there be an increase in military expenditures for spending in Vietnam above the current level of $25 billion provided for in the budget this will be outside of the new $180 billion limit. Second, if our interest costs go up above the $14.4 billion referred to in the budget this also will not be taken into account for purposes of the $180 billion expenditure limit.

Third, any increased expenditures for veterans' benefits under the law as in effect on March 1, 1968, and for any increased expenditures in the social security trust funds arising as a result of laws in effect on March 1 are not to be considered in applying the $180 billion expenditure limit.

As ways of obtaining the expenditure cut I have referred to, this amendment provides that as long as civilian Government employment exceeds the levels of September 20, 1966, only 50 percent of the vacancies occurring are to be filled. This does not apply, however, to the postal field services, the FBI, to casual workers, or to offices filled by appointment by the President with advise and consent of the Senate.

An additional means of accomplishing this expenditure reduction is a moratorium provided for new public works projects. The bill provides that for the period of time this amendment is in effect—until June 30, 1969—no department or agency is to initiate the planning or construction of any new public works project or to make grants to State or local governments for such projects, unless it is determined that the failure to provide such construction will cause irreparable damage to the public health or welfare. I might add at this point that the Office of Emergency Planning is

given authority to make this determination. Investigations are also to be made of those public works projects already underway which can be temporarily halted without irreparable damage to the public health or welfare. The Office of Emergency Planning would make this determination also.

One further section in the amendment—namely, the last section—requires the director of the Bureau of the Budget to submit to Congress a report setting forth proposed reductions in the obligational authority of at least $10 billion and priorities for allocations of these reductions among the various governmental agencies in the manner which the Director deems most appropriate.

The fourth, and certainly a major provision in the amendment, provides for the 10-percent surcharge proposed by the President. This is a 10-percent surcharge effective from January 1, 1968, in the case of corporations and from April 1, 1968, in the case of individuals. The tax is to extend until July 1, 1969. As provided by the administration's bill, this surcharge does not apply to the first two income tax brackets; that is, on tax liabilities of $145 or less in the case of single persons or $290 or less in the case of married couples.

In all of these respects the amendment follows exactly the latest proposals of the administration. I have made only one modification in the proposal in this respect. The proposal of the administration would have a notch and create hardship on those with taxes just above the exempt level. I have smoothed this out by providing more gradual increases for these persons.

I am convinced that the adoption of this amendment by the Senate is needed if we are to bring our domestic financial house in order and if we are to make a start on the problem of strengthening the value of the dollar in the international marketplace.

This amendment, by both reducing expenditures and increasing revenues, should decrease the deficit by about $16 billion in a full year of operation. This is the responsible thing for Congress and the administration to accept.

As background I point out, Mr. President, that we are expecting the present fiscal year of 1968 to close with a deficit of approximately $20 billion to $22 billion. For fiscal 1969 the most conservative estimate of the deficit is $28.3 billion.

These figures are based on the premise of not allowing for any possible reduction in expenditures; likewise they do not take into consideration the additional revenue that would be derived from the enactment of any tax increase proposals embodied in pending legislation.

Failure to take any action whatsoever in connection with either reducing Government spending or increasing taxes would, as I have pointed out, mean that we would be projecting a deficit for the current fiscal year and the next fiscal year of approximately $48 to $50 billion.

A deficit of $48 to $50 billion in a 2-year period is an average of about $2 billion per month. Certainly all responsible citizens will recognize that we just cannot possibly continue on the road of deficit spending at this rate without its ultimately resulting in acceleration of the present inflationary spiral and the devaluation of the American dollar.

When we speak of inflation we should always remember that inflation hurts most those who are least able to afford it. Inflation, or devaluation of the American dollar, may embarrass for the moment those who have their life savings invested in real estate or fixed equities of some sort, but they are not the real losers. The real victims are those who have retired, who are living on fixed incomes derived from pensions, life insurance policies, social security, or the revenue realized from the interest or the principal cashing in of their savings bonds. Those are the people who are pauperized by inflationary policies in any country. We have a responsibility to protect the value of the dollar, particularly in reference to those who are living on fixed incomes.

As an example of just what this inflation means I suggest that he consider a Government bond purchased 8 or 10 years ago for $75. Today it can be cashed for $100. The owner can get the $25 interest, surely; but with the $100 he can scarcely buy what he could have bought with $75 just as recently as 8 to 10 years ago when he purchased the bond.

Therefore, as a result of inflation, the erosion of the dollar, the increased cost of living—which are all the same—the holders of such bonds have lost all of their interest and, in fact, are losing a part of the principal. I think the very least step that Congress can take is the adoption of this package which will go far toward protecting their dollar.

As I stated in my remarks of January 31, I personally would have gone further in the direction of reducing Government spending. I first proposed an $8 billion reduction; however, in the interest of achieving what I think may be the necessary support to enact this proposal I have agreed to go along with the $6 billion figure. At least this can be said: The $6 billion is a start in the right direction.

Likewise, there is a second proposal under this section to control or to reduce the appropriations for fiscal 1969 by $10 billion which also merits our consideration. This is a constructive step, and if enacted it would result in a reduction of $10 billion in spending in the years to come. Part of that saving would be realized in 1969, and therefore it would be a part of the $6 billion reduction which we are proposing. But much of it would carry over into the years to come, because the appropriations are usually for long-range activities and do not always necessarily represent the spending for the fiscal year involved.

However, I feel that all of these proposals when taken together tend to carry out the objectives expressed by the President of the United States in the last few weeks as he has been making speeches throughout the country; namely, that we have no choice at this time except to adopt an austerity program in this country and that we must have some demonstration of fiscal restraint.

I said yesterday and I repeat today that it is not enough for Congress to discharge its responsibility by pointing the finger at the President and accusing him of being a spendthrift. The President cannot spend a single dime that has not first been appropriated by Congress. Therefore, we in the Senate and in the House of Representatives have a responsibility to take this first step. However, in making that statement and in accepting the responsibility for Congress I also emphasize that the President of the United States, too, has a responsibility not to sit back and point the finger at Congress and attempt to lay the blame altogether on us.

If the President wants to veto a bill because it involves extravagant expenditures, he can do so. I most earnestly request that the President consider the proposals which he thinks are too extravagant and exercise his authority to veto, and some of us in Congress will try to sustain him.

At the same time I think that the President has a responsibility to cooperate with those of us who are trying to reduce these expenditures, whether it be in appropriation bills as we have attempted in the past or as we act on this all-important measure.

Many speeches have been made by representatives of the executive branch in recent weeks, and many speeches have been made by Members of Congress, all expressing great concern for the American taxpayer, all expressing concern over the excessive cost of government. Practically every one of them advocates reduced Government spending and control over those expenditures which can be postponed or projects which can be laid aside at this time. Practically all representatives of the legislative and executive branches of the Government are unanimous on that statement.

We have a proposal pending today where, by our votes, we can put a check on the spending. If we are really in earnest let us put our votes where our mouths are.

As I said yesterday, this is the hour in which we can tell the American people whether we really mean what we say when we tell them we want to cut back and control expenditures or to tell them our remarks were just so much political propaganda paving the way for the 1968 elections.

I hope that the administration and Congress will back this modest reduction in expenditures, which is the very least that should be done.

This is the time when we should have a showdown. Let us stand up and be counted.

Let there be no misunderstanding as to where the administration and the Congress stand when we get through with voting on the pending proposal.

Mr. HARTKE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. HARTKE. Mr. President, I ask the distinguished cosponsor of the pending measure how much additional revenue is anticipated to be received, according to the estimate of the sponsors, by the

Federal Government during fiscal year 1968 as a result of the surtax?

Mr. WILLIAMS of Delaware. Approximately the same as the President's request. The measure which is before us would bring in around $12.9 billion. That is broken down as to excise taxes and the 10-percent surcharge.

Mr. HARTKE. The excise taxes were supposed to bring in $3.2 billion.

Mr. WILLIAMS of Delaware. The Senator is correct. We then have the acceleration of corporate taxes which would bring in about $800 million, and then the surtax introduced here would bring in nearly $10 billion.

Mr. HARTKE. The 10-percent surtax is estimated to bring in $10 billion. Would that be for the calendar year or the fiscal year?

Mr. WILLIAMS of Delaware. It would be for one full year of operation. It would not bring in that much in the current fiscal year of 1968.

Mr. HARTKE. It is estimated, according to the information I have, that the 10-percent surtax, as submitted by the Senator from Delaware, would bring in closer to $2 billion. Perhaps Dr. Woodward or some other member of the staff could help us clarify this.

Mr. WILLIAMS of Delaware. That is for the fiscal year of 1968.

Mr. HARTKE. It would bring in about $2.4 billion in the fiscal year 1968.

Mr. WILLIAMS of Delaware. That is approximately correct. It would be closer to $2 billion.

Mr. HARTKE. About how much is it estimated will be brought in as a result of this measure for the fiscal year 1969?

Mr. WILLIAMS of Delaware. About $9.8 billion.

Mr. HARTKE. Roughly $10 billion.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. HARTKE. That is what the Senator from Delaware said before. Is it anticipated that if this measure passes, it will slow down the economy?

Mr. WILLIAMS of Delaware. There is no question that any tax increase has a dampening effect on the economy. And, to that extent, there is some slowdown. There is no question about that. When we say we are going to increase taxes 10 percent we do not always automatically increase the revenue by 10 percent more than the amount that would be received without the increase. There is a drag, a so-called feedback on the economy. I do not know what that percentage would be.

I think it has been estimated that there would be about a 9-percent gain. And, by the same token, when we reduce taxes by 10 percent, we do not lose 10 percent of revenue because there is a feedback in the economy. As it stimulates the economy there is some feedback. We pick up some extra revenue as a result.

I would say that, by the same yardstick, a 10-percent reduction in taxes would result in a loss of perhaps 8.5 percent to 9 percent in revenue because of the feedback. And, by the same token, an increase of 10 percent does not necessarily bring in 10 percent of additional revenue. There is a drag on the economy when we increase the taxes because there is less spending money going into the stream, and as that happens an individual does not buy a refrigerator. There is involved in the omission of that transaction not only the profit on that refrigerator for the manufacturer, but there is also a feedback as it relates to the worker.

There is no question that we cannot tighten our belts without feeling it in our pocketbooks. That was indicated here yesterday, and that is what Mr. Martin, the Chairman of the Federal Reserve Board, was speaking about before our committee—that the reduction of taxes wil stimulate the economy and bring in extra revenue, but it will not bring in more revenue than would be brought if we had not reduced the taxes.

When we reduce taxes or raise taxes, those factors must be considered.

We can reach a point of diminishing returns where an increase in taxes would actually result in a loss of revenue. We recognize that, and, by the same token, we could get the tax so low that a reduction would be of insignificant proportions. However, we are in no immediate danger of getting into either of those predicaments at this moment.

Mr. HARTKE. In other words, the pending measure with relation to the 10-percent surtax is intended to take additional purchasing power out of the hands of the consumer. It will do that, whether that is the intention or not.

Mr. WILLIAMS of Delaware. It will do that.

Mr. HARTKE. It actually will take money out of the pocketbooks of the consumers.

Mr. WILLIAMS of Delaware. There is no question about that. When we raise taxes it does take purchasing power out of the hands of every taxpayer. But how else are we going to approach the control of a deficit which in a 2-year period if no action is taken will be approximately $48 or $50 billion?

The same argument can be used as to the other section of the measure, where we are proposing to control spending. When we pull $6 billion out of the spending stream it will have some adverse and dampening effect on the economy. That is correct.

Mr. HARTKE. I understand. However, I just wanted to get it very clear that what we are talking about is a cutback in the purchasing power of the American consumers which is, in effect, a cutback in the demand factor, in the demand and supply equation. Is that correct?

Mr. WILLIAMS of Delaware. There is no question that we will have a cutback. However, failure to take action will result in the acceleration of the inflationary spiral which is with us now. Inflation would likewise cut back the purchasing power of many a wage earner and the wife who with her husband's paycheck today is having difficulty in meeting the grocery bills because of the increased cost of living. That, too, is a determining factor.

As someone said years ago, inflation is a painless method of extracting money from the taxpayer without his finding out until it is too late. But whether you accept this dampening effect as a result of inflation or whether you adopt this proposal and increase taxes and control spending is a choice that can be made.

I respect the position of the Senator from Indiana even though I disagree with him.

Mr. HARTKE. I want to show the effect of this, and I want the Senator from Delaware to be well aware of how he will do exactly what he does not intend according to his stated purpose.

He is going to cut back on the purchasing power, cut back on the demand in the marketplace. I have said repeatedly that there is no excessive demand in the marketplace today for available supply or productive capacity. The latest statement in Business Week says we are at 84 percent of our capacity today. There is no question that not one item is in short supply in the marketplace today. Not one consumer item is in short supply, and the Senator from Delaware is going to cut back on the purchasing power, on the demand part of the equation, when there is no excessive demand for the available supply.

How in the world can the Senator tell me that that will bring down the price of an item, when at this moment every item in the marketplace is in sharp competition with every other item in the marketplace?

Mr. WILLIAMS of Delaware. If I correctly understand what the Senator has said, he contradicted himself on the last point. He first said there is no shortage of any commodity and——

Mr. HARTKE. There is no shortage of commodities. There is no shortage of automobiles. There is no shortage of refrigerators. There is no shortage of food. There is no shortage of clothes.

Mr. WILLIAMS of Delaware. Does the Senator desire that I answer his question, or does he want to answer it?

Mr. HARTKE. The person in the marketplace is shopping every other shop. We hear ads on the radio: "Come down and get a Triumph or a Ford. We'll give you 4,000 gallons of free gas. We'll give you the best price in the marketplace." Every one of them is cut rate. Every one is a hotrod with air conditioning.

Mr. WILLIAMS of Delaware. Will the Senator tell me what his question was?

Mr. HARTKE. How can the price be cut when there is already an excessive supply in the marketplace? The Senator says he is going to cut back on the demand, when the demand is already too short.

Mr. WILLIAMS of Delaware. I said that this would have a dampening effect on the demand. I accept that. But, in my opinion, it will have less of a dampening effect on demand than would the inflation which would result from the policies—if they are carried out—of the Senator from Indiana, which are that the $50 billion in 2 years does not concern him in the least. As I understand it, his answer to the present fiscal deficits is to pour more money into the spending stream and expand the deficit in order to stimulate the economy. I disagree with that.

Mr. HARTKE. I have never said that.

Mr. WILLIAMS of Delaware. I will yield the floor to the Senator in a moment. What did the Senator propose?

The Senator has asked a couple of questions and he has answered them in two ways.

There is no question that the enactment of any increase in taxes, no matter to what degree, does have a dampening effect on the economy. No one can quarrel with that statement. By the same token a cutback in Government spending has a dampening effect on the economy.

Then we get back to the question of whether this dampening effect on the economy, as a result of these two actions, exceeds or is less of a dampening effect than would develop if no action were taken. What is the alternative?

The Senator from Indiana does not quarrel with the estimate of the Bureau of the Budget that there will be a $20 billion to $22 billion deficit this year and a $28 billion deficit next year if no action is taken.

Neither of those proposed deficits takes into consideration any accelerated cost of the war in Vietnam which will develop as a result of the recent offensive. So it will be $48 to $50 billion or more.

If we do not take some action toward fiscal restraint, in my opinion, the alternative is ultimate deflation of the American dollar, and that can create chaos in this country, with a depression such as we have never witnessed.

The country would be on the way down the road to ultimate price and wage controls and a controlled economy such as developed in Great Britain when they failed to face up to the direction in which they were drifting.

In my opinion, we in Congress have no choice except to face up to this problem.

In the past 36 years we have lived within our income in only 6 years. Our deficits today are running at an alltime high. Our deficits in the past 5 years—I am not counting 1969, but I am including 1968 projected—will result in an expenditure of $60 billion more than our income in the past 5 years. Now our deficit is running at the rate of $20 billion per year.

I ask the Senator from Indiana how long we can continue down the road of living beyond our income, charging it up to our grandchildren, charging the cost of the Vietnam war to the same veterans who are fighting the war, and telling them, "We're going to postpone the cost of the war. When you get back home you can pay for it, but we don't want to pay for it today because we want to enjoy all the luxuries of today."

I do not believe that it is calling on the American people at home to make an undue sacrifice to ask them to help to pay for a part of the cost of the war which their sons are fighting.

As I have made clear before, I insist that I will have no part of any proposal to increase taxes unless it is accompanied by or preceded by a realistic reduction in expenditures. I am not accepting promises of reductions on the part of Congress or the executive branch. I want it written in the law. That is the reason we have this section in the bill which makes mandatory certain controls over expenditures.

Lest there be any misunderstanding, as I have said many times, if those controls over expenditures are defeated I will not support the tax increase proposal, which is a part of the package. Merely to increases taxes and pour the additional money into the spending stream for some bureaucracy in Washington to hand out, as they have been doing, would achieve nothing, in my opinion.

Mr. HARTKE. There is not in the marketplace today a demand-supply inflation. The remedy proposed by the Senator from Delaware would affect the demand side of the demand-supply equation in the basic terms of economics. It would cut back on demand when there is no excessive demand in the marketplace.

There is an excessive supply in the marketplace, and somehow that supply will have to be utilized. We are going to keep the private enterprise system moving. It is now in a period of strangulation and stagnation. Anyone who studies the system knows that is true.

To complicate the picture and to show how foolhardy it would be to follow this procedure, we have a price inflation in the marketplace today, and prices are made up, basically, of material, labor, and overhead; and any other addition to the tax means you are going to increase the taxes proportionately.

The Senator from Delaware knows as well as I that if a man's taxes are increased by 10 percent, it will mean that when he goes home on Friday night, his pocketbook will show a decrease in take-home pay. Anyone who studies anything about the economy knows that when these workers take home less in their paycheck, they will immediately go to their employer and ask the employer to make up the difference, which means that this will be the fuel to increase the wages and that still more will be added to the cost.

In addition, if you have a cutback on demand, you will cut back on the sales, which will mean a further cutback on the overall profit scheme on the industrial side.

No corporation pays money on taxes or any money other than profits. When profits are cut back, as they were last year, there is a decrease in actual revenue, even at the same rates.

Mr. President, what they are going to do to this country is put it in a recession; and they are going to further slow down a stagnated economy, and increase the deficits of the Government to a point where they will stagger the imagination of man. In addition, it will not pay for the war, as it should be paid for, and cause all kinds of difficulty.

Mr. WILLIAMS of Delaware. Mr. President——

Mr. HARTKE. It is estimated for each $1 billion taken from the economy——

Mr. WILLIAMS of Delaware. Mr. President, when the Senator finishes I will resume. I am trying to be respectful to the Senator from Indiana. I will yield to the Senator later. I had thought that the Senator wanted to ask a question.

The PRESIDING OFFICER (Mr. BURDICK in the chair). The Senator from Delaware has the floor.

Mr. WILLIAMS of Delaware. Mr. President, I respect the position of the Senator from Indiana. I do not know the school in which he studied economics. Perhaps he has had great experience in the business world, but if I were a professor of finance I would flunk the Senator. If I had money invested in a company in which the manager said that that he had operated for 30 out of the past 36 years in the red and that he was going to operate this year with the biggest deficit he had ever had and if his only alternative was to borrow more money to increase the deficit to pay a dividend I would get rid of my stock in that company, with all due respect to the Senator from Indiana.

Mr. HARTKE. Mr. President, I would like to state my background in economics.

Mr. WILLIAMS of Delaware. Mr. President, I have been very patient, and I have stated that I respect the position of the Senator from Indiana.

However, I challenge those persons who feel that we can have a $48-billion deficit in 2 years and not have reason to be concerned. I ask, "What would you do to solve this problem? Are you not concerned about a $48-billion deficit in 2 years?"

Mr. PERCY. Mr. President, I rise in support of the pending amendment. Events of the past month have underscored the necessity for prompt enactment of a tax surcharge of at least 10 percent, combined with a substantial reduction in Government expenditures. While this Senator would prefer the $8 billion cut originally proposed by the gentleman from Delaware [Mr. WILLIAMS], I wholeheartedly support the pending proposal which I hope will have strong support in the Senate.

We have seen the necessity in recent weeks to take strong emergency steps in order to save the dollar and prevent collapse of the international monetary system. While the possibility of worldwide market disruption is no longer as imminent as it was prior to the institution of the dual pricing of gold, the time remaining for strong remedial action by the United States is very short. At the heart of the present crisis of confidence with the dollar lies the necessity to put the U.S. fiscal house in order. The budget proposed by the administration—despite their claims to the contrary—can only add to the present inflationary spiral and, if implemented, further erode or destroy that confidence. Accordingly, the time for action is now.

Mr. President, the approach of my distinguished colleague from Delaware in his amendment is in my judgment is highly salutary. I have stated before that we cannot simply continue to tinker with the economy, and to apply only emergency measures as specific crisis arise. It simply will not do to continue to give the patient band-aid treatment when major surgery is so clearly called for. The amendment is admittedly strong medicine. It does not represent in and of itself the complete cure for our financial ills. But it will provide an immedate basis for restoring responsibility to the fiscal policy of the Nation. Enactment of this amendment today will provide a clear indication to the world of the de-

termination of the United States to take the steps necessary not only to strengthen its own economy, but to restore balance and stability to the world economy as well.

Mr. President, it is noteworthy that the Joint Economic Committee unanimously agreed on the necessity for spending cuts. In fact, the first point made in a statement of agreement by majority and minority members of that committee reads as follows:

An urgent need exists for concerted Congrssional and Executive Department action to tighten control of government expenditures and increase economy and efficiency in spendig, based no an objective comparison of goals, alternatives, benefits, and costs. An assessment of priorities among public expenditures remains an urgent task for both the Administration and the Congress.

In the intervening weeks since the issuance of this report, the need to reduce expenditures has—if anything—become more urgent. The necessity for reductions in spending occupied a significant portion of both the majority and minority sections of the report. We in the Congress—most particularly in the Senate—have the opportunity to take a meaningful step in this direction today.

The language of the amendment would assure that the Bureau of the Budget and the executive branch use the extensive resources which are at their disposal to reassess priorities and delay those programs that will minimize the impact of this large reduction.

The amendment calls for a freeze on public works construction. I am sure that all Senators are familiar with an administrative freeze on new construction imposed last year by the Corps of Engineers as well as the reduction in new construction starts contained in the budget for fiscal 1969. My own State of Illinois had the distinction of being the location of the largest single project frozen by the administrative action last year so that I can speak with some feeling as to the impact of such a proposal.

There is no question in my mind that such a freeze would be understood and accepted by the American people if it was applied across the board to all States and to all projects. The reductions accomplished hereby would in themselves be meaningful. But the symbol this would give to the country and to the world would, in my judgment, be a most assuring one.

In the matter of the reduction of Federal personnel contemplated by the amendment, I have some skepticism of the effectiveness of the Congress once more enacting a curb on the number of Federal civilian employees. A Presidential order of September 1966 required that civilian employment ceilings be held at the July 1, 1966 level. By the end of 1967, however, there were 191,461 more Federal civilian employees on the payroll than there were as of the July 1, 1966 date. During the last session of the Congress, we enacted a measure requiring a 2-percent cut in Federal employees, which would amount to a cut of 58,000 persons. The budget, however, calls for an increase of 45,600 employees. Thus, the President is asking for approximately 104,000 more employees than the Congress thought was adequate at the end of the last calendar year. I would hope, if this amendment is agreed to, that the President would take the law seriously and be scrupulous in putting it into effect.

A great deal has been said and written in the matter of the 10-percent income tax surcharge on individuals and corporations. The plain facts of the budget presented by the President indicate the necessity for enactment of this tax increase if coupled with an expense cut. Based on the administration's own figures, the deficit will be $25.6 billion if the income tax surcharge is not enacted. Even if the surcharge is enacted, the deficit will remain at $15.4 billion if no circumstances change during the fiscal year. We have already seen one callup of reserves since the budget was issued which will require additional expenditures, a request for additional funds for South Korea, and additional expenses attributable to the Tet enemy offensive. Given the increase in expenditures during the last fiscal year above the budget projections, the grim facts are that we face a $20 billion deficit even if we enact a surcharge at this time. In my view, if we are to avoid payment of a far greater tax imposed by the inflation that threatens our economy, it is essential that we immediately enact this tax increase.

I am sure other Senators than myself have been treated to a great deal of mail against any increase in taxes. I have been reassured to note an increase in the number of my constituents who have been written me recognizing the need for responsive fiscal action, and the need to act quickly.

Accordingly, I commend the leadership of the gentleman from Delaware [Mr. WILLIAMS] and the gentleman from Florida [Mr. SMATHERS] in providing the Senate with an opportunity to take this meaningful step toward restoring responsibility to the fiscal policies of our Nation.

Mr. LONG of Louisiana. Mr. President, I have an amendment to the substitute which I call up at this time.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. The Senator from Louisiana [Mr. LONG] proposes an amendment on page 1 of the substitute, to strike out line 4 and all that follows, through page 8, line 12, as follows:

SEC. 2. REDUCTION IN NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH

(a) During any period in which the aggregate number of full-time civilian officers and employees (including the full-time equivalent of part-time employment) in the executive branch of the Government exceeds the aggregate number employed on September 20, 1966, no vacancy in any office or position in any department or agency in the executive branch of the Government resulting from the resignation, retirement, transfer, removal, or death of the incumbent of such office or position shall be filled, except pursuant to a determination of the Director of the Bureau of the Budget (hereinafter referred to as the "Director") under subsection (b).

(b) The Director shall make continuing studies of the personnel needs of the various departments and agencies of the Government during any period referred to in subsection (a), and shall determine which of the vacancies occurring in such departments and agencies may be filled. Such determinations shall be so made that the aggregate number of vacancies filled during any calendar quarter, beginning with the quarter ending June 30, 1968, in the executive branch of the Government, shall not exceed 50 percent of the aggregate number of vacancies occurring during such quarter. The determinations of the Director under this subsection shall be made on the basis of the relative needs of the various departments and agencies for personnel, having in mind the importance to the national health, security, and welfare of their respective functions and activities. Such determinations may be made by such appropriation units or organization units as the Director may deem appropriate.

(c) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(d) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(e) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending June 30, 1968, a report of his activities under this section.

(f) This section shall not apply to officers and employees in the Department of Defense, the postal field service, and the Federal Bureau of Investigation, to casual employees, as defined by the Director, employees employed without compensation, to offices filled by appointment by the President, by and with the advice and consent of the Senate, or to offices or positions filled by transfer from another position within the same or other department or agency, except that such employees, offices, and positions shall be taken into consideration in determining the aggregate number of officers and employees for the purposes of subsection (a).

(g) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

(h) This section shall take effect on April 1, 1968.

SEC. 3. MORATORIUM ON PUBLIC WORKS PROJECTS

(a)(1) Notwithstanding any other provision of law, no Federal department or agency shall, during the period in which this section is in effect—

(A) initiate the planning or construction of any public works project (including projects for recreational facilities but excluding projects for highways), or

(B) make any grant to any State or local government agency for initiating the planning or construction of any such public works project.

(2) Upon request of the head of the Federal department or agency concerned, the Director of the Office of Emergency Planning shall investigate a public works project with respect to which paragraph (1) applies for the purpose of determining whether the delay in planning or construction of such public works project required by paragraph (1) will cause irreparable damage to the public health or welfare. If with respect to any planning or construction of any such public works project, the Director determines that such delay will cause such

irreparable damage, paragraph (1) shall cease to apply with respect to such planning or construction effective on the date on which the Director publishes such determination.

(3) The Director shall report, from time to time, the results of his investigations and determinations under paragraph (2) to the President and the Congress.

(b)(1) The Director of the Office of Emergency Planning shall make an investigation of all public works projects (including projects for recreational facilities but excluding highway projects), the planning or construction of which has been initiated on or before the date of the enactment of this Act and is being carried out by a Federal department or agency or by a State or local government agency with Federal assistance, for the purpose of determining what planning and construction on such public works projects can be temporarily halted without causing irreparable damage to the public health or welfare.

(2) Notwithstanding any other provision of law, no Federal department or agency shall—

(A) continue any planning or construction, or

(B) make any grant (or payment of a grant previously made) to any State or local government agency for continuing any planning or construction, which the Director determines under paragraph (1) can be so temporarily halted, during the remainder of the period in which this section is in effect beginning with the day after the date on which the Director publishes such determination.

(3) The Director shall, as soon as practicable, report the results of his investigation and determinations under paragraph (2) to the President and the Congress.

(c) This section shall apply during the period beginning on the day after the date of the enactment of this Act and ending on the last day on which the tax required to be deducted and withheld on wages under section 3402 of the Internal Revenue Code of 1954 includes any amount attributable to the tax surcharge imposed by section 51 of such Code.

SEC. 4. LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures under the budget of the United States (referred to in the 1968 state of the Union address of the President as totaling $186,100,000,000) during the fiscal year ending June 30, 1969, shall not exceed $180,100,000,000, except by—

(1) those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia,

(2) those expenditures for interest in excess of the amounts shown for interest in the budget of the United States for such fiscal year,

(3) those expenditures for benefits administered by the Veterans' Administration under the provisions of title 38, United States Code, or any other veterans' benefit law, in excess of the amounts shown for such expenditures in the budget of the United States for such fiscal year, and

(4) those expenditures from trust funds established by the Social Security Act, as amended, in excess of the amounts shown for such expenditures in the budget of the United States for such fiscal year.

For purposes of paragraphs (3) and (4), there shall be taken into account only those expenditures required to be made under laws enacted prior to March 1, 1968.

(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe.

SEC. 5. REEXAMINATION OF THE BUDGET

The Director of the Bureau of the Budget is directed to make a full and complete reexamination of the budget of the United States Government for the fiscal year 1969, and to submit to the Congress, within 30 days after the date of the enactment of this Act, a report setting forth (1) proposed reductions aggregating at least $10,000,000,000 in obligational authority requested therein for such fiscal year, and (2) priorities for allocation of such reductions among the various agencies and activities of the Government in such manner as, in the judgment of the Director, will least impair the efficiency of the operation of the Government as a whole.

Mr. LONG of Louisiana. Mr. President, I propose to strike out of the substitute those provisions which would impose statutory expenditure restraints on the President.

Specifically, I propose to strike out section 2 of the substitute which would cut the number of Federal employees back to the level on September 20, 1960.

I also propose to strike out section 3 which would stop all new public works projects the day after the bill is enacted.

I would also propose to strike out section 4 of the substitute which would limit 1969 expenditures to $180 billion as compared to the President's request for $186 billion.

Finally, I propose to strike out section 5 of the substitute which would require the Director of the Bureau of the Budget within 30 days to tell Congress how he would cut 1969 obligational authority by $10 billion.

Mr. President, none of these provisions is proper on a tax bill. Every one of them involves legislative jurisdiction of other committees. Every one of them would create committee jurisdiction problems in the House of Representatives, if not here. None of these committees has expressed itself on these matters. The Committee on Post Office and Civil Service should express itself on the proposal to restrict the number of Federal employees. The chairman of that committee is not here to defend his committee's prerogative. The chairman of the Committee on Public Works should express how and when and to what extent public works should be terminated or postponed. The Committee on Appropriations has not considered the first appropriation bill for fiscal year 1969, and yet this amendment would dictate to that committee the amount it could appropriate and what it could appropriate for.

With regard to the amount of money to be appropriated, the amendment would shackle that committee and prevent it from exercising its discretion as to what program should be cut back and by how much.

Mr. President, all of these proposals involved in this matter are subject to debate. There are arguments that can be made for and against. I am familiar with some of the arguments on one side or another. However, that is not the field of competence of this Senator nor the field of competence and certainly not the area of jurisdiction of the Committee on Finance.

It is not our jurisdiction to say, for example, how reductions should be made in public works or how much should be appropriated for public works. That area is the area of expertise of the Committee on Public Works and the Committee on Appropriations. They have that responsibility. They have not had an opportunity to make a study or to make recommendations in that area. They should be accorded that opportunity and I defer to the Committee on Appropriations in the Senate and in the House of Representatives.

With regard to the matter of the number of Federal employees, I have not only seen a number of recommendations that involved employment of more Government employees such as to provide additional maintenance of new Federal buildings being built in the country, but I have also seen suggestions to the effect that hiring more people would reduce the Federal deficit. For example, there is the suggestion that we would hire more people to reduce the taxes. The theory is that the Government would receive more money.

With regard to some of the other civilian employment, it has been demonstrated, for example, that when you employ a secretary or clerk to work in the Department of Defense or in a military base, doing a job that otherwise would have to be done by a serviceman, you not only obtain a more qualified employee for that kind of clerk-typist work, but much money is saved because you are not using a person in whom the Government has invested large amounts of money to train to fight on a battlefield.

It has been demonstrated in the Department of Defense that the employment of a civilian to do certain work that would otherwise have to be done by a serviceman, who might be less qualified, is less expensive to the Government.

Also, it has been demonstrated that the hiring of more personnel by the Post Office Department makes it possible to operate with less overtime, thus saving a substantial amount of money that would otherwise be spent for premium or overtime pay. In these ways, the Government makes substantial savings.

These questions come within the jurisdiction of the Committees on Appropriations, which make recommendations in these areas. The committees having made their recommendations, the House and Senate should then act. If the Committee on Appropriations recommends an amount that is too high or is too far above the budget request, or if the amount recommended is too low, that fact ought to be considered on the floor of the Senate, and the Senate should vote accordingly. But to fix a level of expense for a particular function, before its requirements have been studied, would not appear to me to be justified.

I am well aware that the administration is considering suggestions that major reductions be made in expenditures. My understanding is that recommendations will be made which would be subject to consultation among those who are the chairmen and the senior members of the Committees on Appropriations, both in the House of Representatives and the Senate. If suggestions are

to be proposed that are relevant to revenue bills, tax bills in particular, that would be the kind of action as to which members of the House Committee on Ways and Means and the members of the Committee on Finance, as well as members of the Committees on Appropriations, should be consulted. But for Senators to propose that the Senate should fix levels of spending, amounts which the Government is to spend, and to attach such a proposal to a tax bill before the Committees on Appropriations have had the opportunity to study and recommend any level of expenditure, take any responsibility in connection with it, or conduct any hearings is, in my judgment, most inappropriate.

The Committee on Finance has a certain jurisdiction, and it tries to discharge its responsibility in that area. The Committee on Appropriations has a great deal of authority and has a tremendous job to do.

It is my judgment that the Committees on Appropriations of the Senate and the House of Representatives should have freedom to do their job and that the Committee on Finance should not try, prematurely, to dictate to the Committees on Appropriations what the level of expenditures should be, or the particular items as to which expenditures should be reduced, until the proposals have been considered.

The Senator from Delaware has suggested ways in which he thinks expenditures should be reduced.

It is interesting to note that his views have changed. He is not offering now what he started out to offer. Originally, he came in with something that would cut $8 billion instead of $6 billion, as he now proposes. His initial proposal suggested only one out of four Government employees be replaced. Now he proposes to replace two out of four. His initial suggestion was that foreign currencies held by this Government abroad be made available to spend for tourist activities so as to help reduce the balance of payments and reduce the budget deficit. That has now been dropped from his proposal. The Senator has been doing this in a rather free-wheeling style. He takes things out and he puts things in. It is easy enough for one Senator to do that. He can change his mind from day to day, add something, or take something out, based on suggestions he hears from people in the committee who have the responsibility, or those in the executive branch who do not agree with what the Senator is suggesting.

For the life of me, I do not see how members of the Appropriations Committee, who have the responsibility for virtually everything the Senator is suggesting in one respect or the other, could possibly give us their best judgment until they have had occasion to study it and reach their own conclusions and recommendations.

Last year, there were major reductions in appropriations recommended by both House and Senate. That was done after the appropriations bill had been acted upon in consultation with the President and his responsible advisers in the executive branch, to recommend a major reduction of several billion dollars, which was agreed upon after consultation with the Appropriations Committees in House and Senate.

In fairness, and to be frank about it, those are the only committees the President really has any burden or duty to consult with. The Senate Finance Committee and the House Ways and Means Committee do not pass on the level of appropriations. It is the Appropriations Committee that does that. That is their jurisdiction. So, after consultation with members of the Appropriations Committee, and even after its members consulted with the full committees, it was agreed that there would be recommended a major reduction in Federal spending of about $5 billion, as I recall, to bring the budget more nearly into balance or to reduce the deficit.

The motion to make that big reduction was made by a ranking member of the Appropriations Committee, which committee had studied the matter and reached a conclusion on it.

I would say, if there can be reductions that the Senator recommends, they should be made by the Appropriations Committee after study, and after they have had occasion to exercise their jurisdiction and make recommendations to the Senate. It should not be done by an amendment to a tax measure which came to the Senate from the Senate Finance Committee seeking to do the job of the Senate Appropriations Committee, before that committee has ever had an opportunity to discharge its responsibilities to the Senate.

Mr. WILLIAMS of Delaware. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS of Delaware. Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. BYRD of West Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. COTTON. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. COTTON. Mr. President, I should like to propound a question or two to the Senator from Delaware.

I have some very strong reservations and doubts in my mind about the amendment of the Senator from Delaware and the Senator from Florida. Having served for many long years on the Appropriations Committees of both the House and the Senate, it has seemed to me that if the pending amendment is agreed to, we would be enacting an inevitable and hard fact. And we then would be balancing it with a lot of New Year's resolutions.

We would impose a surtax on the one hand and, on the other hand, provide for a reduction in spending and a reduction in the budget, as well, as I understand it, for certain reductions in the number of Federal employees. The latter might be enforcible.

However, I am sure that the distinguished Senator from Delaware realizes it is a fact of life that, if in March we lay on this admonition and requirement for a reduction in spending, as the months go on, the President may make those reductions in sensitive areas that would hurt the most, which is not a new practice here, with the result that Congress would take action to restore much of the authorizations and appropriations.

It is an easy matter to pass a reduced budget and then come right in within the next week or 10 days, as we do year after year, with supplementals and immediately turn around and spend all these hard-earned reductions and reappropriate them. Furthermore—and I am not questioning the firmness of the President or his sincerity in what he is saying—I challenge anyone to be sure just which way this administration may go, under the political stress we now are experiencing in this country, in the matter of escalation or deescalation of the war. If it is escalation, that means more spending.

I express these doubts because it has seemed to me that there is only one safe way in which to proceed, and I have felt that I could not cast my vote to impose a surtax under any condition whatsoever until several things were done initially:

First, the recall from Europe of a large portion of the 350,000 American troops and the 250,000 dependents; second, the reduction of some of the billions of American dollars we are spending abroad, and reduction in the force of thousands of people around the world who are administering that money.

In other words, things can be done now. We need not wait until the authorizations are made or the appropriation bills are passed.

The President always says, "The surtax first and then the economy." I say that some things can be done immediately which would change the balance of payments, reduce our obligations, and take off the pressure.

I have felt that I could not bring myself to accept a hard fact balanced by a large number of good resolutions. I am sure that the distinguished and able Senator from Delaware, who is a hardheaded and tight-fisted Senator if ever there was one, has considered these matters. I should like him to tell me, in a few sentences, if we put this tax on the American people, how he can be sure that the balancing economies are bombproof.

Mr. WILLIAMS of Delaware. Mr. President, the Senator from New Hampshire realizes that the only two things in life that are certain are taxes and death.

While I agree completely with the Senator's reasoning about what Congress may or may not do on future budgets, I

believe that the amendment has adequate safeguards.

A section of this proposal directs the Bureau of the Budget to submit a downward revision of $10 billion in the 1969 budget. That is in the 1969 budget. That would then have to be acted upon by the respective Appropriations Committees; and I will concede immediately to the Senator from New Hampshire that, conceivably, we could pass this measure as it is at present, the Director of the Budget could comply with the request as directed, and submit the recommendation for the $10 billion reduction, and then Congress could appropriate the entire $10 billion. I realize that. I am not trying to hold out any false hopes in that respect, but that can only happen if we in the Senate are negligent of our own responsibilities.

At least, the Appropriations Committees and Congress—those of us who wish to reduce expenditures—would be in a better position to sustain those cuts than we would be without it. I certainly do not discount that section as being worthless.

I have taken the same position that has been taken by the Senator from New Hampshire; namely, that merely to raise taxes and pour more money into the spending stream with no control over spending would be worse than no action at all, and I would not support it.

The second section deals with the $6 billion control on spending. At first I recommended $8 billion; then for the purpose of securing additional cosponsors I agreed to go along with $6 billion. That section does have the teeth to bring about a reduction in expenditures.

I am not a lawyer or a draftsman of legislation. Legislative counsel, Dr. Woodworth, and his staff carefully examined this measure. After it was drafted I said, "Take it back and do one thing—if possible, find holes in it because I want this drawn so that I can assure the Senate that if it is adopted, it will have teeth in it."

Two aspects are considered in this respect: First, we realize that the cost of the war in Vietnam cannot be determined. We take the figure in the budget of $25 billion, and we accept that figure; but any escalation of the cost of the Vietnam war beyond $25 billion is not covered. We cannot put a ceiling on what we are going to spend to support the men in Vietnam.

The second item which has been exempted is the interest on the national debt. They estimate the interest on the debt at $14.4 billion. The Federal Reserve raised interest rates a half point the other day, and that can add $400 to $500 million in interest charges to the debt.

We accepted those exemptions because they are uncontrollable items, and they are the excepted.

We did spell out one additional point in this same provision. I recall that last year when we were debating the question of raising the limit on the national debt that Congress was approaching a deadline. One of the administration officials—I believe it was the Secretary of the Treasury—made the statement that if Congress did not act by X date all social security payments and veterans' pensions would be stopped. That was an absurd statement because social security payments are paid out of the trust fund, which is entirely separate, and veterans' pensions are mandatory payments under the law.

So, in order to prevent the use of that argument, we spelled out in this amendment that social security payments under the Social Security Act—medicare and social security—and veterans' pensions, which are mandatory under the law, are not in any way affected by what we are doing. That point does not represent a reduction or an increase. It is merely a statement of fact so that these people will not be disillusioned.

I am convinced that in this section that applies to the mandatory reduction in expenditures we have a control by which we can achieve a $6 billion reduction in expenditures. I grant that Congress can repeal it, but Congress would have to repeal it. Assuming that Congress passes this proposal as it is written and assuming that Congress and the Executive then decide, "Here is our new program, never considered before costing $1 billion"—for whatever it may be—and it went through Congress and the Appropriations Committee, it would mean that unless this measure was repealed or modified by law that $1 billion would have to come from some other program. We would have to establish priorities.

The question has been raised as to whether we are usurping the prerogatives of the Appropriations Committee. To some extent yes, but not to the extent one would think for this reason: When Congress in the closing days of the session in December of last year adopted the proposal controlling expenditures all the appropriation bills had been acted upon, and we were dealing retroactively. Today we are dealing prospectively; and if we were to pass this proposal, with a control of $6 billion over expenditures and a proposed $10 billion reduction in fiscal 1969 appropriations, we would be dealing with appropriation bills for every agency of the Government which as yet have not been acted upon by either the House or the Senate. Congress—the House and the Senate—in the exercise of its prerogatives can designate where it wants these cuts to be made.

Assuming for the moment that Congress did not make this designation the executive branch would be required to do so. But I am confident that we can—we should—accept this responsibility.

The only reason I offer such a provision in the package at this time is that today we are dealing with the question of whether we should or should not raise taxes. I believe that under the present international situation and in view of a $20 billion deficit this year and a $28 billion deficit next year, to take no action would be disastrous.

I will not vote for any tax increase until we provide for the reduction in expenditures.

We have here a proposal for expenditure reduction, and I believe it will work.

Mr. COTTON. Mr. President, I believe I had the floor, but yielded to the Senator from Delaware. I do not wish to take too much time, and I know that the Senator from New York is waiting to speak. However, this is the only opportunity the Senator from New Hampshire will have to explore this matter, and I should like a little more exploration.

I understand from the response of the Senator from Delaware that if an amendment imposing the tax were attached to this bill, he would not vote for it.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. COTTON. That does not surprise me, because that is characteristic of the distinguished Senator, and one of the reasons why so many of us have such profound respect for him.

However, the Senator has been here for a long time and no one is more alert to the pressures in the Senate than he is. The Senator can put on all of the brakes he wishes to. I am not speaking as a member of the Committee on Appropriations or because I have the slightest resentment or feeling about any usurpation of the appropriating process. Any help we can get to stiffen our backbones here, I would like to see applied.

Nevertheless, the President or the Bureau of the Budget, or both of them, would make the reductions. Is that correct?

Mr. WILLIAMS of Delaware. Not necessarily. The President would make them unless Congress does so during the next 3 months as we act on each of the 1969 appropriation bills. If we fail to discharge our responsibility he would make the decision.

Congress should discharge its own responsibility, and I am confident that the Committee on Appropriations and the Congress will discharge their responsibility.

Mr. COTTON. The President may very well take the bull by the horns and go ahead and make an effort. He is talking about austerity now and making an endeavor to do something immediately.

The Senator is familiar with what the President has done before. If he cuts out the funds for impacted areas, if he reduces or cuts out school lunches, if he proceeds to cut down some of the research in the fields of heart, stroke, and cancer, if he cuts out the milk fund for the children or reduces it—this is not a new thought because it has been done before—then, when the bills come through the Committee on Appropriations it will be found that those sensitive funds are restored. If they are not restored the Senator will find pressure on the floor of the Senate; and if it is necessary to repeal a portion of the bill we are acting on today in order to restore those sensitive areas, it will be done. At least, the likelihood is that it will be done.

Furthermore, in this body and in the other body, and properly so, we have a large number of Senators and Representatives who represent great metropolitan areas in this country, who are deeply concerned, as are their people, about what is done for the cities. Talking about the long hot summer, we are going to have a tremendous increase in pressure. I do not mean that the rest of us are not concerned, but those who are vitally involved represent the metropolitan areas. We will have an increase in pressure to pay some attention to the

recommendations of the recent Commission. We will be told that is a very serious problem which calls for serious expenditures.

The situation is not unlike that of the mushroom which allegedly is capable of forcing itself through 8 inches of concrete and cracking it. The Senator and I have had the experience, as have many other Senators who have been here for 14 years, that when the time comes—and I do not care how ironclad these matters are written into law in March—when the hot summer comes and appropriation bills and authorization bills are going through in July, and August, and over into the fall, there will be a different situation altogether. The one thing that will stick will be the increase in taxes.

I have said already today that this afternoon or tomorrow the order can be issued to bring home a very large percentage of the 350,000 troops in Europe and their 250,000 dependents. I think they are no longer needed there and I believe they are no longer wanted there. Members of Congress have been urging that step for a long, long time. The distinguished majority leader has been urging that very thing. It would take a great stride in this matter of the restoration of the balance of payments.

Some of us believe a halt should be called in the flow of trade dollars, although we are not reverting to the old tariff and protection days and we have due regard for the so-called Kennedy round. Perhaps tariff barriers should not be restored but some sort of quota might be considered in the matter of imports of textiles, shoes, electronics, ballbearings, and a multitude of other products that are pulling money and jobs out of the country. Some of us feel strongly about a situation where American manufacturers are forced to build plants in Taiwan and Hong Kong to manufacture the goods, and then have them sent back to this country in order to be able to complete. The situation with regard to the balance of payments is like a sieve.

God bless the Senator from Delaware for an honest, earnest, and sincere attempt to tie into a tax increase a provision he hopes will hold water and that he hopes will have teeth.

I do not blame the President. We are equally guilty. My Committee on Appropriations is just as guilty as anybody else. We have not met this issue squarely; Congress has not met this issue squarely. We should not be running and placing the burden on the shoulders of the President. It is our burden that we should meet.

The Senator from Delaware has more confidence in human nature, and human nature in an election year, than I have. The thing that bothers me is: The tax increase comes first, and that is a solid fact that one cannot escape. It is placed on the American people; and that portion placed on corporate income will be passed right along to the consumers, and passed along to those people who can least afford to pay. The corporations are not going to pay it; they will pass it along. In a few short hours we will have imposed this tax burden, and there it is. Try to get it off.

I know the Senator has done his best to make this a hard-and-fast guarantee, but this Senator is afraid we are making a mistake if we put the tax on now. If we keep the tax off maybe that would be used as a weapon or lever to compel some of these steps toward economy. When they show their good faith—and I mean the administration, Congress, and the Committee on Appropriations—by some good reduction, then let us consider the tax.

That is all I have to say.

Mr. WILLIAMS of Delaware. Mr. President, I wish to reply to the Senator from New Hampshire. I think we do have a package here which will work. The vote which is coming up next would not affect the tax. The vote coming up next is to decide the questions as to whether we reduce spending.

The amendment of the Senator from Louisiana would strike all reference to spending reductions. That is what we are voting on first. The second question would be, Do we then want a tax increase with or without such a reduction? I am sure the Senator from New Hampshire could agree with that.

Mr. COTTON. May I ask the Senator, Will an attempt be made to give us an opportunity to vote for the reductions without the tax?

Mr. WILLIAMS of Delaware. Yes. Senators can vote to keep the reductions. Surely, if the tax part will pass the Senator will want the reductions in, will he not?

Mr. COTTON. Most assuredly.

Mr. WILLIAMS of Delaware. Then let us keep them in the bill. But if a Senator wants to vote against the package as a whole that would be——

Mr. COTTON. Then the Senator is voting to take out the reductions we just left in, if we are going to vote for the package as a whole. As I understand the parliamentary situation, we will have an opportunity next to vote to cut out the reductions. If we keep the reductions in, then we vote on keeping the tax plus the reductions. I do not see that, along the way, we will have an opportunity to vote for the reductions and not the tax.

Mr. WILLIAMS of Delaware. I invite the attention of the Senator from New Hampshire to the fact that the other choice is to vote to take the reductions out. Later, the question comes back to the tax. A Senator could vote for the reduction and against the tax.

Mr. COTTON. I have not made myself clear to the Senator from Delaware. I understand that. Of course, I am not going to vote to take the reductions out. But, suppose we voted and succeeded in keeping the reductions in. Then the only decision we have is to vote for the tax and the reductions. There is no opportunity to take the tax out and keep the reductions. The only opportunity given is to take out the reductions and keep the tax. ,

Mr. WILLIAMS of Delaware. If the reductions stay in I would be supporting the package, but it would be in order for someone who did not want the tax left in to vote to take the tax out and still leave the reduction sections in. As a parliamentary procedure it could be voted on separately. The Senator from New Hampshire has made a valid point, but we are in a different position today than we were when we acted in December of last year. Last year when we acted to cut we delegated the authority to the President to make the cuts. It is also true that these cuts were partly restored in a supplemental appropriation. But in this instance we are not dealing with the 1968 fiscal year; we are dealing with the 1969 fiscal year. As yet, the Appropriations Committee has not acted on a single 1969 appropriation for any Government agency. They will all be before the Senator's committee in the weeks and months to come and his committee will have the opportunity during that period to make a selection of the cuts wherever he wishes. I have confidence in that committee.

As I said, the alternative is to wait until the appropriations are acted upon, which would be to wait until July or August before we could take any action. Personally, I do not think we have that much time. With what happened a couple of weeks ago in the gold market, followed by our action in removing the gold cover and the agreement on a two-price gold we bought a little time, but not enough so that we can fiddle around. Let the Senate serve notice to the country and to the world that we will do something to control the deficit effectively.

So far as I am concerned, it can be controlled efficiently only by reducing expenditures. I have said time and again that I shall not support increased taxes until after we have done something to hold down expenditures. I believe we have a package here that will work. If I did not think so I would not be supporting it. Yet I agree fully with the Senator that some sections are more or less the expression of a hope, but there are sections, particularly those dealing with control of employment as well as the mandatory ceiling on expenditures, which do place controls over expenditures. I think these controls would be effective.

Several Senators addressed the Chair.

Mr. WILLIAMS of Delaware (Mr. BYRD of Virginia in the chair). I yield to the Senator from New York.

Mr. JAVITS. The first question I should like to ask the Senator is: Is it not a fact that the reason the President cannot cut expenditures below the items in the budget is that they are automatic expenditures, except for those concerning Vietnam?

Mr. WILLIAMS of Delaware. That is correct.

Mr. JAVITS. In other words, they are items already enacted into law which are automatic in their operation, or in interest, which is also automatic.

Mr. WILLIAMS of Delaware. That is correct, and which we could not change unless we acted as a Congress to repeal them.

Mr. JAVITS. Exactly right. But as to the expenditures for Vietnam, it is a fact, is it not, that within the amount appro-

priated for the Department of Defense, the President can spend more than $25 billion; but if he wants to add anything, he has to come to us?

Mr. WILLIAMS of Delaware. That is correct.

Mr. JAVITS. The Senator does not, in any way, therefore, inhibit in his amendment, as I understand it, what the President may cut from the funds we appropriate.

Mr. WILLIAMS of Delaware. No.

Mr. JAVITS. The last provision on page 7 states:

> The President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe.

That is correct, is it not?

Mr. WILLIAMS of Delaware. That is correct.

Mr. JAVITS. So that the President is bound by our appropriations. And when we appropriate, which we have not done yet, he can cut out of the appropriations amounts equal to $6 billion.

Is it not a fact that we could do precisely the same thing by reducing appropriations over which we have complete control, at least in the Senate that is, its control by veto power?

Mr. WILLIAMS of Delaware. The Appropriations Committee during the next few weeks and months, as we act on the 1969 appropriations bill, can do exactly what the Senator from New York is pointing out. It would be reflected as a part of the $6 billion savings. The Senator from New York, I am sure, is well aware of the fact that there is a continuing obligational authority carried over each year whereby conceivably it would be possible for Congress to reduce the appropriations $8 to $10 billion on the 1969 appropriations and not reflect one single dime of reduction in expenditures by using the whole obligational authority. I do not think that that would be done, but it would be possible.

Stretching it the other way, it would be possible by reflecting practically all of the $8 to $10 billion into the reduction in expenditures.

But I struck this happy medium where the minimum of $6 billion would have to be reflected in the reduction in expenditures and the $10 billion in the appropriations.

But the Senator is correct. I deliberately did not deal with selective terms. I do not believe this is the place for one Senator to say, "Take out all foreign aid," and another to say, "Move our troops back from Europe." I agree completely with what the Senator from New Hampshire [Mr. COTTON] and other Senators have said that there are ways we can save. One Senator might have one method for saving. The Senator from New York might have another method for saving. But the point is that this bill puts us on record with a $6 billion reduction in spending. Then Congress and the Executive can look around and, working together, establish a system of priorities.

Mr. JAVITS. Representing, as I do, a great State with several major cities, I am one of those who are identified by the Senator from New Hampshire [Mr. COTTON] as feeling that when the breath of hot summer is upon us, some of these resolutions could wilt. So, I should like to provide against that. I am going to make some suggestions, as a practical matter for it.

But, is not the real deficiency in what the Senator has proposed to us, because he has locked in the situation—and he has as much brains as anyone, and he knows it—and the situation is that the President will be cutting, and the Appropriations Committee, of which I am a member, can also cut the obligational authority. We can do that in any appropriation bill, as we often do. So we have enough control. But what we are doing is giving the President power and control which we have, and which we will have, and which we can exercise over and above what we do ourselves.

This troubles me very deeply, for this reason: That if we should decide, in the interest of high national priority, that we do want to do something about the situation, about housing, about jobs, the war on poverty, or the prevention and detection of crime, which is pretty hot business around here, then we should decide if we are going to allocate so much money for it. The President, nonetheless, within the limits of the $6 billion, can say, "OK, fellows, you gave me this authority. I am not going to spend this money."

This goes to one thing that we have not discussed, if I may say so to the Senator from Delaware. We have discussed taxes and we have discussed expenditures, but we have not discussed priorities. The real nubbin, the real heart, of America's fiscal dilemma is priorities. We are going to permit the President to take nothing out of space but allow him to eliminate the appropriation for poverty. This proposal would not prevent the President from doing that. He would be able to cut out the whole amount—$2 billion. Nothing could be more outrageous, but by voting for this proposal the President would be permitted to do that. This problem deeply concerns me.

It seems to me the proposal of the Senator of Louisiana [Mr. LONG], which has plenty of "bugs," at least preserves our power, along with the President's power.

It is true that the President does not have to spend the money we appropriate, but it is also true that we are not giving him a mandate as to the extent of the limitations of the $6 billion cut, no matter how much we economize. This bothers me considerably.

I wish to ask the Senator whether, in his thinking—because he is a very thoughtful man and this has been a labor of great intellectual consequence, and I respect him enormously—he gave consideration to that concept and what, if anything, we can do about it.

Mr. WILLIAMS of Delaware. What the Senator from New York expresses concern about will happen only if the Senate and the Congress in the months ahead, as we act on the 1969 appropriations, fail to live up to our own responsibilities. If we do not have the "guts" to establish priorities as to where that $6 billion cut shall take place and where it shall not then we will have lost our right to complain about what the President does.

If we were trying to act retroactively, as we did in December 1967, what the Senator has said would be true, but I am proposing expenditure cuts for 1969. The Appropriations Committee has not acted yet. The committee has ample time to establish a system of priorities as to where this $6 billion cut shall be made.

The committee can establish its own priorities and say that the appropriation shall be cut in this program or that program. If the committee wants to protect the cities, for example, or wants to protect this program or that program it can spell it out. But as we protect a particular program we must find somewhere else for the $6 billion cut. If we do not establish these priorities then we have delegated to the President the authority to act. Personally, I think Congress would have forfeited its right to criticize him for what he did if we failed to discharge our own responsibility.

The difference between now and last December, as I pointed out to the Senator from New Hampshire, is that in December we had already acted on the appropriation bills.

This delegation of authority to the President will not become effective until after we have acted on the 1969 appropriations. If Congress fails to discharge its own responsibility to make the cuts and establish the priorities then someone else has to do it.

Mr. JAVITS. Then, the legislative intent of subsection (b) of section 4 on page 7 of the bill is that if we do not cut this $6 billion out of the $186 billion which the President has asked for in overall expenditures, then, and then only, can the President use the authority contained in subsection (b) and substitute his discretion?

Mr. WILLIAMS of Delaware. That is correct. I had that point checked carefully both with counsel and the administration. That is the interpretation put on it by all, as far as I know, who have considered this proposal.

Mr. JAVITS. Would the Senator now go with me to one other thing? I am anxious to make provision against the crises in the cities. Would it not be necessary for me to seek to amend that particular subsection (b) so that, once Congress has acted and established priorities with respect to the cities, the President cannot change those and substitute his judgment that he would rather spend money for space, for example, than for cities in 1969?

Mr. WILLIAMS of Delaware. That should be done in the appropriations when we act on them for 1969 for the cities and for space. Conceivably, it could be done here today, but once we start establishing priorities we would be here another month. As the Senator from New York knows, we would get many different suggestions. That is the reason why this proposal was drafted with the clear intent that the Appropriations Committee will have 100-percent jurisdiction and authority to establish these priorities and designate the cuts as the various bills come before us. If we fail, and only if we fail, does the President move in. But

if Congress acts the President will have no authority to go beyond what we have done and reshuffle the appropriations.

Mr. JAVITS. The Senator states for the RECORD that that is the interpretation of the administration?

Mr. WILLIAMS of Delaware. It is of those whom I have talked with. The President is not endorsing this proposal, but I found no quarrel with that interpretation. That is the intent of the bill.

Mr. JAVITS. Just one or two other questions. I notice the Senator has eliminated from the reduction of personnel or freeze on personnel the Department of Defense, the postal field service, the Federal Bureau of Investigation, and casual employees. I can understand the solicitude about the FBI, which is traditional here, but I wonder why, with the enormous employment in the Department of Defense, with the tens of thousands of public employees, the Senator has left that out.

Mr. WILLIAMS of Delaware. Because I followed the September 20, 1966, Executive order wherein those employees were mentioned. However, in the long run, the administration is prevented from padding the Department of Defense with thousands of additional employees when they are not needed because they are counted in the total at the end of each quarter. That provision was in the Executive order, and I followed it.

Mr. JAVITS. Continuing, with respect to public works projects, the Senator would give the Director of the Office of Emergency Planning, the right to cut off. I am somewhat concerned about leaving highways out, because everything else is included. I assume that would mean all kinds of public buildings, as well as dams and similar structures, but I notice that the Senator excludes highways and includes recreational facilities. May I ask the Senator what he would say about post offices?

Mr. WILLIAMS of Delaware. Post offices would be included in that provision. This language was patterned after President Truman's Executive order which was put into effect during the Korean war. At that time exceptions were made with the War Production Board, similar to the Office of Emergency Planning authorized to make the approval. This is action which should have been initiated a long time ago. However, being realistic, in line with what the Senator from New Hampshire pointed out, I would admit that they could abuse this authority, but if they did so they would have to make the cuts somewhere else.

Mr. JAVITS. I notice the provision gives power to the Director of Emergency Planning to terminate on-going projects.

Mr. WILLIAMS of Delaware. That is only if he certifies that it can be done without great harm or expense. I shall give the specific example we were thinking of at the time. We had the case of a building right here in the District of Columbia which they agreed would not necessarily have to be constructed at this time, but due to construction work on the freeway or subway it was advisable to proceed with the superstructure. Perhaps it would be advisable to hold further construction in abeyance, or perhaps it would not. There would be projects which could be postponed without suffering economic loss, others could not. That was part of President Truman's plan also.

Mr. JAVITS. May I say——

Mr. WILLIAMS of Delaware. No doubt many projects can be found that have been started wherein it would be cheaper to hold up or slow down.

Mr. JAVITS. May I say that I would have preferred for the President to have that authority, considering the dislocation to local communities which could be involved in work stoppage on an ongoing project.

May I point out also to the Senator, as there will probably be a chance to perfect what we are doing, that President Truman did not issue an Executive order; he issued a directive. I should like to read into the RECORD a part of that directive. He said:

> All civil public works, both direct Federal public programs and grant-in-aid programs, should be screened, with the objective, as far as possible, of abridging, curtailing, or slowing down those projects which do not contribute directly to defense, or to civilian requirements in the changed international situation set forth in my message—

Referring to another message, I simply submit that to the Senator because it would give a much broader area of discretion than is given in the Senator's amendment.

Mr. WILLIAMS of Delaware. The Senator raised the point that he would rather have discretion conferred on the President. I suggested that as we were drafting the amendment. The argument was made that it would be more appropriate to put the authority in this agency. The President does appoint the Directors of the Office of Emergency Planning. I would have no objection to substituting the President; I think, however, it would be more appropriate to use the name of this agency rather than delegate to him the necessity of passing approval on every project.

Mr. JAVITS. I am very grateful to my colleague. Will he permit me to take up a piece of nongermane business?

Mr. WILLIAMS of Delaware. Surely.

Mr. ELLENDER. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield to the Senator from Louisiana.

Mr. ELLENDER. Mr. President, I should like to ask the distinguished Senator from Delaware about the curtailment of public works projects. I notice that on page 4 of his amendment, on line 21, if an investigation is made, and the investigation shows that the delay in planning or construction of a public works project will cause irreparable damage to the public health or welfare, then the project will not be stopped.

Will the Senator define for us what he means by public health or welfare?

Mr. WILLIAMS of Delaware. If it is in the public interest. One could call it the public interest. Public health or publice welfare would come under public interest.

There are projects that have proceeded to the point where it would not be economically feasible to stop them; it could result in an unnecessary loss. Certainly it would be foolish to slow down on those.

This merely calls for a reexamination of those projects which may not have progressed to the point that they could not be held up for a year without resulting in either a loss or disadvantage from the standpoint of national security, the public welfare, or the national economy.

It is just a matter of how economically feasible it would be to take such action.

Mr. ELLENDER. To what extent would the amendment affect public works that are now being constructed? For instance, to pick a random example, we have quite a large sum of money being spent to make the Arkansas River navigable. To what extent would the Senator's amendment affect a project of that nature?

Mr. WILLIAMS of Delaware. To the extent that contracts were out I would say they would proceed. I am not familiar with that particular project or as to its status. If a project can be held in abeyance and be done just as well a year later it would affect it.

I will cite a project affected under the previous Executive order. We had one in my own State: a dredging project for a river, which did not involve the main transportation channel but which the community wanted very much and which had been approved by Congress. The authorization and appropriation had been made, and the contracts had been called for, but they had not been awarded. That project, the Indian River project, was one of the projects which it was decided by this board could be held in abeyance, event though it had proceeded to that point.

I think a small contract had been awarded on the side structures of the channel, but they held the main project in abeyance for about 2 years and a half, if I recall correctly, before proceeding.

This does not cancel the project. I agreed at the time that this project could be held in abeyance without real hardship to anybody.

Naturally we wanted it. As to the effect on the particular project the Senator mentions I do not know, but there are projects, as the Senator knows, that continue over 10, 15, or 20 years, and perhaps a year's holding back would not jeopardize the project or result in a loss.

All these factors would have to be taken into consideration whether we had spent so much money that we would lose more than if the work proceeded.

Mr. ELLENDER. Is there appropriate language in the Senator's amendment whereby the things he is now discussing could be taken into consideration? As I understand the language of the amendment, the only guide the investigators would have is whether or not stoppage of the project would cause irreparable damage to the public health or welfare.

The Senator is acquainted with the nature of these projects. As the projects are delayed, the cost increases ranges from 5 to as much as 6 percent each year as a result of increased cost of labor and materials. I think it would be wrong, certainly, to postpone any project that is

under construction, or that is actually being planned.

Mr. WILLIAMS of Delaware. If the Senator would feel better about including, on line 21, "the public interest" as well as these other words, while I believe that is already implied, I have no objection to spelling it out.

Mr. ELLENDER. I wonder why it is that the Senator from Delaware is taking out against public works. That seems to be the only item he is mentioning to any extent.

Mr. WILLIAMS of Delaware. No; this would cover construction of public office buildings and any type of Government construction projects. They are counted as public works projects. That is the broad definition for all of them.

The Senator from New York asked a question about post offices and buildings of that kind.

There may be a post office we would like to have, but we do not have to have it this year. At some point, somewhere, somebody has got to establish priorities on what we are going to spend. This would make it possible to postpone some of the less essential ones.

If we are going to proceed, on the other hand, with all these projects, if we are going to proceed with everything then we had just as well face it: We are not going to hold down or reduce expenditures.

This would delegate the authority to the Office of Emergency Planning—and I do not know of any other agency more appropriate—to make the decisions that the projects can proceed.

Mr. ELLENDER. Generally speaking, the Senator has been against public works in the past, and that is the reason for the question.

Mr. WILLIAMS of Delaware. Not at all. I have been against some of the so-called boondoggle projects. We have had many public works projects which are good, there is no question about that. There are also some that qualify as pork barrel projects.

Mr. ELLENDER. As the Senator knows, in the past 15 or 16 years, the Subcommittee on Public Works of the Committee on Appropriations has been instrumental in bringing before the Senate many items, both budgeted and unbudgeted, in order to construct navigation projects along the Monongahela River, the Ohio River, and many other rivers. Except for the fact that those projects were constructed, today our transportation system would be in terrible shape.

Does not the Senator think that the Appropriations Committee is better able to decide on what ought to be done than to put such a provision in a tax bill, as the Senator is now attempting to do?

Mr. WILLIAMS of Delaware. Perhaps. As the Senator says, we have been depending for the past 15 or 20 years on the Appropriations Committee, and as a result of our dependence we have a $20-billion deficit this year and a $28-billion deficit for next year and have reached the point where something has to be done.

I do not state this as criticism of the Appropriations Committee or of anyone else. The question simply is, Are we going to cut or suspend work on some of these projects and programs?

Can we afford to continue this program of guns and butter? Let us not forget we have a full-scale war to finance.

I recognize that there are two sides to the argument. There are those who feel that we can continue all of the programs for guns and butter. If so they should vote for the amendment of the Senator from Louisiana.

There are others who feel that we do have to establish priorities somewhere. Those Senators should support the position I am taking and help to reject the amendment of the Senator from Louisiana.

Certainly we must start somewhere. I could have very easily spelled out a list of where I thought the $6 billion reduction should be made. It would be a different list from that of the Senator from Louisiana. If all Senators were to make up a list we would have 100 different ideas.

I have tried to lay down the ground rules and then let the Appropriations Committee of which the Senator from Louisiana is a member have the authority to make these selections and establish these priorities.

I am not dealing with 1968 expenditures because there are only 3 months remaining in this fiscal year. I realize that it would be impossible to do so. However, this amendment relates to the fiscal year 1969. Every single appropriations bill for every agency of the Government, including public works and others, will be before the Senator's committee in the next 3 or 4 months, at which time the committee can make its own selection as to where it wants these cuts made, and it can then pass its instructions on to the Senate.

If the Senate fails to make these cuts and establish priorities as to where they should be made only then would the President have authority to make them as he sees fit.

I do not see how we can establish rules any better. The question is: Do we want expenditure controls or do we not?

I proposed this expenditure reduction and tax increase plan in a statement on the floor of the Senate on January 31, 1968, and introduced a bill to carry it out. I said then it may not be the perfect plan but that I thought we had to do something. I have since talked with the representatives of the administration when they testified before our committee. As I understand it, they are against any control of spending. They make great speeches, but they do not want to go any further than their speeches and write their proposals into law.

I said then that if one does not like this method then come up with another method. I have yet to hear anybody say, "Here is a better way to cut expenses." I am open to suggestions.

My point is, We have to start somewhere and go on record. Let us make it clear to the American people whether or not we are going to control spending. It is that simple as far as I am concerned.

Mr. ELLENDER. Mr. President, I think that the Appropriations Committee is better able to do that than is the Senate on the floor at this time.

The Senator will recall that last year, through a resolution adopted by the Committee on Appropriations and submitted to Congress, over $6 billion was cut back.

I think that the Appropriations Committee itself is better able to do that than we are by having guidelines placed in the pending tax bill.

Mr. WILLIAMS of Delaware. Mr. President, the Senator is entitled to his own opinion. Let us not overlook the fact that to a large extent that $6 billion savings to which he refers is a reduction from what the administration asked for and said they could spend.

It is a good bit like the President in December 1965 saying that he was going to cut 25,000 Federal employees in the remaining 7 months of that fiscal year. When that fiscal year ended he had added 190,000 Federal employees. I was surprised.

I asked the Secretary of the Treasury and the Director of the Bureau of the Budget how they could reconcile the President's statement of December to the effect that he would cut 25,000 Federal employees and his action within the several months in adding 190,000. I got the remarkable answer that had really made a cut of 35,000. It was explained that what the President had in mind was adding 225,000 employees, and he had only added 190,000; therefore he had cut 35,000 employees.

I then asked why he had not planned on adding 1 million employes, and then by adding 200,000 perhaps he could balance the budget with such savings. That is what happened last December.

The President said that he could spend a certain amount if we were to give him everything he asked for. Congress reduced the request but still appropriated approximately $10 billion more than it had the year before. I want to see cuts that are really cuts and not promises. We are about to go broke on such promises.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. MAGNUSON. Mr. President, would not this have the effect of abolishing the Subcommittee on Public Works of the Committee on Appropriations? What would be the use of the Senator from Louisiana [Mr. ELLENDER] spending days and weeks in going over these projects in the subcommittee if we are going to determine now what will be appropriated?

Mr. WILLIAMS of Delaware. The Senator from Washington was in Congress during the Korean war. So was I. President Truman issued an Executive order along the same lines. I do not recall the Senator from Washington taking the position that President Truman was abolishing the Public Works Subcommittee, and I do not recall any other Senator taking that stand.

Our problem today is that we have had a war going on in Vietnam for years, and the President has failed to recognize that fact.

I think the President ought to have issued an Executive order along that line years ago. He has not done so. So we are now writing it into law.

I ask the Senator from Washington, if that section were removed would he support the measure?

Mr. MAGNUSON. Mr. President, I am asking the Senator from Delaware a question, and he is now asking me a question.

Mr. WILLIAMS of Delaware. I am always interested in securing answers. If the section relating to public works were removed from the package would the Senator from Washington support the expenditure reductions section contained in the remainder of the proposal?

Mr. MAGNUSON. I think we should let the Public Works Subcommittees of the House and the Senate determine what they think would be necessary under given circumstances.

Last year the Appropriations Committee cut close to $7 billion off the budgeted amount. That was not an across-the-board cut. Sometimes we added an amount for a project that was not included in the budget, and sometimes we cut out some that were. However, we did achieve that $6 billion to $7 billion cut.

Would there be any use in having the Public Works Subcommittee of the Committee on Appropriations continue their hearings if we were to pass this section of the pending measure?

Mr. WILLIAMS of Delaware. It would be their responsibility.

Mr. MAGNUSON. We would be saying that the Public Works Subcommittee would not be responsible for it.

Mr. WILLIAMS of Delaware. No. I did not say anything of the kind any more than President Truman said they were not responsible.

Mr. MAGNUSON. I am not asking what President Truman said. I am asking the Senator from Delaware whether this would not be a directive and whether there would be any use then for the Public Works Subcommittee to look over these projects, or whether we should turn them all over to the Director of the Office of Emergency Planning.

Mr. WILLIAMS of Delaware. I said that I thought they should continue; yes.

Mr. MAGNUSON. That means that the Senator from Louisiana might as well quit the hearings he is holding.

Mr. WILLIAMS of Delaware. That is the conclusion of the Senator.

Mr. MAGNUSON. I am not saying whether that is right or wrong. I am asking whether this proposal would have that effect.

Mr. WILLIAMS of Delaware. It would not. The Senator from Washington can draw his own interpretation.

Mr. MAGNUSON. Let me ask this question. What would be the use of having all of these hearings, listening to the witnesses, and finding out whether a project is feasible, or in the public interest if we merely marched up the hill and then marched down again, and if the Office of Emergency Planning is going to tell us whether we can or cannot build. Would that not be the effect?

Mr. WILLIAMS of Delaware. No, it would not; but the Senator from Washington is entitled to his interpretation.

Mr. MAGNUSON. I am asking the Senator from Delaware.

Mr. WILLIAMS of Delaware. I have answered the Senator three times.

Mr. MAGNUSON. That it would not have that effect?

Mr. WILLIAMS of Delaware. That it would not have that effect; no. If the Senator from Washington wants to insist that it does I cannot help that. But I have said "No" three times.

Mr. MAGNUSON. It would save us a lot of work. The Senator from Louisiana [Mr. ELLENDER] hears on the average of 1,000 witnesses a year in the Subcommittee on Public Works Appropriations. Many of the projects we take; some of them we do not take.

I should like to ask another question: What would be the effect, for instance, out on the Columbia River. where the Government is in the process of building a series of dams of the kind which have provided the greatest and the lowest cost hydro system in the world? Some of those hydro projects are nearing completion. One is almost 90 percent complete. The funds that are being used are in the nature of loans, because the money is paid back to the Government with 3 percent interest. That is Bonneville power. What will be the effect of the amendment on a project that is well along toward completion, say 80 or 90 percent finished?

Mr. WILLIAMS of Delaware. I answered that in response to the Senator from New York. I could not conceive of any project that is 90 percent complete that would not be more feasible to go on to completion. But again I do not say that it could not sappen.

These questions can be determined. The committees can make their determinations and recommendations. Conceivably under existing law the President could impound money for these same projects and not spend it, whether we say so or not.

Mr. MAGNUSON. Would the Senator say that a project that was so far along that the generators had been installed and were starting to turn should be stopped? The quicker the generators are installed and start to turn, the sooner the money will come in and be returned to the Treasury at 3 percent interest.

Mr. WILLIAMS of Delaware. I said that I am sure that they would rule that if it had progressed to the point where it would not be economically feasible to postpone, they would so rule. I did not appoint the members of that committee. The Senator is aware who they are.

I do not believe that they would discontinue a project when such action would not be economically feasible.

Mr. MAGNUSON. The Senator has much more faith in the bureaucrats down there than I have.

Let me ask another question. The President has the right at any time to withhold spending.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. MAGNUSON. And that has been done. But whatever is put in the budget appropriations are purely the prerogative of Congress and not of the President. Generally, the President accepts the decision of Congress with respect to the expenditure of money. But would this bill direct the President not to accept the will of Congress on appropriations? It would be a directive, would it not?

Mr. WILLIAMS of Delaware. If this bill is passed it would require expenditure reductions of $6 billion. I would hope that the Appropriations Committee and Congress, working together in the next few months on the 1969 appropriations, would establish a set of priorities by which this could be done. If we fail to do it then and only then the President could move in and exercise his discretion. I would say that if we failed to act not one of us should open our mouth and criticize the President for his decision. We would have the first opportunity to establish these priorities on each and every appropriation bill. We would be required to do it if this bill is passed.

Mr. MAGNUSON. I have some faith—I hope the Senator from Delaware also has—in members of the Appropriations Committee, who work hard and long on these projects. I have no doubt that this year's Appropriations Committee will do that. But I dislike hearing other Members of the Senate suggest that they have nothing to say about the matter; that someone not a member of the Appropriations Committee, who does not hear the testimony—these are very complicated matters, including literally hundreds of thousands of items—will tell the Appropriations Committee what to do with respect to expenditures before they even have hearings on the matter. That is what bothers me about this proposal.

I should like to ask the Senator another question. One section of this proposal deals with the reduction of employees. I am in complete agreement with the Senator in that respect. I can speak only for Senator ALLOTT and myself, in connection with the Subcommittee on Independent Offices. For the past 6 years, we have held employment in every department, with the exception of the Space Agency—which fluctuates according to what they are doing—either at the same plateau or reduced it.

I believe the effect of the pending proposal would be to say to the Appropriations Committee, "Let's forget about you people meeting and going over these items one by one and looking at them and shaping them at least within the framework of the fiscal condition of the Nation," and their work would go for naught.

Senator ALLOTT and I will commence hearings of the Subcommittee on Independent Offices tomorrow in connection with 29 agencies, and the hearings will last approximately 6 weeks. If this amendment is adopted, I believe Senator ALLOTT and I should suggest that we postpone the hearings, do nothing about the matter, and leave the matter of expenditures to a bureaucrat downtown in

Public Works—namely, the Office of Emergency Planning—and they will determine what should be spent, what should not be spent, and what the rules should be for the Appropriations Committee of the U.S. Senate, which is an independent body.

That is why I am opposed to this amendment.

I believe that last year was the best example. We cut the budget close to $7 billion. I do not have the last figure, but it was up to $7 billion toward the end. The Senator from North Dakota will verify that.

Senator ALLOTT and I have constantly cut the independent offices below the budget request, except for some emergency cases. I believe that the Appropriations Committees have been very responsive. We might as well tell them not to do anything about it, if we are going to direct them, in a bill, as to what they can and cannot do.

Sometimes we go over the budget and we think the Budget Bureau was not wise in its priorities. The Budget Bureau is only advisory, anyway, to Congress, because Congress appropriates the money. They give us good advice; they give us good guidelines.

I believe that Senator ELLENDER might as well tell his 900 or 1,000 witnesses not to appear this year and to line up in front of a bureaucrat's office downtown, the Office of Emergency Planning. I do not know how that bureaucrat would even be able to hear half the witnesses in a year and determine what public works projects should or should not be included.

That is why I oppose this section of the amendment.

I applaud the Senator for talking about Government employment. I will say to the Senator from Delaware that Senator ALLOTT and I usually have a copy of Parkinson's law on the table when we hear these witnesses, and we constantly remind them of it, so far as employment is concerned.

Mr. WILLIAMS of Delaware. Mr. President (Mr. HARRIS in the chair), I appreciate the comments of the Senator from Washington. This amendment would not take authority from the Appropriations Committee. They still can make these decisions.

The Senator from Washington has referred to what Congress did last year in cutting appropriations. I remind him that that resolution called for a 2-percent reduction in personnel, and it was hailed throughout the country as a 2-percent reduction in personnel. It did not work that way. The Secretary of the Treasury and the Director of the Budget, in testifying on this bill before our committee, said that they put an interpretation on that action of Congress as meaning the equivalent of a personnel reduction in dollars and cents, that they could postpone buying a computer or furniture and keep a man on the payroll, and that, in effect, they could even add employees.

What has happened? Since that resolution was adopted employees have been added to the payroll. They want to add another 45,600 to the public payroll next year. I ask unanimous consent that page 530 of the budget for 1969, containing a table labeled F–1, be printed at this point in the RECORD.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TABLE F–1.—THE BUDGET FOR FISCAL YEAR 1969—SUMMARY OF FULL-TIME PERMANENT EMPLOYMENT IN THE EXECUTIVE BRANCH

Agency	As of June		Increase, 1969 over 1968
	1968 estimate	1969 estimate	
Department of Defense, military and military assistance	1,220,500	1,223,500	3,000
Post Office Department	550,600	568,400	17,800
Department of Agriculture	85,800	86,300	500
Department of Commerce	26,200	27,000	800
Department of Defense, Civil	32,200	32,600	400
Department of Health, Education, and Welfare	105,400	108,800	3,400
Department of Housing and Urban Development	14,800	16,200	1,400
Department of the Interior	61,100	63,500	2,400
Department of Justice	33,650	34,200	550
Department of Labor	9,700	10,700	1,000
Department of State	26,900	27,000	100
Agency for International Development	17,600	18,100	500
Peace Corps	1,400	1,600	200
Department of Transportation	57,700	59,600	1,900
Treasury Department	82,000	85,500	3,500
Atomic Energy Commission	7,150	7,300	150
General Services Administration	38,300	39,700	1,400
National Aeronautics and Space Administration	32,400	32,600	200
Veterans' Administration	152,100	154,000	1,900
Other agencies:			
Selective Service System	7,200	6,900	−300
Small Business Administration	4,300	4,700	400
Tennessee Valley Authority	12,350	12,700	350
The Panama Canal	14,950	15,000	50
U.S. Information Agency	11,650	11,700	50
Miscellaneous agencies [1]	33,550	35,100	1,550
Allowance for contingencies	2,400	4,800	2,400
Total	2,641,900	2,687,500	45,600

[1] Excludes member-employees of the Soliders' Home.

Mr. WILLIAMS of Delaware. This table shows that in the 1969 budget, while they are talking about cutting personnel, the administration is actually asking for 45,600 extra employees. Every agency of the Government except one, the Selective Service System, is asking for additional employees. Agriculture, Interior, Justice, Labor, State—all are asking for increases.

Where are the promises of reduction as made to the Congress just last December?

I yield to the Senator from Wyoming.

Mr. HANSEN. I thank the distinguished Senator.

Mr. President, I believe that the distinguished Senator from Delaware is performing a very laudable public service this afternoon in bringing the Senate to a moment of truth.

I listened attentively to the debates on the floor of the Senate in recent weeks concerning the removal of the gold cover, the dire predictions as to what would happen to our currency and, indeed, to our country if we failed to take that step, and the assurances of the sponsors of that legislation that that was only the first in a series of steps which must be taken in order to save the dollar, symbolic of the economic backbone of this country.

Mr. President, it was only the first step. This was repeated time and time again. Everyone who spoke in favor of that bill said, almost without exception, that we had to cut expenditures, that we had to increase revenues, so as to bring the budget more nearly in balance.

Great concerns were expressed over the outflow of gold because we had an inbalance in our payments. I think most people would agree that even more serious than the outflow of gold, which triggered our removing the gold cover in the last couple of weeks, was the fact that at home we did not have a stable fiscal policy as far as a balanced budget was concerned.

I think most people probably would agree we could continue to feed out into foreign countries more dollars than we received back from those countries if we had a blanced budget at home, and still not undermine the confidence foreign countries would have in the dollar.

Mr. President, I suggest that the moment of truth has now arrived this afternoon. We said earlier we had to do these other things, and that when the time came we would make the hard, tough decisions so that we might get our fiscal house in order and be able to display that attitude which would engender confidence on the part of foreigners. It is an easy thing to talk about what we are going to do tomorrow; and it is a tough thing when tomorrow comes to keep those commitments we made to ourselves. I suggest to Senators that tomorrow is now here.

It seems to me that the proposal of the Senator from Delaware is a very logical and reasonable approach. He is not saying that the Committee on Appropriations or the Congress itself shall be denied the opportunity to determine where and what cuts we shall make, but he does say, as I understand his amendment, that these cuts shall be made; and if the Committee on Appropriations and if Members of Congress do not fulfill their duties and obligations, then they will be made by the Executive, by the President.

Mr. President, I think what we have to do this afternoon, in order to keep faith with ourselves and foreign countries, is to say we propose now to bring this budget more nearly in balance than it has been.

The Senator from Delaware proposes that we cut not less than $6 billion from the total expenditures that will go out

this coming fiscal year. He proposes along with that cut in expenditures that we impose a tax increase.

In addition his proposal contains another section requiring a $10 billion reduction in fiscal year 1969 authorization. This will result in lowered expenditures in future years. A tax increase is not popular in my State of Wyoming, but I am going to support a tax increase because even less popular than a tax increase in Wyoming is the inflationary effects that we are having on our dollar today.

Last year inflation cost the average citizen of Wyoming just as much of his purchasing power as would have resulted had we added 5 percent to the sales tax that we have in Wyoming now. We have a sales tax of 3 percent and inflation took just as much money out of our purchasing power as would have resulted had we added 5 percent to that sales tax.

I understand that in Texas inflation had the same effect, as though they had increased their sales tax by perhaps 9 percent, because apparently there are fewer items and services to which their tax applies than is the situation in Wyoming.

If we do not do this, if we do not make the hard decision here today, then more than 200 million Americans will have to live with our dereliction tomorrow. They will have to pay out more dollars to purchase the same amount of things because we have not faced up to this situation.

I hope Congress and the Committee on Appropriations will follow through, as this amendment will give them the opportunity to do, to assign priorities, to decide what things are most important, to minister to our urgent needs first, so as to best serve America.

Let us not make any mistake about this matter. If this is not done this Nation will suffer. We will have an even more serious fiscal situation than we had a few weeks ago when we removed the gold cover.

In order to see what can happen to America, all we have to do is look at England and see what happened to that country. That is the choice we are going to be confronted with as quickly as this amendment is called for a vote.

I am going to support the amendment, because, as distasteful as increased taxes are, and as unpopular as cuts in spending are, even more distasteful and damaging are the erosionary effects that follow inflation. I want to keep this country strong and make viable the commitments we have made throughout the world. They all depend on the stability of the dollar and the stability of the dollar is dependent upon this issue that is before the Senate this afternoon.

Mr. WILLIAMS of Delaware. I thank the Senator. Mr. President, I shall close with this statement.

I agree completely that this is the hour of decision as far as Congress is concerned. It has been less than 2 weeks since the Senate was acting on the question of the removal of the gold cover.

On the afternoon of the day we were voting on that issue in the Senate I received a call to attend a meeting in the office of the majority leader. The chairman of the Committee on Finance was among those persons who were to meet with the Secretary of the Treasury, Chairman Martin of the Federal Reserve Board, the minority leader, and the majority leader. Members of the Committee on Finance and the Committee on Banking and Currency, as well as several other Senators, were present at that meeting. We were told of the great danger confronting our country by the run on the American dollar then underway in Europe.

Not only did Mr. Martin make the statement to that group that the gold cover would have to be removed, but he also went further and said, "If you are not going to take additional steps beyond the removal of the gold cover you are only buying time."

He said that a tax increase was essential and that the step had to be taken, and he said that removing the gold cover and increasing the taxes was only buying more time and that there was no use taking these steps unless we were willing to take the third and hard step of reducing Government spending.

He said that the only way we could convince the European central bankers that we in this country were going to exercise proper fiscal restraint was to exercise some real fiscal restraint such as cutting back on new projects and pet programs as well as raising taxes. He said:

> Unless you are going to take all three steps you are only buying time, and you will end up with a chaotic condition and perhaps a recession.

The Senator from Louisiana [Mr. LONG] was present at that meeting. Mr. Martin mentioned specifically the Williams-Smathers bill which we have before us today. Mr. Martin was not getting into the position of passing on the legislative program, but he said in his capacity as chairman of the Federal Reserve he could not discharge his responsibility unless the administration and Congress faced up to two things that must be done and these two things were curtailing spending and raising taxes.

This should not be a partisan job, and that is the reason I joined the ranking member of the committee, the Senator from Florida, in cosponsoring this bill.

I do not think that this is a question for partisan politics. It is not a question where Republicans can sit back and point the finger at the Democratic Party and say, "This is your responsibility." It is a problem for all of us as Americans. I think we have one choice before us today and that is not what is good for you or me as a candidate or what is good for our party in the next election; I think the time has come in the Senate when each of us must ask ourselves what is good for the United States of America. Let us try to do what we think is best here this afternoon.

Mr. LONG of Louisiana. Mr. President, in view of the fact that a number of Senators have been asking when are we going to vote on the amendment, I wonder whether the Senator would be willing to limit time on the amendment.

Mr. WILLIAMS of Delaware. I was trying to get to a vote. I did have an objection to a consent agreement, but there is no objection to voting now. So far as I am personally concerned, I doubt that I shall have anything further to say. I do not know whether the Senator from Florida [Mr. SMATHERS] has any comments to make. So far as I am concerned we can proceed to vote in 15 or 20 minutes time.

Mr. SMATHERS. Mr. President, will the Senator from Delaware yield, so that I might make a brief statement and ask the Senator a question?

Mr. WILLIAMS of Delaware. I yield.

Mr. SMATHERS. First, I want to congratulate the able Senator from Delaware on his statement. I also want to congratulate him for his position throughout this debate. I certainly share his belief that this country is in dire financial and fiscal circumstances. We must do something. We cannot put it off any longer. We are face to face with what I believe could be a financial catastrophe. The time has come for Congress to act.

The parliamentary situation is, as I understand it, that the Senator from Louisiana, chairman of the committee, has offered an amendment to the pending substitute which would strike out the expenditure control parts of the original amendment. There would remain, if his amendment carries, only the basic provisions of the Tax Adjustment Act of 1968—the continuation of the excise taxes plus the 10-percent surcharge on income taxes which the administration asked for. I had printed yesterday an amendment of this nature and was ready to offer it.

I should now like to ask the Senator from Delaware this question: Does the Senator believe that, if the amendment of the Senator from Louisiana is adopted there is the remotest chance of passing the 10-percent surcharge?

Mr. WILLIAMS of Delaware. I do not believe it has even the remotest chance of getting approved without a reduction in spending. I would say this, and I am speaking first for myself: I would not support a tax increase, unless it is accompanied by a reduction in expenditures, as the Senator knows.

I know that there are any number of Senators on this side of the aisle who feel the same way. I think that now is the time for the administration to get its tax increase, but in order to get it it will have to accept some control over spending. I do not believe that the American people will support a tax increase without a bona fide reduction in spending.

Mr. SMATHERS. Generally speaking, it is the view; is it not, on the Republican side of the aisle, that you are not going to vote for a tax increase unless it is coupled with expenditure control?

Mr. WILLIAMS of Delaware. That is correct.

Mr. SMATHERS. Is that not also generally the view, as the Senator reads it, of the members of the House Ways and Means Committee and the Appropriations Committee of the House?

Mr. WILLIAMS of Delaware. That is correct. I am confident that even if the Senate voted the 10-percent tax increase alone, the House would scarcely look at

it. They, too, are insisting on cuts in spending.

Mr. SMATHERS. Is it not a further fact that when this particular 10-percent surtax was offered in the Finance Committee, it only got five votes while 12 votes were against it?

Mr. WILLIAMS of Delaware. That is correct.

Mr. SMATHERS. Is it not a fact that the distinguished chairman of the Finance Committee, who offered the amendment now pending, voted against the 10-percent tax increase?

Mr. WILLIAMS of Delaware. The chairman of the committee has said that he is against either expenditure reduction or a tax increase.

Mr. SMATHERS. He has certainly been frank and fair throughout; has he not?

Mr. WILLIAMS of Delaware. The Senator from Louisiana has been very clear as to his position.

Mr. SMATHERS. Is it not a fact that if the amendment is adopted and all the expenditure control part of the Williams-Smathers substitute is knocked out so that only the tax increase part remains, there will be very little chance to get it adopted?

Mr. WILLIAMS of Delaware. That is correct. If the Long amendment should carry, and thereby cancel the expenditure reductions, I shall ask for a withdrawal of the amendment which carries the tax increase, because I would not support it myself.

Mr. SMATHERS. Is it not a fact that if anyone desires to bring about any sort of expenditure control and a tax increase because he thinks we are in a serious fiscal situation, he had better do it now since he will more than likely have no chance whatever to do anything about it later?

Mr. WILLIAMS of Delaware. That is true. This may very well be the last chance. Let us face it. If they want to wait for the House to act first, by the time we get it, with the hearings, and so forth, it will be June or July. Does anyone believe that if Congress will not face the question of a tax increase in the latter part of March it will be any more courageous 6 weeks before the national conventions of the two respective parties? I do not believe there is a chance in the world for actions at such a later date. I think we are answering the question today as to what Congress and the administration will do. I shudder to think of what may happen if the message goes out to the world that Congress has flatly rejected the question of either cutting expenses or raising taxes. I think such a decision would be disastrous. I hope that those who would take that position—and I respect their position—will be ready to stand up and give an explanation next week or the week after when they see what happens following the opening of the gold market in London next week. Once it goes out to the world that Congress and the administration together have refused to cooperate we can have a real dollar crisis.

I regret very much that the administration has not seen fit to support the expenditure reductions being proposed here today, but I still have confidence that the Senate will make the right decision when it votes upon this question.

The Johnson administration has made it clear that it is opposed to any semblance of an expenditure reduction. All it wants to do is to raise taxes. I quote Mr. William McChesney Martin, who said that increasing taxes with no control over spending would be accomplishing nothing except the buying of a little more time before the day of reckoning.

Mr. President, I yield the floor.

Mr. SMATHERS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the amendment offered by the Senator from Louisiana [Mr. LONG] to the substitute offered by the Senator from Delaware [Mr. WILLIAMS] and the Senator from Florida [Mr. SMATHERS].

On this question the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Maryland [Mr. BREWSTER], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], the Senator from West Virginia [Mr. RANDOLPH], and the Senator from Connecticut [Mr. RIBICOFF] are necessarily absent.

I also announce that the Senator from Missouri [Mr. LONG] and the Senator from Georgia [Mr. TALMADGE] are absent on official business.

I further announce that, if present and voting, the Senator from Maryland [Mr. BREWSTER], the Senator from Connecticut [Mr. RIBICOFF], and the Senator from West Virginia [Mr. RANDOLPH] would each vote "yea."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from Ohio [Mr. LAUSCHE]. If present and voting, the Senator from Rhode Island would vote "yea," and the Senator from Ohio would vote "nay."

The result was announced—yeas 33, nays 56, as follows:

[No. 78 Leg.]

YEAS—33

Anderson	Harris	McIntyre
Bartlett	Hart	Metcalf
Bayh	Hayden	Mondale
Bible	Hill	Monroney
Burdick	Holland	Montoya
Clark	Inouye	Morse
Dodd	Jackson	Moss
Ellender	Jordan, N.C.	Muskie
Ervin	Long, La.	Williams, N.J.
Fulbright	Magnuson	Yarborough
Gruening	McGee	Young, Ohio

NAYS—56

Aiken	Fong	Nelson
Allott	Gore	Pearson
Baker	Griffin	Percy
Bennett	Hansen	Prouty
Boggs	Hartke	Proxmire
Brooke	Hatfield	Russell
Byrd, Va.	Hickenlooper	Scott
Byrd, W. Va.	Hollings	Smathers
Cannon	Hruska	Smith
Carlson	Javits	Sparkman
Case	Jordan, Idaho	Spong
Church	Kuchel	Stennis
Cooper	Mansfield	Symington
Cotton	McClellan	Thurmond
Curtis	McGovern	Tower
Dirksen	Miller	Tydings
Dominick	Morton	Williams, Del.
Eastland	Mundt	Young, N. Dak.
Fannin	Murphy	

NOT VOTING—11

Brewster	Long, Mo.	Randolph
Kennedy, Mass.	McCarthy	Ribicoff
Kennedy, N.Y.	Pastore	Talmadge
Lausche	Pell	

So the amendment of Mr. LONG of Louisiana to the substitute amendment of Mr. WILLIAMS of Delaware and Mr. SMATHERS was rejected.

Mr. WILLIAMS of Delaware. Mr. President, I move that the Senate reconsider the vote by which the amendment was rejected.

Mr. BENNETT. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. PROXMIRE. Mr. President, I send to the desk an amendment to the Williams-Smathers amendment in the nature of a substitute and ask that it be read.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. Strike out section 13, beginning on page 27, line 1, through page 35, line 2, as follows:

SEC. 13. IMPOSITION OF TAX SURCHARGE

(a) Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (c)) for the taxable year specified in the following table:

"Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) 10 percent of the adjusted tax for the taxable year, multiplied by

"(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) EXEMPTIONS AND LIMITATIONS.—

"(1) EXEMPTIONS.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(A) $290, in the case of a joint return of a husband and wife under section 6013,

"(B) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"(C) $145, in the case of any other individual (other than an estate of trust).

"(2) LIMITATIONS.—The tax imposed by subsection (a) shall not be greater than—

"(A) in the case of a joint return of a husband and wife under section 6013, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $290,

"(B) in the case of an individual who is a head of a household to whom section (1)(b) applies, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $220, and

"(C) in the case of any other individual (other than an estate or trust), an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $145.

"(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871(a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation),

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(d) AUTHORITY TO PRESCRIBE NEW OPTIONAL TAX TABLES.—The Secretary or his delegate may prescribe regulations setting forth modified optional tax tables for calendar years 1968 and 1969 computed upon the basis of composite rates incorporating the rate at which tax is imposed by this section. The composite rates so determined may be rounded to the nearest whole percentage point and the tax tables so determined may be rounded to the nearst whole dollar. If the Secretary or his delegate prescribes regulations pursuant to this subsection, then notwithstanding section 144(a), in the case of a taxpayer (whose taxable year is the calendar year) to whom a credit is allowable for 1968 or 1969 under section 37, the standard deduction may be elected for such year regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax due more than 45 days (15 days in the case of a corporation) after the enactment of this section—

"(1) in the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as a tax imposed by such section 11 or 1201(a) or subchapter L;

"(2) the term 'tax shown on the return of the individual for the preceding taxable year', as used in section 6654(d)(1), and the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if tax had been imposed by this section for such preceding taxable year at the rate applicable to the current taxable year.

"(f) WITHHOLDING ON WAGES.—In the case of wages paid after the 10th day following the date of the enactment of the Tax Adjustment Act of 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402(a) or (c)(1).

"(g) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(h) SPECIAL RULE.—For purposes of this title, except as otherwise expressly provided in this section, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.

"(i) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(h)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a)."

(b) Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", and

(3) by adding after the table in paragraph (3) the following: "In the case of taxable year beginning before the surcharge period and ending within the surcharge period and ending after the close of the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

As used in this subsection, the term 'surcharge period' means the period beginning on January 1, 1968, and ending at the close of June 30, 1969."

(c) The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax surcharge."

(d) The amendments made by this section shall apply—

(1) Insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

Mr. PROXMIRE. Mr. President, the amendment would delete the provision for the surtax or surcharge which is in the Williams-Smathers amendment. It would leave the provision for the reduction of spending but would eliminate from the bill the 10-percent surtax on personal and corporate income.

The amendment is based on the conviction that it would be a serious mistake for the Senate to act at this time to add a surtax to the pending excise tax bill. Since 1933, the principal economic purpose of the U.S. Government has been to get our economy moving. Presidents and Congresses have dedicated the Federal Government to the fullest possible employment and economic growth consistent with reasonable price stability. Indeed, in 1945, Congress enacted the Employment Act of that year, an act which committed the Government to exactly that purpose.

The certain waste, all of us recognized, was the waste of idle resources and especially idle men and women seeking work but unable to find it.

And following behind this waste was the loss from the idleness of productive resources—factories and trains and ships and trucks—rusting in sterile idleness.

This kind of waste of resources, especially human resources, can never be recovered. Once lost, it is lost forever. This Government is committed by law to do all it can to achieve economic growth and high-level employment.

But this year, Mr. President, the battle has been turned around. The pitch is to slow down, and it comes after a year in which real growth slowed down to 2½ percent last year. That 2½-percent growth is far below the 4½-percent level that we need to keep our resources fully utilized.

Last year was a poor economic year for the United States, not because our economy was rushing ahead, out of control; quite the contrary, 1967 was a poor year because we produced too little.

The Joint Economic Committee is rightly proud of its landmark study of the Soviet Russian economy. This study, made in 1959, is probably the most competent made anywhere of the economic progress of the Soviet Union.

Our Joint Economic Committee staff experts tell me that last year the Soviet economy—correcting for the propaganda

and exaggerations we can predict from the Communists—grew by 6 percent. Of course the Soviet economy is far smaller than ours. It is about half the size of the U.S. economy.

But even allowing for its smaller size, the Soviet economy in real terms grew faster—absolutely faster—than this economy of ours.

And yet in a year in which our industrial capacity is about 15 percent idle, we are told we must produce even less. We must increase the idleness even more. We must grow more slowly.

Why?

There is a single, stark, and overriding reason for the cry to shove on the brakes—inflation. Prices, including the price of money, have started to rise at an unacceptable rate.

The simple assumption is that prices are rising because the demand in the economy exceeds the capacity of the economy's resources to meet that demand. Fiscal restraint and specifically a general tax increase is called for as the right medicine to excise this surfeit of demand from the economy.

This is the heart of the surtax proposal.

ADVERSE EFFECTS OF TAX HIKE

Of course there is some merit in this view. But what troubles this Senator is that the proposed tax increase does not seem to be the swiftest or the surest way to slow down inflation. It may seriously increase unemployment. It could slow, stall, even end the 7 years of national economic growth. And in the process it might not even significantly slow the rise in prices.

Shadows of a decade ago haunt the proposal: In 1957 with unemployment at 4.4 percent and prices rising by 3.5 percent, the Government followed a restrained fiscal policy. The next year unemployment rose to nearly 7 percent and prices still rose at close to 3 percent.

How much must the economy slow down? How cruelly high must unemployment rise to stem inflation by purely fiscal measures?

TAX HIKE WILL NOT DO THE JOB

Although repeatedly challenged to do so, none of the many witnesses including all the administration experts who appeared before the Joint Economic Committee in recent years has indicated how a tax increase could promptly moderate the present inflation.

The prime element in the cost of living is food. Would this tax increase reduce the rise in the cost of food? Of course not. It will not even reduce the demand for food. Those in tax brackets that might curtail their diets because of this tax increase are exempted from the tax. Others are hardly going to cut back food purchases because of this tax increase.

Will it reduce the cost of housing? Housing is the second large item in the cost of living. Will the tax increase cut the demand for housing, for new homes? Of course not. Exactly the opposite. We are assured that a principal reason for this proposal is to ease the mortgage market so that the need for housing can become effective demand, and housing production can soar. Without this tax increase we are told housing may become depressed.

Will the tax increase slow down the rise in the price of automobiles? It may reduce the demand but the price of autos went up last year in spite of vast and increased productive capacity and productivity and in spite of inadequate demand. This Nation's mighty auto industry could increase auto production immensely without any cost pressure on facilities that would raise prices.

Will the tax hike cut the price of appliances—refrigerators, toasters, TV sets? Of course not. These are in roughly the same position as autos—capacity availability great and growing, effect of demand increases, a reduction of cost.

Will it reduce the rise in price for the fastest rising element in the cost of living—medical services? Once again, obviously not. The demand so far outpaces supply in this area for nurses, doctors, hospital facilities that no diminution in demand—certainly not one this modest—will permit demand and supply forces to come into balance in the near future.

What prices will be moderated by the tax increase? I challenge any Senator to name one. We could not find any expert who appeared before our committee who could do so.

WRONG TIME FOR THE INCREASE

But what makes this tax increase especially suspect is its timing.

Most economists concede that while the economy may be buoyant in the first half of 1968, it will be much less so in the last half. And with good reason. Forward buying for steel is a clear and significant element in the economy's current buoyancy. That highly stimulating element will work in reverse after July 1. Either there will be a steel strike that will certainly slow the economy and seriously. Or there will not be a strike and steel buying will slow to a trickle for months while the heavy inventory stocks are worked off.

There has been no economic analysis of the timing effect of the tax increase even after it goes into effect, although we know that the effect of the tax increase in reducing consumer spending is sure to be both partial and gradual. And timing is of the essence in curtailing the current inflation. The need is to stop the rise in prices now, not at some later date when all may agree the economy is receding.

Some part of the tax increase will effect not a reduction in spending but a reduction in saving, even if the taxpayers maintain their present rate of saving after taxes are increased.

Mr. President, while witnesses appearing before the Joint Economic Committee agreed without exception that the economy would slow down after July 1, most witnesses were unwilling to give specific forecasts on just how fast the economy would grow after that date.

However, Mr. James O'Leary, the excellent economist from the Edie Co., did make a specific prediction based on his competent and careful study of the economy.

Mr. O'Leary predicted that without a surtax—and I stress "without a surtax"—on the assumption that the Congress does not pass a surtax and on the further assumption that the budget remains at about the level the President requested last June—that on these assumptions the economy would slow down in the latter half of 1968 to an annual rate of growth if only 2½ percent. The action the Senate took a few moments ago would cut the budget by $10 billion for appropriations, $6 billion for expenditures.

Mr. President, a 2½-percent growth rate would be much too slow, much too stagnant for any economist I know. I do not know any economist, in or out of government, who says this economy can keep its resources occupied with a growth that small. A 2½-percent growth means increased unemployment. It means very serious business problems. And, once again, Mr. President, I stress that this is without a surtax. With a surtax, unemployment would really soar.

SURTAX AGGRAVATES UNEMPLOYMENT

Many of us are concerned about the possibility of riots and disorder in our cities next summer. Senators do not have to go to the Kerner report to discover that a principal reason for the riots in many areas was idleness and economic despair because of unemployment.

This surtax will begin to have its effect on the economy next summer at precisely the time when disorder is most threatening. It will be at this time that the surtax will begin to slow down the economy and to reduce employment. Indeed, the Chairman of the Council of Economic Advisers told me in a letter a few weeks ago that in his best judgment the surtax would reduce employment at the annual rate of 300,000 jobs a year. I think he underestimated it and that it would reduce more rapidly.

Mr. President, what kind of contribution is this to stability in our cities this summer? Do the unemployed idle need less jobs and less opportunity or more job and more opportunity? Clearly the surtax would reduce their chances of securing gainful employment. The ghetto residents are the last to be hired and the first to be fired. They are right on the margin of unemployment where they are most vulnerable to an economic slowdown.

Mr. CURTIS. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. CURTIS. Mr. President, do I correctly understand that the Senator is opposed to any kind of tax increase at this time, or is he merely opposed to the surtax?

Mr. PROXMIRE. No. I favor the excise tax that is contained in the pending bill. I favor the speedup in the collection of corporate income taxes. I voted against the Long amendment. In doing so I supported the reduction in spending.

I do not think that the spending cut—and I am sure that the Senator is expert in this matter—can be reversed rather readily. It is no trick for us to restore spending. That is the easiest thing to do. But for us to repeal a tax is about the hardest thing to do.

Mr. CURTIS. Of course, the excise tax on automobiles and telephones is not an

increase in taxes. It is a continuation of present rates.

I was fascinated and almost awed by the distinguished Senator's statement, which is a recitation of what economists say about the economy and how to make it go and how to slow it down, and so forth.

I have always believed that the purpose of taxation is to collect revenue to pay the bills of the Government. My question is this: What moral right does this generation have to charge the current cost of Government to future generations?

Mr. PROXMIRE. May I say to the Senator from Nebraska that I agree with his fundamental principle, that we should do our best to balance the budget and to reduce the deficit. We must have an economic analysis and economic assumptions to determine whether or not a tax increase will in fact increase revenues. I cannot find an economist who does not argue that the 1964 tax reduction actually increased revenues. Tax rates went down, the economy prospered, incomes went up, jobs increased, and the result was that revenues increased.

If this is true, it certainly is possible that an economic slowdown, in which jobs are lost and income drops, even with a surtax, even with a higher rate, could produce less revenue. This is not a wild notion. Fortune magazine took the same position in a recent issue, in forecasting for the future. They said it may be that by tax measures the Government cannot reduce the deficit. That is something to which thought must be given.

Mr. CURTIS. Within certain limits that is true; but, of course, we could not abolish all our taxes.

Mr. PROXMIRE. No. And the Senator is not asking that.

Mr. CURTIS. But I believe that this stands out as a fact: For more than a quarter of a century—quite a little more—we have had political leaders who have enlarged the scope of the Federal Government, have enlarged its obligations, have brought in new programs, have made more commitments to our own people and more commitments to people abroad, and have never been willing to pay for them. If the various programs that have been ushered in from the time we departed from government merely as government, up to its big operation at the present time, were so fine and wonderful for our economy, why can they not be paid for currently?

Mr. PROXMIRE. May I say to the Senator from Nebraska that I voted, as he voted, against the last amendment, which was a position of favoring a reduction in spending. I believe that was a responsible vote and a necessary vote. But at the present time, under present conditions, I believe that is about as far as we should go. Economically, a strong case can be made for exerting fiscal policy for cutting expenditures and appropriations. If we add to that a $10 billion surtax and recognize that the Federal Reserve Board has increased the rediscount rate to 5 percent, and will likely have to increase it again because of the international situation, these measures in the aggregate, taken together, will be an economic mistake. We could very well have a recession.

Mr. CURTIS. The economists have a very great and awesome burden on their shoulders, because if we legislate according to their predictions and what they want to bring about, the budget of the United States will never be balanced. It was never planned to be, because it is based upon "don't do it now." And the same economists will freely advocate increased spending.

The Senator spoke of the difficulty of repealing a tax. I agree with him. But I believe it is more difficult to stop an expenditure once it has started. If we vote for a program which takes care of a few localities, other localities will want it. We have to treat people equally, and the program is enlarged as it goes on. The stopping of an expenditure is much more difficult, I believe, than the repealing of a tax.

Mr. PROXMIRE. I agree with the Senator. That is why I take the position I take, that we should cut spending now, which we can restore easily, but we should not impose a tax which will be very hard to repeal.

I am not aware of any experts who can point out a tax that was repealed before its expiration date. Almost all taxes, as the Senator knows, go on and on. Once they are enacted, they are likely to remain in effect almost forever.

Mr. CURTIS. They do not grow as fast as the spending. Taxes should be regarded as a sort of punishment for spending, to reduce the spending.

We talk about armchair generals running the war. Well, we have armchair generals who believe in a managed economy. They want to advise pushing this lever, applying this brake, or doing this or that. So long as we follow them, we will never get the budget balanced.

But the moral question remains: Why should the youngsters who are now 10 years of age have to pay for the Government services provided in 1968? Every time we increase the national debt by $1 billion, the future generations have to pay approximately $45 million or $46 million of interest each year thereafter, until time runneth not, unless somebody rises and reduces the debt by a billion dollars.

I am looking for an economist who starts out accepting the moral premise that it is just as wrong to charge the cost of government to little children as it is to charge the grocery bill or the milk bill to the little children who are going to have to carry the burden a few years from now.

Mr. PROXMIRE. I agree with the Senator, except that, once again, I say that we do not have any real assurance that this tax increase will increase revenues. We wish we had that assurance. We must rely on our own judgment. It may be that the Senator from Nebraska assumes that if this tax increase goes into effect, revenues will increase; and many economists agree with that position. I am not so sure. I believe that it probably would increase revenues a little, very little. I believe that within a period of a year or so it would have such a seriously retarding effect—or could have—on the economy that it might reduce Federal revenues, aggravate the deficit, seriously slow down economic growth, and be a serious mistake.

Mr. CURTIS. The fact remains that it is just as easy to justify the charging of your grocery bill or your milk bill to your grandchildren as it is your Government bill, and that is what the cost of government is.

Mr. PROXMIRE. I thank the Senator.

Mr. CURTIS. I thank the Senator for yielding.

Mr. HARTKE. As I understand the Senator's proposal, it is simply that the surtax provision of this bill shall not be applicable.

Mr. PROXMIRE. The Senator is correct. And there are many arguments for that. One argument, which the Senator has not given, with which the Senator from Indiana is familiar, is that that is not the business of the U.S. Senate, under present circumstances; that while we have every right to consider it, if the Constitution is clear on anything it is that major tax legislation should originate in the Ways and Means Committee of the House of Representatives. When we act without their advice, without their consideration, I believe we are acting unwisely, even if there were not that constitutional provision.

In addition, we are acting in a way that is likely to insult the members of the Ways and Means Committee, and I would not blame them for feeling insulted.

Mr. HARTKE. In addition, much political comment is being made about this bill, and many people are having political fun with it.

It is a political potpourri, but would not accomplish anything. I am not asking anyone to share that view.

I know that the Senator from Wisconsin, who is the chairman of the Joint Economic Committee, has gone into this matter in great depth and he has had a consistent policy. I understand he is saying, with respect to the surtax that first, it is no assurance it will raise additional revenues; second, it could slow down the economy, which is not moving too fast; third, the slowdown would appear and every economist agrees that a slowdown is inevitable.

Mr. PROXMIRE. The Senator from Indiana sums it up very well.

Mr. HARTKE. I thank the Senator.

(At this point, Mr. McINTYRE assumed the chair.)

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. SMATHERS. Mr. President, first, I wish to say that I have great respect and admiration for my friend from Wisconsin, who is chairman of the Joint Economic Committee.

However, I do not think I can let stand unchallenged the view that we have no constitutional basis for proposing this amendment. I am sure the Senator recognizes that the Constitution provides that the Senate has authority to amend revenue legislation and that in fact we frequently do amend a tax bill to add a provision which has not been considered by the House of Representatives.

Mr. PROXMIRE. I think the Senator is correct. My position is that we can properly consider amendments, even significant amendments, but when you have "the" major tax legislation of 1968, or any recent year—the surtax is certainly an important one—under those circumstances, Congress should refer it to the Ways and Means Committee which originates such legislation.

Mr. SMATHERS. Does the Senator think that the Ways and Means Committee has had ample time to consider this surtax? It was presented over a year ago?

Mr. PROXMIRE. The Ways and Means Committee has had a great deal of time to consider it. There are indications that the chairman of the Ways and Means Committee may very well take another look at it.

At any rate, to put it on a bill which has a deadline—and I understand this legislation must be passed by April 1—I think is playing fast and loose with constitutional authority.

Mr. SMATHERS. Mr. President, I might state for the record that I have a letter from the Secretary of the Treasury—I shall read the letter into the RECORD later—in which he states that it is his position that if this legislation were held up in conference with the House beyond April 1, he would have the Internal Revenue Service notify everyone concerned that the excise tax would be made retroactive to April 1. We could debate this matter for 3 or 4 additional days without great harm to the Nation.

Mr. PROXMIRE. The position taken by the Secretary of the Treasury has been consistently that an expenditure would serve the same purpose as a tax increase. In my view it would serve a much quicker and better purpose. However, his view has been that a spending reduction would accomplish what he wants to accomplish.

Since the Senate acted to reject the motion of the Senator from Louisiana to delete the spending restriction—with a $10 billion reduction in appropriation and now pass on top of this a $10 billion surtax—it seems to me that we are giving the Secretary of the Treasury twice as much as he asked for. I know that later he had a different view.

Mr. SMATHERS. In all candor, I think we stated yesterday that this amendment which the Senator from Delaware and I have sponsored, and which has now been agreed to——

Mr. PROXMIRE. It has not passed yet.

Mr. SMATHERS. It has not passed yet but it looks like it is on the way. It may be a little too restrictive as far as expenditure cuts are concerned in the view of the administration. I have the impression they would prefer a little lower limitation, perhaps a $5 billion expenditure limitation rather than a $6 billion limitation.

I now have before me the letter from the Secretary of the Treasury I referred to earlier, which reads as follows:

This is in reply to your inquiry as to the administrative consequences of delay in the passage of H.R. 15414, the bill extending the expiration date for the excise taxes on automobiles and telephones beyond April 1. I do not see any adverse administrative consequences from a delay beyond April 1 in the enactment of this bill. Both the House bill and the bill as reported by the Senate Finance Committee make the extension of these taxes effective as of April 1.

The Internal Revenue Service will advise the taxpayers involved of this effective date so that they can continue their operations on the basis of the expected extension of these taxes. The Internal Revenue Service has advised me that such an announcement, made this week, will assure orderly continuance of these taxes pending the enactment of the bill.

Mr. HARTKE. Mr. President, will the Senator yield at that point? In effect, that would be a retroactive excise tax. Would that not be a retroactive excise tax?

Mr. SMATHERS. I do not think so.

Mr. HARTKE. If you are going to make taxes retroactive to a certain date, that is a retroactive tax.

Mr. SMATHERS. For all practical purposes we are continuing a tax. It is 7 percent today and it is going to be 7 percent next week. That is a continuation, as I understand it.

Mr. HARTKE. If we do not pass it by April 1, the law would lapse, the tax would drop, and then if it was increased would apply retroactively.

Mr. SMATHERS. We should try to dispose of the bill by midnight on April 1.

Mr. PERCY. Mr. President, will the Senator yield?

Mr. PROXMIRE. I am happy to yield to the Senator from Illinois, who is a member of the Joint Economics Committee and a very fine and outstanding member. The Senator has a very different view on this matter than I, but I am glad to yield to the Senator from Illinois.

Mr. PERCY. I thank the Senator from Wisconsin. For as long as I have been in the Senate, the Senator from Wisconsin has been as persistent in his insistence that the economy cannot stand a tax increase as I have been insistent that it can and must have a tax increase. It is my considered judgment that it would restore confidence in the American people, the business community, and confidence in the world banking community.

We can run our fiscal and monetary policies as sensibly as the ordinary family. We are a collection of 50 to 60 million families. We are totally and utterly irresponsible to spend as we are spending billions of dollars more than we take in.

I have heard my distinguished friend say many times that the economy cannot sustain this because there is a weakness in the economy.

As a businessman and as a Senator, I have seen evidence of strength in our economy. Employment is maintained at a high level, productivity has come up, and the gross national product has increased, as the pump priming of deficit spending has increased.

We can spend more than we take in until we reach the point when the world has lost confidence in our ability to manage our affairs. Europeans to whom I have talked say they wish we would take the advice we have been so freely giving the world since World War II. They say that we should read the opinions, lectures, and pious statements that we have made to them about irresponsible management of some of their affairs.

I think we will reassure confidence of the world in American integrity if we recognize the war in Vietnam is costing money and that we have to start to pay for the costs of the causes we enthusiastically support. I happen to think some of these causes are ill advised in many areas. But we will have to face up to the fact that we cannot dispose overnight of the war in Vietnam.

I strongly support the efforts of the distinguished Senator from Delaware and the distinguished Senator from Florida to put together a program, which, over a period of many months as the public record indicates, will at least bring together the necessary forces to reach a consensus between the administration and Congress.

If we do not at this stage raise taxes and drastically reduce expenses, we will be responsible—in my judgment—for a most irresponsible failure of action.

I firmly believe that the economy can sustain and support the tax increase. It will strengthen the confidence of the people in Congress that it can respond to need. I can see my mail turning from almost 100 percent, as it has been for the whole period of time I have been supporting a tax increase, to where gradually, now, ordinary citizens are becoming worried about the dollar gap and about the reduced confidence in the dollar around the world, when they read about travelers checks being discounted abroad and the run on our gold supply continuing, as it has in recent weeks and months. I think that we are at the time when we must face up to what we must do. I support with enthusiasm the coupled package program of reducing expenses. I had opposed the $8 billion, but I would settle for something less, I do support a 10-percent surtax increase.

Everything I know about the business community tells me that this will reassure the business community, and that we are doing the right thing. If the economy cannot stand a small, modest tax increase, which will only go a small way toward paying our expenses, then it is not the great, growing, American economy that I have lived in all my life.

Mr. PROXMIRE. Let me say to the Senator from Illinois that it is obvious why he has been such a marvelous salesman and has been such a great success in business, because he has this briming optimism and is so articulate and persuasive in selling his viewpoint.

However, I should like to say to the Senator from Illinois that I have not found the economy is necessarily so weak that it cannot stand a tax increase. I say that this is something we must look at and consider. It is one possibility. I am going to develop another possibility as to why, if the economy is strong enough, a tax increase would be a mistake. Two, I think that we must recognize that productivity is not up. It is down. It is down drastically and dramatically. Productivity fell last year from 3 percent down to only a 1½-percent annual rate or increase at the end of last year and in the first months of this year. That is some-

thing we have to recognize. We also have to recognize that our American plant capacity is not going to thrive, that we do not have our plants operating anywhere near 90 percent of capacity. It is operating at less than 85 percent.

As a matter of fact, American productive capacity is now operating below the level of 1964 when we reduced taxes in order to stimulate the economy. And it has dropped fairly steadily over the last year.

If we take a look at the economy as a whole, we should recognize that if we do cut spending, and I hope that that part of the measure in the Williams-Smathers amendment will be preserved. If we do that, then we will have gone a long way toward fiscal responsibility. If, in addition to that, we impose a surtax, we may well have gone too far.

I have not found many American citizens saying they want their taxes increased. They do want us to cut Federal spending. Democrats as well as Republicans, the worker and the business executive, they cannot understand why we cannot cut spending sufficiently so that we do not load additional taxes on their backs at a time when they are paying more local and State taxes, more social security taxes, and more taxes of other kinds.

I thank the Senator from Illinois for his comments.

As I say, we have to consider the possibility that this surtax may throw people out of work, and the Chairman of the Council of Economic Advisers estimates enactment of the surtax would bring a reduction in jobs of 300,000 in a year. A reduction that would be likely to hit the minority group ghetto dwellers especially.

However, we do not necessarily have to accept that position. We may feel that the tax increase would, as the Senator from Illinois argues, have no important economic effect at all.

TAX INCREASE WILL NOT SLOW CONSUMER SPENDING

For what is likely on the basis of experience, the taxpayer will be likely to maintain his spending and simply save a little less. If, for example, the taxpayer should revert from the 7.1 percent of income saved last year, part way back to the 5.9 percent of income he saved in earlier years, the tax increase certainly would not weaken the economy, slow down, or diminish it. At the same time, it would have no effect on consumer demand at all. It would in that event not retard inflation. We cannot have it both ways, either the surtax will slow down the economy and reduce jobs. In that event it will have a retarding effect on demand and reduce inflation and benefit our balance of trade. Or, it is not going to slow down the economy, and in that event the economy will continue to expand and we will have revenue flowing in, but then the surtax is not going to reduce inflationary pressures.

We cannot argue that the surtax will not weaken or slow the economy, unless we assume it will not reduce the level of demand, for it can only reduce demand by diminishing income and spending and jobs.

If the Senator from Illinois is right and the surtax does not slow the economy then it cannot and will not retard inflation.

At any rate, it is likely to be a matter of months and perhaps years, if ever, before taxpayers reduce their spending to accommodate the tax increase.

In the course of hearings before the Joint Economic Committee, Dr. Charles Schultze, the former Director of the Bureau of the Budget and an expert economist, and Norman Ture, the tax specialist for the National Bureau of Economic Research, were specifically asked how long it would take before the enactment of the surtax would begin to retard the rise in prices.

Both agreed that it would be many months. Dr. Schultze estimated that it might be as soon as 9 months to a year before the surtax increase began to slow down the price rise. Mr. Ture doubted whether the surtax would have any retarding effect at all but if it came, he said it would require at least a year and a half.

Here is a prime reason among many why a reduction in Federal spending will be so much surer and more effective than an increase in taxes. That is what the Senate has done. What is equally important is that spending can be restored promptly when the economy falters. Federal spending can be cut back with the enthusiastic cooperation of the Congress if the President leads the way. What is equally important from my progrowth bias is that spending can be restored promptly when the economy falters.

Is this true of the proposed tax increase? As we just brought out in colloquy with the Senator from Nebraska, some argue that the tax can be promptly repealed if the economy does not need it. But can it? How many taxes have been repealed? I cannot recall any.

Why would this tax be an exception? It is not hard to list the taxes that have been continued on after their expiration and through recessions. In fact it is hard to recall a tax that expired on its first expiration date.

If by July 1, 1969, the economy is suffering 5 percent unemployment and 5 percent inflation, will Congress permit the tax to die? You may think it should; but will it? I do not think so.

WHERE IS THE BOOM COMING FROM?

Meanwhile, where is the stimulation for the economy coming from? I cannot find a word about this in the President's report or in that of the Council of Economic Advisers, or in the thousands of words of testimony before our Joint Economic Committee.

The big stimulation in the present long expansion of the economy, after its initial recovery, came from three sources—that is, the expansion since 1961: First, the massive tax cuts of 1964 and 1965; second, the extraordinary escalation in Vietnam from early 1965 to 1967 that increased jobs directly and indirectly by 3 million; and third, the remarkable and unparalleled increase in the accelerator, that is, business investment in plant and equipment that took place in the 3 years 1964 through 1966 inclusive.

None of these, not one of them, will be working to stimulate the economy this year unless we suffer a military catastrophe that persuades Congress and the President to escalate the war in Vietnam by 100,000 more troops, or 200,000—something of that dimension.

NO INFLATION DETERRENT WITHOUT UNEMPLOYMENT HIKE

Consider what this proposed tax increase must do to accomplish the kind of incisive stemming of inflation that the President has claimed for it. To do this it would have to increase unemployment substantially. And in this cost-push or wage-cost-push atmosphere that unemployment increase would have to be big and sharp to retard wage increases. And if it does succeed—and I doubt very much that it will—it could reduce revenues, not increase them. Just as the 1964 tax reduction increased revenues, it certainly is possible to appreciate that the 1968 tax increase that we consider here could reduce revenues instead of increase them, and in that event actual increase the deficit.

After all, I have yet to meet an economist who did not claim that the 1964 tax cut surely increased revenues, although it decreased tax rates. Why is it not possible conversely for this tax increase to reduce revenues? In such a case of course the tax increase would not reduce the deficit at all. It would increase the deficit.

WILL NOT RAISE $10 BILLION

Now I do not think this tax increase will accomplish anything of the kind, at least not for quite some time. It will not reduce revenue and it will not increase the deficit. But it will certainly not, indeed it cannot if it slows the economy at all—and this is its object—if it slows the economy at all it cannot raise the $10 billion the report claims the surtax will raise.

Most likely it will raise some, a little, perhaps $3 or $4 billion. It will slow growth some and it will have some effect, sometime down the line, not this year, but perhaps in late 1969 or 1970 in slowing inflation—a very little. And, of course, by that time, the effect of the tax increase may be seriously perverse. It may be retarding growth and promoting unemployment.

FEDERAL SPENDING CUT OPTION

Mr. President, while I vigorously oppose the surtax increase for the many reasons I have enumerated, I agree wholeheartedly that we can and should reduce Federal spending—which, of course, we have just acted to do—and I intend to support any and every effort to reduce Federal spending sharply.

I have many times indicated where I think spending should be cut. I will take just a minute today to say again that I think we can reduce the space program by a billion dollars and more. Public works can and should be cut by $5 or $6 billion at least. Four of our six divisions should be withdrawn from Europe at a saving of $2 billion. The supersonic transport should be postponed.

WAGE-PRICE GUIDELINES NEEDED

And, meanwhile, it is time for us to take a hard, clear look at the real cause

of this inflation that occurs so sharply when so much of our resources are idle. This cost-push inflation can be met with a program that recognizes that with productivity up 1½ percent and wage settlements running over 6 percent, we need far more than a Cabinet committee which will look into the causes of inflation but will not, in the President's words, "become involved in specific current wage or price matters."

This prescription for nothing is compounded by the flat refusal of the administration to come up with a specific guideline figure: 4.5, 5, 5.5 percent—something. Because of the overriding importance of this issue, the Joint Economic Committee undertook a 1-day hearing at which a panel of experts testified. There was universal—unanimous—agreement, no exceptions, that if we are going to adopt a policy of keeping prices as low as possible consistent with high employment, we must have a figure, a number, as a wage-price guideline. General invocations are useless, and that is all the economic report provides.

SURTAX WOULD AGGRAVATE GOLD OUTFLOW

Mr. President, one of the most remarkable economic arguments I have heard in the more than 10 years I have been in the Congress has been the administration's contention that we need the surtax to improve our balance of payments and stop the gold outflow.

The distinguished Senator from Illinois a minute ago raised the same point, that it would help our balance of payments and stop the gold outflow. I think the administration and the Senator from Illinois are completely wrong in that contention. I am happy to say that the Wall Street Journal, in an editorial last Friday, agreed with me, as did the National Observer.

The fact is that the surtax would weaken our balance of payments position. It would aggravate the gold outflow.

Consider that on February 6, 1964, the then Secretary of the Treasury Douglas Dillon told the House Ways and Means Committee that the tax reduction recommended that year by President Johnson would help our balance of payments.

He said it would do so by making American investment more attractive relative to European investment, and help stop the flow of American capital and U.S. gold abroad.

And Dillon was right. The tax cut helped our balance of payments. In the 2 years following the 1964 tax reduction, America's balance of payments did improve.

The tax cut directly reduced the burden of taxes on American corporate profits. Increased profits attracted investment, and helped stem the outflow of dollars.

But the administration's proposed 1968 tax increase—the Smathers-Williams tax increase—would do exactly the reverse.

It would immediately cut the profits of American corporations by a highly significant 10 percent. This would surely discourage investment in American corporations. And it would just as surely increase the flow of dollars and gold abroad.

In all the arguments on the effect of the surtax on the economy, a lot of the conclusions are debatable and subject to interpretation and judgment, but one thing we know for sure: A tax increase would reduce the attractiveness of American investments, and gold and dollars would flow out. The surtax would have an adverse effect on our balance of payments.

And yet the Treasury is trying to have it both ways. The 1964 tax cut was justified in part on the ground that it would help solve America's adverse balance of payments.

The 1968 tax increase is incredibly justified on the same grounds. The Treasury can logically argue that the 1964 tax cut helped our balance of payments and reduced our gold outflow. In fact, it did.

It did this by reducing the taxes on American corporations and enhancing their attraction for foreign and domestic capital.

But it cannot then logically pivot around and argue that a 1968 increase in taxes which reduces the profitability of American corporations will bring dollars and gold back to this country. Obviously the surtax will hurt—not help—our dollar and gold position.

The contention that the tax increase will slow down the economy and stem inflation is not relevant to the 1968 gold stampede.

It will take more than a year for the tax increase to have any favorable effect on inflation. Past experience shows that the surtax, in reducing taxpayers' incomes, will not reduce their spending significantly for some time, and prices also respond slowly to the fall in demand.

Furthermore, the surtax is unlikely to increase our trade balance for two reasons:

First, the tax is a cost which will tend to increase the price of our exports and reduce their competitiveness.

Second, few, if any, of the major commodities sold abroad by the United States are likely to fall in price as a result of reduced domestic demand.

Finally, in the one area of our entire balance-of-payments picture where a surtax might make a minor positive contribution by reducing imports, a reduction in Federal spending would accomplish the same result more swiftly and incisively.

There may be other arguments for a tax increase at this time, but the balance of payments and gold crisis is clearly not one of them. It works in the opposite direction.

INSULT TO CONSTITUTIONAL AUTHORITY OF HOUSE

Mr. President, there are sound, substantive reasons for the Congress not adding a surtax to the bill. But certainly the major reason for us not to add the surtax at this time lies in the special responsibilities of the House Ways and Means Committee and the Senate Finance Committee.

If there ever was an issue on which the Congress needs a thorough and comprehensive record and a carefully considered committee report, it is on this tremendously complicated and far-reaching surtax proposal.

While the Ways and Means Committee has held hearings on the surtax, it is well known that it has not come to a conclusion on this matter and the Finance Committee has not had a chance to organize comprehensive and thorough hearings on this major congressional action.

Certainly we should be very careful in the Senate to respect the constitutional right of the House to initiate tax legislation.

It may be proper for this body to recommend moderate or even significant changes in tax legislation, but certainly it is a contradiction of the clear mandate of the Constitution for this body to originate the major tax legislation of 1968.

Such action is not only an affront to the Ways and Means Committee, it is unsound because it means that we are acting without having the kind of expert and thoughtful advice that we need from the Ways and Means Committee, the debates on the floor of the House of Representatives, the hearings and committee report of the Finance Committee and the conclusions that must be derived in this process.

Therefore, it would seem clear that even those who might eventually support a surtax would be wise, under present circumstances, to vote against tacking a surtax on to this excise tax bill in such flagrant and obvious violation of the traditional and constitutional authority of the Ways and Means Committee and of the House of Representatives.

UNANIMOUS-CONSENT AGREEMENT

Mr. SMATHERS. Mr. President, I understand some Senators have appointments they would like to keep. I wonder if we can arrive at a time limitation. The Senator from Wisconsin has indicated he would like 5 minutes. The Senator from Delaware [Mr. WILLIAMS] would like 5 minutes. I would like to take a generous 5 minutes.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that further debate on the amendment be limited to 20 minutes, 10 minutes to Senators in opposition and 10 minutes to Senators in favor.

Mr. SMATHERS. I would like to amend that request to provide that we have 15 minutes in opposition.

Mr. PROXMIRE. In view of the fact that I have already spoken at some length, I am willing to——

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the time limitation be 10 minutes for the proponents and 15 minutes for the opponents.

Mr. COTTON. Mr. President, reserving the right to object, the Senator from Wisconsin has taken ample time. As a matter of fact, I would like to secure from some Senator 3 minutes.

Mr. PROXMIRE. Mr. President, can we have a half hour, equally divided, 15 minutes to a side?

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered——

Mr. DIRKSEN. Mr. President, I suggest a 20-minute time limitation, 10 minutes on a side.

Mr. SMATHERS. Ten minutes a side?

Mr. MANSFIELD. Mr. President, with the guarantee that the Senator from New Hampshire will get 3 minutes.

The PRESIDING OFFICER. Is there objection to the unanimous-consent request? The Chair hears none, and the order is entered.

The PRESIDING OFFICER. Who yields time?

Mr. SMATHERS. Mr. President, I rise in opposition to the amendment of the distinguished Senator from Wisconsin. I shall hurry through some of the arguments.

I completely agree with the statement that was made by the distinguished junior Senator from Illinois [Mr. PERCY]. We are going to have this year, a $22 billion deficit. We are going to have next year, it appears, a $28 billion deficit. If we approve the tax increase proposed in this amendment, it will bring into the Treasury an additional $10 billion in the fiscal year 1969. We will then have a deficit that will be manageable.

Every witness that we have had before the Committee on Finance, every responsible banker that I know, and every responsible economist that I know, all say that we must reduce the size of our deficit, to manageable proportions.

Why do they say that? Because if we have a $28 billion deficit, the Government will have to go into the money market and take out of private hands $28 billion. There would not be enough money for the private community. Interest rates would go up. They would rise to 6½ percent, then to 7 percent, and they could conceivably rise to 8½ or 9 percent.

When the interest rates go up, the building industry suffers and local communities suffer, because home buyers and local taxpayers cannot actually afford to pay such high interest.

Now, let us talk about the balance of payments for a moment. We know we are in very serious trouble with regard to our international balance of payments. We know we have been running a deficit for a long period of time. We used to have about $26 billion worth of gold; today we have only $10.6 billion worth of gold left. We pledged that we would give gold to anybody who paid $35 an ounce; meanwhile, we have been making commitments broad, financing foreign aid programs, and keeping troops in Europe to such an extent that so many dollars have accumulated in foreign hands that confidence in our dollar has been weakened. The international bankers say, "The American Government has not increased taxes since Korea. Every tax bill has reduced the taxes of the American people."

Those bankers say, "Look, we want to help the American people, but we already have millions of dollars and cannot continue to accept more dollars. At some point we will have to ask for gold or other currencies." Believe me, Mr. President, if Congress does not do something soon, those international bankers are going to refuse to hold all those dollars any longer. They will fear an erosion in the value of those dollars. They are going to start turning them in and demanding gold. So we have to do something. This 10-percent surtax is a symbol.

I have here an article from the Economist, of London, one of the most respected economic magazines published, from which I wish to read just a paragraph:

With all this, there is arising a belief that the emotion and the political dissension of the time have not drained the country, or the Congress, of all sense of responsibility.

Let us hope not.

It is possible, of course, that Mr. Martin and Mr. Fowler, the central bankers who were in Washington last weekend, American and European officials, businessmen, economists and bankers are wrong and that a tax increase would be a mistake. It is possible that the sun will turn blue.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. WILLIAMS of Delaware. I yield the Senator 1 more minute.

Mr. SMATHERS. I ask unanimous consent, Mr. President, to have printed in the RECORD the article entitled "Disarray on Taxes," published in the London Economist of March 23, 1968.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Economist, Mar. 23, 1968]

DISARRAY ON TAXES

WASHINGTON, D.C.—"It's not my figure," said the inscrutable Mr. Wilbur Mills. Thus did the slow-spoken lawyer from Arkansas, who, as chairman of the Ways and Means Committee of the House of Representatives, has become a major figure in the world of international finance, react on Monday to the significant concession by President Johnson last weekend in the continuing struggle over an increase in American taxes. With seven central bank chiefs trying to save the international monetary system, the President had let it be known that he was willing to have his latest request to Congress for appropriations, painfully worked out and submitted only six weeks earlier, reduced by $8 billion–$9 billion, with a resulting reduction in actual government spending in the new fiscal year, beginning on July 1st, of $3 billion–$4 billion, on the January estimate of $186 billion. But, said Mr. Mills, "it's not my figure," clearly implying that his pound of flesh would weigh far more than $9 billion. The deadlock continued, while with one voice Europeans said that the world system and the dollar itself had been given a respite by the weekend agreements of the central bankers, but that only action by the Americans on taxes could truly restore confidence.

It was not only the Europeans. In his rising despair over the attitude of Congress, Mr. Martin, the chairman of America's central bank, the Federal Reserve Board, called the agreement on a two-price system for gold "only a gimmick" and said that there was more urgency than ever about action in the United States to reduce the Budget deficit, with the indirect reductions in the deficit on the balance of international payments which would result from this. The Secretary of the Treasury, Mr. Fowler, was for once silent but his views—and his despair—are well known. Senator Bennett, a thoroughly responsible senior Republican from Utah, said that a tax increase had become "inevitable." The Republican members of Congress' Joint Economic Committee unanimously said that they would support a tax increase if expenditures were cut first (some Americans remember the days when, if the government reduced spending, it was able to cut taxes, but that was before budgetary deficits were running in the $20 billion range). Senator Williams of Delaware, another Republican conservative, said that, in his opinion, the mood of the Senate was now in favour of a package of spending reductions, and tax increases and it undoubtedly is. And yet to Mr. Mills, "it's not my figure."

Let not all the blame rest on Mr. Mills. Take the interesting case of the moderate, reasonable Democrat from Pittsburgh, Representative Moorhead. Like so many of his kind, in and out of Congress, he has gradually but now decisively swung to the view that the war in Vietnam is a terrible mistake. And thus, in a semi-dissenting view to the report of the Joint Economic Committee, he said that the case for a tax increase had been made but he would refuse to vote for it if a single additional soldier were sent to Vietnam. In effect, said Mr. Moorhead, let inflation rage, the deficit on the balance of payments continue, the world monetary system collapse: but never will I vote a penny additional for that war. Or take Representative Reuss, the brilliant, though sometimes erratic, Democrat from Milwaukee, who almost certainly knows more about international finance than any other member of Congress. Mr. Reuss is willing to concede that a tax increase is necessary, but he persists in the view that it must be done by rectifying injustices in the tax system, through closing "loopholes" in the present law. He would clearly fiddle for a year over loopholes while confidence in the dollar drains away.

Senator Proxmire of Wisconsin, the urbane chairman of the Joint Economic Committee, has reacted to the gold crisis with the bizarre idea that a tax increase would hurt, not help, the balance of payments because it would reduce corporate profitability. The line of reasoning is ingenious, going back to the tax reductions of 1964: that it is factually wrong does not seem to matter. Representative Curtis of St. Louis, with a most impressive aura of Republican respectability and responsibility, shows that he is not responsible at all by insisting that expenditures can be cut almost overnight by $15 billion and he will refuse to vote for higher taxes if they are not. And so it goes on.

The problem in Congress is the problem of the disarray in the country. There is very wide agreement that the deficit in the Budget is far too great and that it must be reduced for both domestic and international reasons. But the horror of the war, the agony of the cities and the emerging turmoil of this year's elections have made any kind of consensus on what to do about the deficit very difficult. The Republicans and many Democrats would slash spending, but it is doubtful that a majority in Congress could be mustered for any politically sensitive reductions of major size—whether in programmes to help the urban jobless or the farmer or whatever. And thus the President, whose unpopularity rises daily, must resort once again to a meat-axe approach: that is, an instruction to each agency of government to cut all expenditures where the outlays are not fixed by law (such as ex-servicemen's benefits or grants to the states for welfare payments) by 10 or 12 or 15 per cent. This is what his concession to Mr. Mills means, though the exact formula is still not known.

Few members of Congress are aware of how disorderly such a process is—to draw up a Budget, presumably setting detailed priorities through a minute examination of hundreds of programmes over a period of six months, and then, in desperation, simply to order an across-the-board reduction. The supreme irony is that, although the President is now ready to do this for the second

time in six months, to mollify Mr. Mills, he cannot get across the point to Congress that he is engaging in "austerity." While he was preparing his concession, the Senate added several hundred million dollars to an appropriation Bill, mainly aimed at the problem of the cities and the prospect of further riots. As a footnote, though it attracted little publicity, Vice President Humphrey, who has stood by the President loyally, cast the tie-breaking vote as president of the Senate to carry one of the money increases that the Administration officially opposed.

The problem is not only the disarray but also the fact that President Johnson is simply not believed. Otherwise reasonable men are convinced that somehow he will pour billions of dollars into the right places just to win next November's election. Some have come simply to detest him and to oppose him for that reason and for others. Senators Kennedy and McCarthy, who have suddenly electrified the political situation, have not been notable for their ringing commitments to a tax increase to save the dollar and the world monetary system.

With all this, there is arising a belief that the emotion and the political dissension of the time have not drained the country, or the Congress, of all sense of responsibility. It is possible, of course, that Mr. Martin and Mr. Fowler, the central bankers who were in Washington last weekend, American and European officials, businessmen, economists and bankers are wrong and that a tax increase would be a mistake. It is possible that the sun will turn blue. But on the assumption that they are right—and on the almost certain fact that a good majority of members of Congress know that they are right—a tax increase may yet pass. The prince of Arkansas is not, in the last analysis, an irresponsible man and he is a patriot: more important, he is entirely aware that if the dollar slides down hill, he will bear a major part of the blame for not doing his part in reducing the mammoth budgetary deficit. Last weekend the central bankers in a remarkable gesture of co-operation, gave the dollar one last chance. If the troubled men of Congress do not grasp it, there may be some excuse for them, but there will also be more excuse for gloating a bit when, on their foreign junkets, they cannot cash their travellers' cheques, as Americans in some places abroad found they could not do at the height of the gold crisis last week.

Mr. SMATHERS. I wish to take just 30 seconds to say this: Mr. President, we in Congress have reduced taxes, since 1962, by $25 billion. It seems to me, in the light of our situation in Vietnam, in the light of the situation we face here at home, and in the light of the situation we have with the international balance of payments that the least we can do—and I believe the American people would encourage us—is to ask them to give back just one-third of that money which we have returned to them since 1962.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. FULBRIGHT. Mr. President——

Mr. WILLIAMS of Delaware. Mr. President, I ask for the yeas and nays on the pending amendment.

The yeas and nays were ordered.

Mr. FULBRIGHT. Mr. President, are we under limitation of time?

Mr. WILLIAMS of Delaware. Mr. President, I yield the Senator from Arkansas 1 minute of my time.

Mr. FULBRIGHT. I did not realize we were under a limitation of time. When was this agreed to?

The PRESIDING OFFICER. By unanimous-consent agreement, about 6 minutes ago.

Mr. FULBRIGHT. There was not any quorum call prior to that request, was there? I had no idea.

I may say, if we are going to limit the time, I wanted to ask the distinguished Senator from Florida a question or two.

I ask him, What does he think is the main reason why we are in such difficulty? Does he think, by any chance, that it is because we are at war in Vietnam?

Mr. SMATHERS. I say to the distinguished chairman of the Committee on Foreign Relations what I said yesterday on that subject. Everybody agrees, and everybody has to agree, that the Vietnam war is the major cause of the difficulty we find ourselves in today.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. SMATHERS. But I want to say to the Senator from Arkansas, I do not care who is elected President in November, it will not affect the situation we find ourselves in today.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. SMATHERS. Nothing can be done about this fiscal problem now and next January. I sincerely believe the people at home want to support our boys in Vietnam who are fighting and dying for the cause of freedom.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. SMATHERS. They do not want to run up the surrender flag and have another Dunkirk. No one that I know of wants that to happen.

Mr. PROXMIRE. I yield the Senator from Arkansas 1 additional minute.

Mr. FULBRIGHT. Mr. President, with all that long-winded answer, I did not hear the one simple answer to my question, which is that if the war is the one major reason why the tax is necessary, if we vote this tax, we are voting a war tax because this is the way to carry on the war. If we are going to carry it on, on a greatly increased scale—which we may or may not do, because the administration is unwilling to confide in Congress as to whether or not they are going to send 200,000 more men—but if we are, 10 percent is not enough, it ought to be 20 percent, and we ought to have price and wage controls, and we ought to go in and ask for a complete war program.

As the Senator well knows, if the President is going to send 50,000, 100,000, or 200,000 men, there will be an enormous increase in this deficit.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. SMATHERS. I agree with the Senator.

The PRESIDING OFFICER. Who yields time?

Mr. PROXMIRE. Mr. President, I yield 3 minutes to the Senator from New Hampshire.

Mr. COTTON. Mr. President, I have little doubt in my mind but that we shall be compelled, in due course, to vote this tax increase. But, Mr. President, this matter of doing it headlong, and attaching it to this bill without careful deliberation, is to my mind entirely unjustified.

We are told that time is of the essence; that unless we do this thing this afternoon, all the European nations are going to look at us and lose faith in our capacity to take care of our economy. We are told also that we have coupled in this amendment a provision for economy and for reduction in expenditures.

My years here have taught me one or two things. One is that what we are doing in levying this tax is done here and now, that it takes effect shortly, and that all of these anticipated economies are just about like New Year's resolutions. It is something in the nature of a pious hope.

I also suspect, and I think every other Senator suspects, that the chairman of the Ways and Means Committee of the House of Representatives has been bargaining with the administration for concessions and for economies before the tax is enacted. However, we rush in. We have something that they want, and I am an old Yankee trader enough to know that when there is something they want, we should get something for it.

The Senate almost unanimously has urged the President to use his influence and the force of our country to get the United Nations to involve itself in the situation with which we are confronted abroad. We were ignored.

Senator after Senator has said, "Bring home the 350,000 troops and the 250,000 dependents from Europe." That would be a source of economy. The President could decide to do that this afternoon. Nothing has been done.

We have had no concessions, but we are told that we have to have a tax increase this minute.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. PROXMIRE. Mr. President, I yield 1 additional minute to the Senator from New Hampshire.

The PRESIDING OFFICER. The Senator from New Hampshire is recognized for 1 minute.

Mr. COTTON. Mr. President, every time we have been asked to increase the debt limit, they have waited until it is a must, and then they have come in and stampeded us and said that time is of the essence.

Let the Ways and Means Committee of the House send over the tax increase after it has been considered. Then let us vote on it, because the world is not going to come to an end if we do not act today. As a matter of fact, precipitous action will not speed anything up. The House committee will take its time and give it due consideration. Moreover all of the world is not going to decide that we are responsible or irresponsible because of a vote cast this afternoon on an amendment which has never even been reported out of a committee. In the face of that lack of thorough consideration, we are asked to place this tax burden on the American people.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. Mr. President, I am glad that the Senate took the position it did a few minutes ago

when it wrote into the bill provisions for mandatory reductions in our expenditures.

This, to me, is a tremendous point. I think it is equally important to supplement that with a tax increase. As I said earlier, I do not think a tax increase by itself will do the job. Nor do I think that a reduction in expenditures alone would do it. I think it takes a combination of the two.

I hope that the amendment of the Senator from Wisconsin is rejected and that we can thereby retain the tax proposal in the pending measure.

Mr. PROXMIRE. Mr. President, I yield myself 4 minutes.

The PRESIDING OFFICER. The Senator from Wisconsin is recognized for 4 minutes.

Mr. PROXMIRE. Mr. President, the heart of the argument against the pending amendment is that if we pass the surtax it will reduce the size of our deficit. But that depends on what happens to the economy.

I submit on the basis of having an economy that is operating today at 85 percent of its capacity, an economy which in many respects is not operating fully, and which almost every economist says is going to slow down after July 1 even if the tax does not take effect, it seems to me that it would be a serious economic blunder for us to enact this tax measure now, especially since we have already decided that we would cut appropriations by $10 billion and reduce expenditures by $6 billion and especially in view of the fact that the Federal Reserve Board has just adopted restrictive monetary policies.

Let us not kid ourselves. This may not be a permanent tax increase, but it may be very close to a permanent tax increase. It may last for not a year, but for several years. This has been the history of tax legislation that has been enacted. It takes a long time to repeal such legislation.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. LONG of Louisiana. Mr. President, I am going to vote for the Senator's amendment and against the 10-percent tax increase for a number of reasons. One of them is that if we must have a big tax increase, I personally do not think this is the way to do it.

It would seem to me that if we want to raise the same amount of revenue, and assuming that we want to raise it through the income tax, it would be far simpler to adjust the tax rates rather than have a person compute his tax and then add 10 percent.

Mr. PROXMIRE. That is precisely the point. That is the point that emerges from what the Senator from New Hampshire had to say. We have not had a committee report. We have not had an opportunity to hear the recommendations of the Ways and Means Committee. We have not had a chance to hear the Finance Committee recommendations as to what would be the best way to enact this measure. We are acting impulsively and shooting through the proposal before us without getting the competent, expert advice that we should have on permanent tax legislation.

The chairman of the Committee on Finance is exactly right.

Mr. LONG of Louisiana. Mr. President, will the Senator yield further?

Mr. PROXMIRE. I yield.

Mr. LONG of Louisiana. Mr. President, in view of the fact that a majority of the committee voted against this surtax, to approve it now would amount to the Senate voting for a $9.5 billion tax on the American people after about one hour of consideration.

Mr. PROXMIRE. I agree wholeheartedly with the distinguished Senator from Louisiana. Furthermore, it has been indicated by some opponents of the pending amendment that the people want a surtax. If the people want a surtax, I do not know who those people are. I do not know whom they are talking about. I have talked to people in my State, and they overwhelmingly do not want it. Throughout the country people are opposed to it by about 5 to 1 according to the Gallup Poll. What the people want is to reduce the spending. We have done that in the pending bill.

If we pass a bill to provide a limitation on spending, it seems to me that we will have done what the people of the country feel is necessary and desirable.

I reiterate what the Senator from New Hampshire said so well, that we should not insult the Ways and Means Committee of the House. Under the Constitution, they have the authority and they should have the authority for originating revenue legislation.

This is major tax legislation for 1968. If that constitutional authority is to mean anything, we should give them an opportunity to act. As the Senator from Louisiana said so well, then under those circumstance we should have a chance to have the recommendations of the Ways and Means Committee and of the Finance Committee, and we could have a report before us and act with full knowledge and not on impulse.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. PROXMIRE. I yield.

Mr. CLARK. Mr. President, how does the Senator view the argument of the Treasury Department and our fiscal and monetary experts, Martin and the rest of them, from the point of view of the current crisis in our monetary affairs that it is essential that we vote for the surtax to restore confidence in the dollar?

The PRESIDING OFFICER. All time has expired.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Senator be permitted to continue for an additional 2 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. PROXMIRE. Mr. President, first, we can restore confidence in the dollar just as easily by what we have done, reducing spending. We have done that. We have cut the appropriations by $10 billion. Furthermore, with respect to the tax increase, increasing the burden on American corporations and reducing profitability would mean that dollars in this country and in Europe would not flow away from American investments. This surtax represents a clear and decisive reduction in their profits. Dollars will flow out.

The argument for the tax cut in 1964, by then Secretary Dillon was that the tax cut, not increase. The cut of 1964 would help our balance of payments. Dillon was proven to be correct. The balance of payments improved in 1965 and 1966. Investment in American corporations increased.

However, we would be worsening our balance of payments now and worsening the gold crisis if we were to pass the surtax.

Mr. BYRD of West Virginia. Mr. President, there is no question but that the times call for fiscal prudence, and for the exercise of the greatest care and responsibility by the Congress and the executive branch in all matters affecting taxation and expenditures by the Federal Government.

It has been pointed out many times that there is a division of opinion, not only in the Congress, but also in the financial community, concerning the necessity for, or the desirability of, the enactment of the 10-percent surcharge on incomes that has been proposed by the administration. Responsible support can be cited for the proposal; responsible opposition can be cited against it. If there is a trend in either direction, it would seem to me to be in the direction of those favoring the surtax.

I have tried to weigh the arguments advanced on both sides carefully. I am aware that the proponents can muster an imposing array of facts and figures pointing to serious inflation, if the surtax is not enacted. Strong arguments are mounted, contrarily, to the effect that a tax increase could trigger a business recession.

In all candor, I may say that I have not yet fully made up my own mind as to the absolute necessity today of the surcharge that is proposed.

But of one thing I am sure, Mr. President, and that is that I am constrained to vote against a surtax on individual income taxes without a selective reduction in unnecessary expenditures by the Federal Government. This, I believe, is both a reasonable and a realistic position.

Now I am not simply giving lipservice to a reduction in expenditures, Mr. President, for it is my belief that the executive branch has the most solemn obligation, in view of our commitments abroad and the irreducible nature of many of the items in the budget, to take a long, hard look at all nonessential programs, with the objective of bringing about substantial reductions in them.

To be specific, it is my opinion that this Nation, in the circumstances in which we find ourselves, can no longer justify the bulk of the expenditures being made in the name of foreign aid. Looking back over the years that this program has been in force, the United States has poured a hundred billion dollars into foreign countries in the form of grants and soft loans.

I would be the first to concede the necessity and the effectiveness of the first foreign aid programs after World War II,

carried on under the Marshall plan. But, Mr. President, the world has changed radically since those years, and the time has come, I believe, to reevaluate our foreign aid efforts in the most pragmatic terms.

We need look no further than the U.S. effort to stem the tide of Communist aggression in Vietnam, to see the extent to which we have been left almost alone by nations we have assisted in the past and who should now be assisting us. We must be realistic in these programs. Only the money that can really mean something to us in terms of our own national interest should be appropriated in the future. We should refuse to further subsidize those who would take our money and turn their backs upon us when the chips are down, as they are down now in Vietnam.

We should also cut back sharply on our space program and our efforts to put a man on the moon. We have gone ahead with this program in the belief that our world prestige somehow depended upon it; yet, many do not believe that there is even such a thing as a "race" with the Soviet Union for lunar honors, and all realistic observers must know that America's prestige—and much more importantly, her vitality and viability as a nation—must be grounded in more fundamental things than space exploration. This is not to say that we should permanently and completely stop all space exploration, but how foolish we would be to persist now in these enormous outlays for a moon shot at the risk of jeopardizing our Nation's fiscal stability and its economic soundness.

And, Mr. President, we should cut back on certain phases of the poverty program and some of our other socioeconomic experiments, for many of these like the Job Corps, have proved wasteful and others have not even reached the poor for whom they were ostensibly designed.

Repeatedly it has been shown that many of those persons who most need help are not geting it through the programs that are presently being funded. All too often, instead, these very programs have been used to generate unrest in some areas of the Nation. A good example is the VISTA program, much of which has created a great deal of unrest in some parts of West Virginia and other States.

In some areas of the country, and here in Washington specifically, the community action programs have been poorly administered, wasteful, and costly, and have fallen into the hands of elements seeking to stir up trouble and foment rebellion. The purposes for which these antipoverty programs were originally established have not been fulfilled, the poor have seldom been helped, and the money has been too often misapplied. People who do not need help have been the ones who have largely benefited, and a great deal of ill will has been engendered toward the programs and, for that matter, toward this administration.

I also believe that selective reductions could wisely be made in our gigantic military budget without impairing the national security. For example, we are presently maintaining six divisions and their dependents in Europe at an annual cost of roughly $800 million. European countries today are experiencing unprecedented levels of prosperity. I say let them apply more of their national budgets toward their own defense and thus afford the United States a little respite from the expensive burden it has borne in providing protection for Western Europe for over two decades. Our Government could move three or four of these divisions out of Europe and thus effect a considerable savings

Therefore, what is needed here, Mr President, is a pragmatic reappraisal of all nonessential programs and a selective reevaluation

It would make little sense to enact a surtax on individual incomes without also making selective cuts in spending.

If the administration would move to reduce expenditures along the lines I have suggested, or if such cuts are made by the Congress, I would then consider supporting a surtax. The $6 billion reduction in fiscal year 1969 expenditures, provided for by the substitute which is before the Senate does not go to the spending areas I have specifically mentioned and therefore, does not justify my support of the 10 percent surtax on incomes which is also included in the substitute.

Hence I shall support the Proxmire amendment, which would eliminate the surtax proposal.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Wisconsin. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. MURPHY (after having voted in the affirmative). On this vote I have a pair with the Senator from Rhode Island [Mr. PASTORE]. If he were present, he would vote "nay." If I were permitted to vote, I would vote "yea." I therefore withdraw my vote.

The assistant legislative clerk resumed and concluded the call of the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Maryland [Mr. BREWSTER], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Minnesota [Mr. MONDALE], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from West Virginia [Mr. RANDOLPH], and the Senator from Connecticut [Mr. RIBICOFF] are necessarily absent.

I also announce that the Senator from Missouri [Mr. LONG] and the Senator from Georgia [Mr. TALMADGE] are absent on official business.

I further announce that, if present and voting, the Senator from West Virginia [Mr. RANDOLPH] and the Senator from Connecticut [Mr. RIBICOFF] would each vote "nay."

On this vote, the Senator from Maryland [Mr. BREWSTER] is paired with the Senator from Ohio [Mr. LAUSCHE]. If present and voting, the Senator from Maryland would vote "yea," and the Senator from Ohio would vote "nay."

The result was announced—yeas 35, nays 52, as follows:

[No. 79 Leg.]

YEAS—35

Bartlett	Ervin	Long, La.
Bayh	Fannin	Magnuson
Bible	Fong	McGovern
Burdick	Fulbright	Monroney
Byrd, Va.	Gruening	Morse
Byrd, W. Va.	Hart	Mundt
Cannon	Hartke	Nelson
Church	Hatfield	Proxmire
Clark	Hayden	Williams, N.J.
Cotton	Hill	Young, N. Dak.
Dominick	Hollings	Young, Ohio
Ellender	Jordan, N.C.	

NAYS—52

Aiken	Hickenlooper	Pearson
Allott	Holland	Percy
Anderson	Hruska	Prouty
Baker	Inouye	Russell
Bennett	Jackson	Scott
Boggs	Javits	Smathers
Brooke	Jordan, Idaho	Smith
Carlson	Kuchel	Sparkman
Case	Mansfield	Spong
Cooper	McClellan	Stennis
Curtis	McGee	Symington
Dirksen	McIntyre	Thurmond
Dodd	Metcalf	Tower
Eastland	Miller	Tydings
Gore	Montoya	Williams, Del.
Griffin	Morton	Yarborough
Hansen	Moss	
Harris	Muskie	

PRESENT AND GIVING A LIVE PAIR, AS PREVIOUSLY RECORDED—1

Murphy, for.

NOT VOTING—12

Brewster	Long, Mo.	Pell
Kennedy, Mass.	McCarthy	Randolph
Kennedy, N.Y.	Mondale	Ribicoff
Lausche	Pastore	Talmadge

So Mr. PROXMIRE's amendment was rejected.

Mr. WILLIAMS of Delaware. Mr. President, I move to reconsider the vote by which the amendment was rejected.

Mr. BENNETT. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. MOSS. Mr. President, if we are to consider ourselves a responsible body, we can no longer delay in acting on the President's request for a temporary income surtax. It is already half past 12.

Last November, in the closing days of the first session of the 90th Congress, I took this floor to ask my colleagues to defer adjournment until we completed a full debate on the need for, and obligation of, a surtax. I felt confident that any sustained discussion of this important public policy issue would lead to the conclusion that Congress should act, and act immediately. We did not debate, of course, and we still have not acted.

At that time, many of the opponents of a surtax doubted that the consequences of its rejection would be serious. They discounted the warnings which came not only from President Johnson, but from an impressive number of business leaders, bankers, and economists outside the Government that the economic consequences of failure to adopt the surtax could be very serious, and could be ignored only at great peril to the economic health of the Nation.

In my speech, I summarized the consequences of our failure to act and predicted four inevitables if we did not do so:

First, a return to strong inflationary pressures.

Second, spiraling interest rates and a return to tight money.

Third, a worsening of our balance of payments.

Fourth, distortions in our economy which would endanger the Nation's economy.

It is now almost 5 months later. How well have these predictions been borne out?

INFLATION

I do not think anyone can deny that our dollar is worth less than it was last November, and that every citizen of this country has felt the added pinch. During the last 12 months the Consumer Price Index rose nearly 3½ percent. The February Consumer Price Index will be released this week—nobody expects a downturn.

In the first half of last year food prices were about constant and the temporary sluggishness of the economy limited the rate of price increase in other areas. However, the pace of economic activity is now much faster and food prices have begun to rise again.

Therefore, without a tax increase, consumer prices, including food, threaten to rise even more rapidly than the 3½ percent of last year.

INTEREST RATES AND MONEY SUPPLY

Key interest rates are already at or beyond the peaks they reached at the time of the monetary crunch of 1966, and then the Federal budget was much smaller.

At the time the President sent his 1969 budget requests to Congress he estimated that without the surtax the budget deficit would be about $18 billion—that with a 10-percent surtax the deficit could be cut to about $8 billion. The Congress will make every effort to reduce the deficit below this point, but we do not know what increased financial demands may be made upon us before the year is out.

Large-scale Federal deficit financing in overstrained financial markets tends to divert credit flows and jack up interest rates—the smaller our deficit, the weaker the pressures for high interest.

Also, the Federal Reserve monetary policy seems sure to be less expansionary this year than last year because of the international situation.

All of this adds up to a difficult situation in which Federal restraint is badly needed to reduce Federal borrowing requirements and to lessen the threat of a credit crisis like that of 1966.

WORSENING OF OUR BALANCE OF PAYMENTS

As my third inevitable of failure to enact the surtax, I forecast, and I quote:

> Our trade balance would become less favorable, and the confidence of the world's financial community in the dollar could only be impaired.

Between the second and fourth quarters of 1967, imports rose at an annual rate of over 16 percent while exports gradually declined by 6 percent. By the fourth quarter, our balance-of-payments surplus on goods and services had declined to a seasonally adjusted annual rate of only $3 billion. Overall payments deficit rose to $3.6 billion for the year.

A tightened balance-of-payments program had to be presented at the first of this year.

And more recently, special measures were needed to stem the tide of private speculation in gold markets.

Mr. President, all four of the inevitables forecast in November have happened and are happening. Some of them have almost a nightmarish quality. If the surtax was fully called for last fall—and I hold it was—its enactment is even more urgent in the light of recent events and developments.

I stress again that I do not enjoy paying more taxes, and I am sure no one else does either. But I see no alternative.

Cut spending to reduce the deficit, say those who oppose the surtax. The Congress made huge cuts in the budget for the fiscal year 1968 as the various appropriation bills moved through Congress, and then we required an additional 10-percent across-the-board cut in expenditures and a 2-percent cut in personnel in all programs not directly connected with the war in Vietnam. So we did cut spending this year and I am confident that the Congress will make equally substantial cuts in the budget for the fiscal year 1969, but much has already been cut, and we may be cutting truly essential services if we chop too deeply.

And while we struggle to cut Federal expenditures, Vietnam continues to pose clear and steady pressures upon our financial resources, and our mounting domestic problems cry out for solutions.

I do not see how we can delay any longer in enacting a meaningful surtax. For most of our citizens, the surtax would cost less than the inflation which is now eating into their paychecks and their savings. Its enactment would help restore confidence in the American dollar, and in America's ability to manage its financial affairs.

I support that part of the amendment by the Senator from Delaware which would add to the bill a surtax on income of individuals and corporations.

AMENDMENT NO. 668

Mr. HOLLINGS. Mr. President, I call up my amendment to the Williams substitute and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. The Senator from South Carolina [Mr. HOLLINGS] proposes an amendment, at the appropriate place in the bill to insert the following:

The total quantity of textile articles (whether made of natural or manmade fibers, or any combination or blends thereof, but not including natural fiber in its unprocessed states such as raw cotton, raw wool, raw silk, or raw jute and not including any articles now entitled or hereafter made entitled to entry free of duty), including manmade staple fiber, filaments, and filament yarn, wool tops, and spun yarn, fabric, apparel, household furnishings, and other finished textile articles of natural or manmade fibers or combinations or blends thereof, which may be entered, or withdrawn from warehouse, for consumption during any calendar year shall not exceed the average annual quantity of such articles entered, or withdrawn from warehouse, for consumption during the six calendar years 1961–1966: *Provided*, That commencing with the calendar year beginning January 1, 1969, the total quantity of textile articles which may be entered or withdrawn from warehouse, for consumption for each ensuing calendar year shall be increased or decreased by an amount proportionate to the increase or decrease (if more than 5 per centum) in the total United States consumption of such textile articles during the preceding calendar year in comparison with the average annual consumption for the six-year period 1961–1966 as determined by the Secretary of Commerce: *Provided further*, That the portion of any increase in the quantity of any such textile article which may be entered, or withdrawn from warehouse, for consumption during any quarter of the calendar year shall not exceed the proportionate per centum share which the total quantity of imports of textile articles accounted for during the like period of the calendar year ended December 31, 1966. The quantities of any textile article which may be entered, or withdrawn from warehouse, for consumption during the balance of the calendar year in which this Act becomes effective shall be equal to that proportionate per centum share of the average annual imports of such article for the years 1961–1966 which the number of days remaining in the calendar year bears to the full year. The Secretary of Commerce shall determine and allocate the allowable quantities of textile articles which may be entered, or withdrawn from warehouse, for consumption among supplying countries by category of product on the basis of the shares such countries supplied by category of product to the United States market during a representative period, except that due account may be given to special factors which have affected or may affect the trade in any category of such articles. The Secretary of Commerce shall certify such allocations to the Secretary of the Treasury. Notwithstanding the foregoing, in the case of textile articles originating in any country which has entered, or hereafter enters, into an agreement with the United States governing the amount of textile articles which may be imported into the United States from such country, the President by proclamation may increase, decrease, or otherwise limit the quantity of textile articles from such country which may be entered, or withdrawn from warehouse, for consumption in conformance with such agreement. All determination by the President and the Secretary of Commerce under this section shall be final. This section shall become effective one hundred and eighty days after enactment of this Act.

Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. HOLLINGS. I yield.

UNANIMOUS-CONSENT REQUEST

Mr. MANSFIELD. Mr. President, I ask unanimous consent that there be a time limitation of 1 hour on the pending amendment, the time to be equally divided between the distinguished Senator from South Carolina [Mr. HOLLINGS], who proposed the amendment, and the distinguished Senator from Louisiana [Mr. LONG], or whoever he may designate.

Mr. JAVITS. Mr. President, reserving the right to object, and I do not intend any disrespect to the Senator from South Carolina, it is my intention at the appropriate point to move to table the amendment.

Mr. LONG of Louisiana. The Senator may do that anyway.

Mr. JAVITS. But I would not have any time on this basis.

Mr. LONG of Louisiana. I would be glad to yield to the Senator any part of the one-half hour assigned to me.

Mr. MANSFIELD. Suppose the time goes to the Senator from New York and the Senator from Louisiana.

Mr. JAVITS. That is satisfactory.

Mr. LONG of Louisiana. It is all right with me to designate the Senator from New York in charge of the opposition to the amendment.

The PRESIDING OFFICER (Mr. TYDINGS). The Chair, speaking as a Senator from Maryland, objects.

Mr. MANSFIELD. Mr. President, for the information of the Senate, there will be no further votes tonight. Senators may guide themselves accordingly.

UNANIMOUS-CONSENT AGREEMENT

Mr. MANSFIELD. Mr. President, I ask unanimous consent that at the conclusion of morning business tomorrow, there be a time limitation on the pending amendment, the time to be equally divided between the distinguished Senator from South Carolina [Mr. HOLLINGS] and the distinguished Senator from Illinois [Mr. PERCY], or whomever he may so designate.

Mr. JAVITS. Mr. President, I certainly shall not object, but I wish to say for the RECORD that the reason the majority leader had made the proposal was that tomorrow is the one day in 6 years that I shall be nominated. I wish to express my gratitude to the Senator from Illinois [Mr. PERCY] for taking up the torch which, momentarily, I must lay down, and carry on with this amendment.

Mr. MANSFIELD. There was a misunderstanding here. I can understand the action which took place at that time. Had I been in the Senator's shoes, I would have done the same thing.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Montana? The Chair hears none, and it is so ordered.

The unanimous-consent agreement was subsequently reduced to writing, as follows:

UNANIMOUS-CONSENT AGREEMENT

Ordered, That, effective on Wednesday, March 27, 1968, at the conclusion of the routine morning business, during the further consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, debate on the amendment by the Senator from South Carolina [Mr. HOLLINGS], numbered 668, be limited to 1 hour to be equally divided and controlled by the Senator from South Carolina [Mr. HOLLINGS], and the Senator from Illinois [Mr. PERCY].

ORDER FOR ADJOURNMENT UNTIL TOMORROW AT 11 A.M.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that when the Senate completes its business tonight, it stand in adjournment until tomorrow morning at 11 o'clock.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. HOLLINGS. Mr. President, while everyone is listening attentively to this very important piece of legislation, let me say that it is substantially S. 1796 which was introduced in May of last year, which had been referred to the Finance Committee, on which they had hearings in October, and which has been somewhat revised in the form of an amendment to the Chinese gooseberry bill, amendment No. 282, after consultation with 68 of the original cosponsors where we took heed of the various ideas and alterations suggested by the various cosponsors.

I hasten to add that this was a matter worked on over the years by the distinguished Senator from Rhode Island [Mr. PASTORE] who could not be present at this particular time. It culminates—and I think it is good to emphasize, at this particular point, what it is not—a particular measure not in controversion of the doctrine of free trade. It culminates the particular measure which former Senator John F. Kennedy years ago studied and worked out and took a position on in August of 1960, while still a Member of the Senate; and later, as President, promulgated by Executive order in his seven-point program on May 2, 1961. It is not a piece of legislation in opposition or in violation of the General Agreement on Tariffs and Trade. It is not in violation of the Trade Expansion Act of 1962. It is not in violation of the Kennedy round, nor is it in violation of the spirit of the Kennedy round promulgating quotas on textile articles by way of agreement.

The fact is, I know that we are going to hear later on, since this has been extended until tomorrow, that this measure has not had hearings, that this is an improper time to bring it up on this particular piece of legislation, and various other objections.

Mr. President, this has been the most heard piece of legislation to come before the Senate during this session. During the 1950's, there were hearings by the Tariff Commission, by a Cabinet committee and a sub-Cabinet committee, under the administration of President Kennedy. Since that time, there have been hearings, even before and since that time, by the Pastore subcommittee of the Commerce Committee on Textiles; and more recently by the Senate Finance Committee. And again, at the end of the year and at the beginning of the year by the Tariff Commission, at the direction of the President.

Everyone has been heard. Everyone has tried to bring about an agreement in the field of woolens and manmade fibers somewhat similar to what we have been able to obtain under the leadership of President Kennedy and Vice President Johnson in the area of cotton textiles. During the period 1950 to 1960, we tried the administrative route. We are going to hear the argument that, somehow, we should employ administrative procedure and exhaust those remedies first.

I want it made clear in the RECORD that not only did this particular Senator, at that time, appear as a witness before the Tariff Commission, but I also attended many other hearings before administrative bodies, all to no avail.

By the end of 1960, the textile industry had lost 400,000 jobs in the preceding 10-year period. As a consequence, in the summer of 1960, I consulted with then Senator John F. Kennedy. He wrote me a letter, in response to my letter, on August 30 of 1960. I shall ask unanimous consent to have that letter printed in the RECORD in its entirety in order to save time, but I will quote excerpts from it.

He wrote me:

> There seems to have been a basic unwillingness to meet the problem and deal constructively with it.

He also stated:

> It is no longer possible to depend upon makeshift policies and piecemeal remedies to solve the problems which the industry faces.

And:

> A comprehensive industry-wide remedy is necessary.

Finally, he stated:

> Because of the broad ramifications of any action and because of the necessity of approaching a solution in terms of total needs of the textile industry, this is a responsibility which only the President can adequately discharge.

Thus, President Kennedy forthrightly took the problem in hand. The very first measure, perhaps, in February of 1961, was the appointment of a five-member Cabinet committee consisting of the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Secretary of the Treasury, and the Secretary of State—actually the Under Secretary of State for Economic Affairs, the Honorable George Ball, who served on that five-member Cabinet committee.

In addition to the Cabinet committee there was a five-member subcommittee that called witnesses, conducted hearings, and incorporated it with the Pastore hearings of this particular body as part of the executive hearings upon which executive action was to be based.

Mr. COTTON. Will the Senator from South Carolina yield?

Mr. HOLLINGS. I yield.

Mr. COTTON. In view of the fact that there is a limitation of time tomorrow, and he is compelled to leave the floor shortly, the Senator from New Hampshire is very grateful to the Senator from South Carolina for yielding to him to make this one comment.

I wish to commend the distinguished Senator from South Carolina for the amendment he is offering. As he knows, many years ago, because of a resolution of which I was the author, a special committee on textiles was made a part of the Commerce Committee. The chairman of that committee was, and is, the distin-

guished Senator from Rhode Island [Mr. PASTORE]. The other members are the distinguished colleagues of the distinguished Senator from South Carolina [Mr. THURMOND] and the Senator from New Hampshire.

We have gone up and down the hill these many years, fighting to try to save the remnants of the textile industry in this country and the jobs it furnishes.

Recent developments in the Kennedy round have given some consideration to cotton textiles, but no help to woolen textiles.

The situation has grown worse and worse. We have lost more and more plants and jobs. As a matter of fact, it is certainly affecting the balance of payments.

I think the distinguished Senator from South Carolina has been outlining the history of this matter with great clarity. He is to be highly commended for offering the amendment at this time to the pending bill. I certainly shall do all I can to encourage Senators to support his amendment. I commend him and hope his amendment will be adopted.

Mr. HOLLINGS. Mr. President, I cannot be too high in my praise and recognition of the leadership given this particular problem by the distinguished Senator from New Hampshire. At the time I served as Governor of my State we sought some authoritative source or reference point to really corral the information and define exactly what the problem comprised and what should be done about it. Of course, we went directly to the Pastore hearings, which the Senator from New Hampshire had initiated in the original instance in his position as a senior member of the Commerce Committee.

It was only with his guidance, and the guidance of other Senators like Senator PASTORE, that we have come this far and been prepared to present a measure which I think should receive the approval of the majority of this particular body.

Mr. President, I ask unanimous consent at this particular point to include in the RECORD my letter to then Senator John F. Kennedy and his reply.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

AUGUST 26, 1960.

Senator JOHN F. KENNEDY,
Senate Office Building,
Washington, D.C.

DEAR SENATOR KENNEDY: I am writing to you to invite your views and solicit your interest and cooperation with respect to a problem that is of critical importance to the economy of my region and, indeed, to the entire United States. The United States textile industry, in all its branches, has been confronted with a series of economic problems that threaten its vitality and growth. Not the least of these problems is the impact of competition from imports on this industry.

I know of your long time concern over the problems of this industry, for your own state has suffered from the same conditions that affect South Carolina. I need not, therefore, detail to you what has happened to employment, production and sales in industry, what the role of excessive imports has been in this situation and of the threat of foreign productions capacity that overhangs the domestic textile market and acts as a depressant. These factors have prevented the textile industry from realizing the growth and potential that it legitimately deserves as an efficient and progressive industry supplying the basic wants of the American economy.

Nor need I detail to you the vital role that the textile industry has played in the economic development of the South and the mighty contribution it has made to economic growth and the improvement of standards of living in our region.

The problems of the textile industry are becoming more severe with the passage of time. Despite this clear fact the Republican Administration has resisted, at every turn, taking constructive action that would ameliorate the conditions that have resulted and are growing worse. They have shown little interest and no imagination.

This is a matter of continuing concern for the nation as a whole, as well as for the textile industry and the South.

I would welcome your advice and observations on these matters and I hope that you will have an opportunity to discuss with me and with the leaders of the textile industry the development of sound and constructive solutions to our problems.

Sincerely,

ERNEST F. HOLLINGS.

U.S. SENATE,
Washington, D.C., August 30, 1968.

Hon. ERNEST HOLLINGS,
Governor of the State of South Carolina,
State Capitol Building, Columbia, S.C.

DEAR GOVERNOR HOLLINGS: I would, of course, be delighted to discuss with you and with textile industry leaders the problems of the textile industry and the development of constructive methods for showing the growth and prosperity of the industry in the future. The critical import situation that confronts the textile industry which you so eloquently describe in your letter is one with which I am familiar. My own State of Massachusetts has suffered and is suffering from the same conditions. The past few years have been particularly difficult for this industry. There seems to have been a basic unwillingness to meet the problems and deal constructively with it. During the first six months of this year imports of cotton cloth are twice what they were during the same period in 1959, the highest year on record. Similarly alarming increases are occurring on other textile and apparel products. Since 1958 imports have exceeded exports by constantly increasing margins. There are now 400,000 less jobs in the industry than there were 10 years ago. It is no longer possible to depend upon makeshift policies and piecemeal remedies to solve the problems which the industry faces.

As you know, I supported the establishment of the Special Senate Sub-committee for the Textile Industry, under the chairmanship of Senator Pastore, of which Senator Strom Thurmond is a member. In an effort to help develop suggestions to improve the competitive position of the industry in the United States and world markets, this Subcommittee for the first time undertook a broad investigation of the problems of the United States textile industry and offered a number of constructive recommendations. With only minor exceptions, the Eisenhower Administration has failed to implement these recommendations.

I agree with the conclusions of the Pastore Committee that sweeping changes in our foreign trade policies are not necessary. Nevertheless, we must recognize that the textile and apparel industries are of international scope and are peculiarly susceptible to competitive pressure from imports. Clearly the problems of the industry will not disappear by neglect nor can we wait for large scale unemployment and shutdown of the industry to inspire us to action. A comprehensive industry-wide remedy is necessary.

The outline of such a remedy can be found in the Report of the Pastore Committee. Imports of textile products, including apparel, should be within limits which will not endanger our own existing textile capacity and employment, and which will permit growth of the industry in reasonable relationship to the expansion of our over-all economy.

We are pledged in the Democratic Platform to combat sub-standard wages abroad through the development of international fair labor standards. Effort along this line is of special importance to the United States textile industry.

The office of the Presidency carries with it the authority and influence to explore and work out solutions within the framework of our foreign trade policies for the problems peculiar to our textile and apparel industry. Because of the broad ramifications of any action and because of the necessity of approaching a solution in terms of total needs of the textile industry, this is a responsibility which only the President can adequately discharge. I can assure you that the next Democratic Administration will regard this as a high priority objective.

Additionally, we shall make vigorous use of the procedures provided by Congress such as Section 22 of the Agricultural Adjustment Act and the Escape Clause in accordance with the intention of Congress in enacting these laws.

Lastly, I assure you that should further authority be necessary to enable the President to carry out these objectives, I shall request such authorizations from the Congress.

I hope that these thoughts are helpful to you in your own deliberations and I reaffirm my interest in discussing problems of mutual concern with you.

With all good wishes, I am,

Sincerely yours,

JOHN F. KENNEDY.

Mr. HOLLINGS. Mr. President, I also ask unanimous consent to include at this particular point in the RECORD the May 2, 1961, seven-point Kennedy textile program.

There being no objection, the program was ordered to be printed in the RECORD, as follows:

The President today announced a program of assistance to the United States textile industry, designed to meet a wide range of the problems it faces as a result of rapid technological change, shifts in consumer preference, and increasing international competition. The program was developed by the Cabinet Committee, headed by Secretary of Commerce Luther H. Hodges, which was formed by the President on February 16, 1961.

In announcing the program, the President said:

"The problems of the textile industry are serious and deeprooted. They have been the subject of investigation at least as far back as 1935, when a Cabinet committee was appointed by President Roosevelt to investigate the conditions in this industry. Most recently these problems were the subject of a special study by the Interdepartmental Committee headed by Secretary of Commerce Luther H. Hodges. I believe it is time for action.

"It is our second largest employer. Some 2 million workers are directly affected by conditions in the industry. There are another 2 million persons employed in furnishing requirements of the industry at its present level of production. Two years ago, the Office of Defense Mobilization testified that it was one of the industries essential to our National security. It is of vital importance in peacetime and it has a direct effect upon our total economy. All the studies have shown that unemployment in textile mills strikes hardest at those communities suffering most from depressed conditions.

"I propose to initiate the following measures:

"*First,* I have directed the Department of Commerce to launch an expanded program of research, covering new products, processes and markets. This should be done in cooperation with both union and management groups.

"*Second,* I have asked the Treasury Department to review existing depreciation allowances on textile machinery. Revision of these allowances, together with adoption of the investment incentive credit proposals contained in my message to the Congress of April 20, 1961, should assist in the modernization of the industry.

"*Third,* I have directed the Small Business Association to assist the cotton textile industry to obtain the necessary financing for modernization of its equipment.

"*Fourth,* I have directed the Department of Agriculture to explore and make recommendations to eliminate or offset the cost to United States mills of the adverse differential in raw cotton costs between domestic and foreign textile producers.

"*Fifth,* I will shortly send to the Congress a proposal to permit industries seriously injured or threatened with serious injury as a result of increased imports to be eligible for assistance from the Federal Government.

"*Sixth,* I have directed the Department of State to arrange for calling an early conference of the principal textile exporting and importing countries. This conference will seek an international understanding which will provide a basis for trade that will avoid undue disruption of established industries.

"*Seventh,* In addition to this program, an application by the textile industry for action under existing statutes, such as the escape clause or the national security provisions of the Trade Agreements Extension Act, will be carefully considered on its merits.

"I believe this program will assist our textile industry to meet its basic problems, while at the same time recognizing the national interest in expansion of world trade and the successful development of less developed nations. It takes into account the dispersion of the industry, the range of its products, and its highly competitive character. It is my hope that these measures will strengthen the industry and expand consumption of its products without disrupting international trade and without disruption of the markets of any country."

Mr. HOLLINGS. Mr. President, on May 2, 1961, the then President Kennedy used the following expression—and it must be remembered at this particular time that he was referring to the textile industry as a comprehensive industry and as an all-fiber industry, and not just one, cotton, but one which also included all woolens and manmade fibers. Particularly he was pointing out at that time the idea of having exhausted all remedies and tried every course. So we are not acting hastily, for in President Kennedy's program, after he had outlined the problem, he said, "I believe it is time for action."

Mr. President, here, almost 7 years later, after President Kennedy had found it was "time for action," we still have not acted on woolen and manmade fibers. I quote from that particular document:

Two years ago, the Office of Defense Mobilization testified that it was one of the industries essential to our National security. It is of vital importance in peacetime and it has a direct effect upon our total economy.

Mr. ERVIN. Mr. President, will the Senator yield for a question?

Mr. HOLLINGS. I yield.

Mr. ERVIN. I would like to ask the distinguished Senator from South Carolina if we could not reasonably anticipate, in case this amendment is adopted that it would have a very salutary effect in reducing the deficit in our balance of payments?

Mr. HOLLINGS. I would respond to the Senator's very appropriate question to the effect that in manmade fibers alone we have come to witness, from the year 1964 through 1966, a 2-year period, our position decline from a $235 million surplus position in the exportation income of manmade fibers to a near deficit position. So I think the $200 million imbalance in manmade fibers alone constitutes, as the Senator from North Carolina points out in the question itself, the fact that here alone, if we acted in this particular matter, it would correct the balance of payments and the gold outflow by better than $200 million.

I may mention that the distinguished Senator from North Carolina [Mr. ERVIN] has worked on this problem from the very beginning. Some of his fine suggestions went into the actual content of the amendment. He has kept his file up to date. We have worked almost hand in glove in trying, not to seek from the Congress and the Government any special favor, but a realization of what was found by President Kennedy in his own Executive order of May 1961 that this industry is one essential to our national security, and which was testified to by the Office of Defense Mobilization, now the Office of Emergency Planning, as second only to steel in its importance to our national security.

Some persons will come along now and say, "Well, of course, but that was President Kennedy's program." Of course, President Johnson is instrumental in and very interested in the program. In 1964, he reiterated his support in a Presidential statement of September 28, 1964.

I ask unanimous consent to include the entire statement President Johnson made at that particular time in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT ON TEXTILES, SEPTEMBER 28, 1964, BY THE PRESIDENT OF THE UNITED STATES

I know the significant role that textiles have played in the economic life of New England, and I know of the difficulties this industry has encountered during the past few years. Fortunately, New England could have no better spokesmen in Washington than Senators Muskie and Pastore. (They have) been untiring in bringing home to all of us the very real problem faced by New England textiles. I can assure you that there is no major official in this Administration who has not been made fully aware of the hardships created every time a mill is shut down or forced to operate on part time. We have worked hard at this problem and we will continue to do so.

President Kennedy, as a son of New England, knew these problems well. In May 1961, as you recall, he instituted a seven-point program for the textile industry. Under that program Government-sponsored research for the industry has been launched. We have provided accelerated tax amortization for the textile industry even ahead of similar benefits for other industries. This year I signed legislation that is greatly helping our cotton mills by permitting them to buy cotton at world prices for the first time since 1956.

Among our textile problems has, of course, been the increase of imports. This Administration has worked out a solution for the import problems of the cotton textile industry. It developed a long-term cotton textile arrangement. Under the administration of this arrangement, cotton textile imports have been stabilized—and we intend to continue keeping imports from disrupting the market.

All of these measures have contributed to restoring the prosperity of the textile industry which, as a whole, can look forward to greater prosperity in the future.

I say with a geat deal of pride that this Administration has done more for the textile industry than any Administration in history—and our efforts have not been confined merely to cotton textiles. We have stemmed the tide of foreign wool fabrics coming through the Virgin Islands by Administrative action. This alone reduced imports 10 million square yards a year. We have closed tariff loopholes which permitted some woolen textiles to enter after paying only half the duty they should pay. The Senate Finance Committee has just approved legislation which would close another loophole affecting tariffs on certain types of wool products. We strongly support this legislation.

But the wool textile industry continues to be faced with problems, particularly in New England. In the past ten years imports have soared from less than 5% to 20% of American consumption, with particular concentration in worsteds.

The Administration has made and will continue to make vigorous efforts to solve this problem. I share with our late beloved President Kennedy the view that wool textile and apparel imports must be kept at reasonable levels. We have been trying to work out effective arrangements with other wool textile producing countries. Two missions have been sent abroad for this purpose in recent months. Thus far, a multination meeting has not been convened. But we intend to continue our efforts vigorously. I can assure you that we shall work hard at this problem. I consider it essential that the wool textile industry be restored to good health.

Mr. HOLLINGS. I shall quote only a couple of statements from it:

We intend to continue keeping imports from disrupting the market.

This was in September 1964. I quote again:

In the past ten years imports have soared from less than 5 percent to 20 percent of American consumption, with particular concentration in worsteds.

The Administration has made and will continue to make vigorous efforts to solve this problem. I share with our late beloved President Kennedy the view that wool textile and apparel imports must be kept at reasonable levels. We have been trying to work out effective arrangements with other world textile producing countries. Two missions have been sent abroad for this purpose in recent months. Thus far, a multi-nation meeting has not been convened. But we intend to continue our efforts vigorously. I can assure you that we shall work hard at this problem. I consider it essential that the wool textile industry be restored to good health.

That was 3½ years, almost 4 years, ago, and still nothing has been done.

Even later in that year, October 1964, in Macon, Ga., President Johnson had this to say:

I am convinced that our program for textiles is in the best interests of all Americans. I intend to pursue it to a successful conclusion.

Now, Mr. President, at the particular time when we got the seven-point program, we immediately had meetings with respect to cotton, and we were able to institute an agreement, joined in by some 32 nations, a short-term arrangement in the field of cotton for 1 year, and then a long-term arrangement for a period of 5 years, which, at the adjournment of the Kennedy round, at the end of June last year, 1967, was extended for 3 additional years. But nothing has been done on woolens and manmade fibers.

While we are making the record, I think it is important at this particular time to know what President Kennedy had in mind with respect to the comprehensiveness or the all-fiber nature of the particular problem.

I ask unanimous consent to include at this point in the RECORD the letter from President Kennedy to Senator PASTORE, dated June 30, 1961.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

THE WHITE HOUSE,
Washington, June 30, 1961.

Hon. JOHN O. PASTORE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR PASTORE: Thank you for your letter on the textile negotiations now being conducted by the State Department. I have noted your concern and that of your colleagues over the possibility that the State Department's efforts to arrange an international conference may not fully meet the problems of the industry.

The import problem, I am sure you will agree, must be considered in the context of our total interest, both foreign and domestic. It should be borne in mind that the contemplated negotiations are designed as one of a series of efforts to assist the textile industry. Our objective is to assist the industry to overcome all of the handicaps which it faces.

The State Department is being instructed to get the best possible relief, not only for cotton but for other fibers. I am also asking the State Department to maintain close liaison with the Congress and with the industry in this matter.

Sincerely,

JOHN KENNEDY.

Mr. HOLLINGS. I shall quote only one sentence from the letter:

The State Department is being instructed to get the best possible relief not only for cotton, but for other fibers.

This was in June of 1961.

Mr. President, I ask unanimous consent that I may yield to the distinguished Senator from New York [Mr. JAVITS], with the understanding that I retain the floor, and that his remarks will appear following mine.

The Senator from New York has to leave, and I do not want to preempt his chance to state fully his particular position on this matter.

The PRESIDING OFFICER. Is there objection to the request of the Senator from South Carolina? The Chair hears none, and it is so ordered.

Mr. JAVITS. I am very grateful to my colleague.

Mr. President, I have no compunction against anyone about what has occurred or foreboding as to what may occur tomorrow, but it just happens that tomorrow is the one day in 6 years when I simply have to be at the meeting of our State committee.

Mr. President, I am very grateful to the Senator from Illinois [Mr. PERCY] for taking over the responsibility on this amendment, which I was prepared to carry this evening. I am sure he will do it superbly well. I am grateful also to the Senator from South Carolina for his customary graciousness and courtesy in yielding me a few minutes, and I promise not to intrude on his time for more than 10 minutes, to expound my own position in this matter.

Mr. President, this is the first of a series of measures which may be presented to us in various fields. Iron and steel are next in line. There are others. There are quite a number of proposals of this character. They have a common basic pattern, the idea being to freeze the amount of imports in a given commodity line.

Mr. President, there are two problems which arise. One of them is special to the textile industry; I shall deal with that second. The first one, Mr. President, relates to the position of the United States in international trade.

Of all the times, Mr. President, when we should not be doing what this amendment asks us to do, it is now, because we are right now very definitely disadvantaged in the world in terms of the international balance of payments, and though there is a good deal of talk on the floor about withdrawing troops from Europe, and that the President wants to curtail travel and curtail investment, and many other things of that character, all of us know that the surest way in which to redress our balance of payments is by an export surplus, and that the real reason why our international situation has so seriously deteriorated in respect to balance of payments is the very primitive fact that our export surplus has very materially decreased. It has gone down in 2 years from about $6.8 billion to about 3.8 billion, and it is just that $3 billion which has so vexed the people in the world who hold our instruments of credit that it has caused the run upon the dollar and this very dreadful international situation to which I have heretofore addressed myself.

So the primitive facts are that the minute the United States gives a signal that it is moving in a protectionist line—and I am not, for the moment, attributing any but the most laudable motives in terms of his own community and what he considers to be the interests of the United States to my colleague—and no matter how we might think that this does not really give any protectionist signal, that is the way the world will interpret it, and it will have immediate repercussions, in my judgment, in further worsening our balance of payments.

Here is what is at stake: Aside from normal retaliation—and we have already seen in the cases of the famous lace and glass actions that retaliation can be immediate and very severe between the European countries themselves, and there will be no dearth of it here, especially, Mr. President, with Mr. de Gaulle and the French stirring the world up in a rather mischievous sense against us economically—and I regret very much to say that, but that is the clear implication of so many of the things they are doing—we have the very clear implication that the European community is today planning in a very important fashion for cooperation with us. At the time when the Kennedy round of tariff cuts is about to come into effect in the European economic community, giving us a chance to gain some time longer before those cuts are effective as to us than they will—that is to increase our opportunity for an export surplus from the very countries which have run an important surplus in their balance of payments and in their trade with the United States and the rest of the world—in my judgment, the minute we give this signal, we give them a perfect reason, especially with the French having the attitude that they do, for saying, "All right, fellows, if this is the way the ball game is going to be played, why should we make any concessions, or why should we make it possible for you to better your balance of payments? You are just going to use your opportunity to close the world down in terms of protectionism yourselves; therefore, why open this opportunity to you?"

Mr. President, I repeat, without in any way challenging the different points of view which obtain around here, that it could not be a worse time. It is the most conceivably sensitive moment, at which this could hurt us the most.

It is interesting that for several months, including the end of the last session, I have been waiting for the Hollings amendment to be brought up, as the Senator from South Carolina knows; and it is almost ironic that it should come on the eve of the very one day I cannot be here. But, Mr. President, this does not prevent me from saying what I have to say on the subject, and I am very grateful to one of my colleagues, who I think will accommodate with a pair tomorrow. I have not imposed on the distinguished Senator from Louisiana, but he very graciously suggested it, if necessary. I will seek it on this side, of course, if I can. But I thank my colleague very much for his consideration.

I emphasize, Mr. President, the reason that I speak: That this is the worst possible time at which this could be done.

Really, one almost does not have to argue anything further, except the point that it is a fact that the long-term cotton textile agreement, which very materially helps with this situation, was extended during the Kennedy round negotiations until October 1, 1970, and it would certainly seem, Mr. President, rather ungrateful on our part now to take this action, which the mover of the amendment desires us to take, in the face of what I think the other nations in the Kennedy round had a right to assume represented a compromise disposition, as it were, of our attitude in the textile situation, when they agreed with us to establish the long-term cotton textile

agreement for a period of roughly 5 years, or 4 years.

Mr. President, the one other point that I would like to make, which I think is a very important point here, is the fact that last year, when this matter first arose, I stated and others stated that the Tariff Commission was looking into it, and that it would report in January—that is, make a report on the textile industry.

The Tariff Commission has reported, in a very important two-volume study of the whole textile business, and I think it is fair to say that the study does not show conditions in this industry which would warrant this kind of very drastic action with respect to imports. We have made what we considered to be a proper summary of the situation, and our summary shows that production, according to that study, is rising; that employment in the textile industry is stable to rising; that profits, with the large companies, are healthy—some of the smaller companies are not so healthy, but this, after all, is one of the endemic problems inherent in the size of the economic aggregations in this field in this country; and even that struggle, that is, the struggle of the smaller companies, is showing a pattern of being strengthened through increasing mergers and acquisitions.

According to the facts found by the Tariff Commission as we analyzed them, imports are increasing; but, except in a few cases, the Tariff Commission did not find situations arising which would cause major difficulties for the industry as a whole.

I think, Mr. President, that is what the fundamental effect and the fundamental thrust of Senator Hollings' amendment would be in the overall approach to the whole textile industry.

Another aspect of the matter which is very important, to confirm what I say about the European Economic Community, I have here a story from the New York Times of this morning. It could not be more contemporary than that. The article is headed "Early Tariff Cut Tied to Condition—EEC Says It Will Demand That the United States Renounce Any Protectionist Action—French Stand Changes—Paris, Previously Opposed to Fast Reductions, Will Consider Them."

Mr. President, I ask unanimous consent that the article to which I have referred be printed at this point in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

EARLY TARIFF CUT TIED TO CONDITION—EEC SAYS IT WILL DEMAND THAT UNITED STATES RENOUNCE ANY PROTECTIONIST ACTION—FRENCH STAND CHANGES—PARIS, PREVIOUSLY OPPOSED TO FASTER REDUCTIONS, WILL CONSIDER THEM

BRUSSELS, March 25.—The European Economic Community tonight told the United States it had to renounce any protectionist trade measures before the six would agree to accelerating Kennedy Round tariff cuts.

E.E.C. finance ministers also agreed at a one-day meeting here that the American selling price—a system whereby imported chemicals are assessed for duty on the basis of higher domestic prices—had to be abolished before the Europeans speeded reductions.

All six ministers agreed to "take into consideration the possibility of accelerating" Kennedy Round tariff cuts to help the United States overcome its balance-of-payments deficit.

France's Finance Minister Michel Debré made clear at a press conference that this represented a dramatic switch in position for his nation, which previously strongly opposed such a step.

GOLD PROPOSAL

Earlier Mr. Debré intensified the French campaign for a monetary system based on gold by calling for an international conference to examine fundamental world monetary and trade problems.

In a statement before the meeting, he told reporters France would only cooperate on these problems provided a "durable global solution" for the fundamental problems was sought in concert by the interested parties.

Mr. Debré's statement sounded to observers like a call for another conference like the Bretton Woods meeting, which created the International Monetary Fund in 1949. But French sources here stressed that such talks should also cover trade problems.

The ministers also told the E.E.C. executive commission to sound out all the members' trading partners by diplomatic channels on reactions to tonight's statement, and to report at another finance ministers' conference, which will take place before April 14.

Mr. JAVITS. Mr. President, this article bears out precisely what I said a minute ago, that it could not come at a worse time, that the warning is clearly given to us that we would do what we are here asked to do at the risk of the whole structure of the U.S. trade policy and of the opportunity which we might have to correct the very serious and very dangerous imbalance in our balance of payments which has been referred to.

Mr. President, this is one other thing which is interesting at this very moment. The policy to create special drawing rights in the International Monetary Fund is up for signing in Stockholm this coming Friday, and various nations will have to approve those special drawing rights.

I think it is a very safe prediction that should we ignore the following of the course which the adoption of this amendment would chart for us, it would be very much more difficult to bring about the creation of the special drawing rights reform in the international monetary system which is absolutely and critically essential to the whole future of our Nation and of the world in terms of the international monetary system.

Mr. President, as to the textile industry itself, and the facts can be detailed, investment levels in the industry in 1965, 1966, and 1967 have gone to about $1 billion a year, about double the investment levels of 1960 and 1961. Raw cotton consumption at the mill has been heavier and higher in 1966 and 1967 than at any time in the last 17 years, since about 1950–51. And, indeed, the raw cotton carryover has been very substantially worked off.

The textile production has been increasing at the rate of about 4.5 percent a year, using 1957 to 1959 as a base. The apparel production has been increasing at the rate about 5.2 percent a year, again using 1957 to 1959 as a base. In other words, there was something of a little fall off in 1967, but the figures are still materially higher than in the preceding year.

They estimate that in the last decade and a half there has been a growth of about 200,000 jobs in the textile industry, and the rate of profit on equity generally has increased very materially, indeed, higher than the average of all manufacturing.

The American textile industry growth has been very much larger than the growth of the imports during the relative period of time from 1960 to 1966. Indeed, during the recent modest decline in the textile industry, imports also declined, as well as the general current of trade.

So, the general indications are, and the Tariff Commission bears it out—and let us remember that we are dealing with an industry that has sales of about $20 billion—that give or take the problems of particular segments of the industry, or smaller firms in some cases as against larger firms, the industry, generally speaking, is not suffering, or if it is suffering, the suffering is based upon foreign trade. And the import business is not working irreparable injury upon this industry.

When we compare these provisions and figures, all of which are contained in the Tariff Commission reports, with the unbelievable havoc which could be wreaked upon us in the way of disaster should we give this protectionist signal, it seems to me that a very clear case is made out against the amendment.

The reason for tabling—and I expect that the Senator from Illinois [Mr. PERCY] will make the necessary motion tomorrow—is attributable to the fact that this is not a bill in which this particular item represents a germane provision.

The Senator has an absolute right to propose it, of course, but it does not represent an element in the total aspect of this bill, except in the very broad concept that it represents a factor in the future economic health of the United States.

That, of course, is true of almost every bill on almost any subject that has been considered and passed here dealing with domestic matters. However, it certainly does not relate the amount of the budget to the amount of expenditures to the excise taxes, or to any Federal income taxes, although I repeat that it can broadly be grouped within the concept that if the textile industry is more prosperous, it will pay more taxes. However, this is a rather general reference and is not specifically tied into the bill.

I believe, therefore, that if we are to have so critically important a signal given to the world as a new protectionist attitude on the part of the United States, it certainly should not be within the context of a tax bill of this character where very different issues are primarily being considered by the Senate.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD excerpts showing the vitality of the textile industry. The article is from

the Textile World of February 1968. It bears further upon the fact that certainly we have no justification for an across-the-board industry approach of the kind which the amendment proposes.

The VICE PRESIDENT. Is there objection? The Chair hears none, and it is so ordered.

The article ordered to be printed in the RECORD, reads as follows:

[From Textile World, February 1968]

THE LOOK OF 1968: CONSUMER VITALITY PROMISES TEXTILES A GOOD YEAR

Textile manufacturing activity will break new records this year—and the consumer will supply much of the impetus. After a modest decline in 1967 that interrupted six years of continuous growth, Textile World's exclusive Index of Textile-Manufacturing Activity should reach 162—up 6% from last year.

Strong consumer demand will spur the industry to a new record. Even if there is a tax hike, consumers will have about 6% more income to spend this year. Fiber consumption will benefit from rising family formations—those famous war babies are finally coming of age and getting married. And automobile sales will exceed 9-million this year. All these factors will raise the textile operating rate closer to the preferred level, and textile mill profits after taxes will rise at least 5% in 1968.

This year's strong advance in the index will be helped by other factors. The number of production workers will rise, and hours worked per week will go up also; both declined last year.

Shipments will rose to $22.5-billion. The 7% boost in textile shipments due this year is tied to strong consumer demand, backed by rising personal income, and continued heavy Vietnam expenditures. Vietnam will help maintain textile activity at its high level. Most experts say spending has leveled off, so there will be no new stimulus to the economy.

Stockpiling of textiles for the Vietnam war created inventory imbalances, especially in 1966, and exaggerated the level of import activity. The decline in imports also reflects falling domestic consumption.

Investment in new plants and equipment by the textile industry will remain at a high level—$850-million. And nearly 2/3 of the expenditures will be for modernization of facilities. The remaining 35% is slated for expansion.

These spending plans seem a sure bet because mill shipments will rise a full 7% this year, while productive capacity will only increase about 4%. The operating rate for textile manufacturers has been moving up in recent months. At the end of 1967, the rate was 95.5% of capacity—close to the preferred rate of 96%. Thus, pressure is starting to build up again to add new capacity.

Textile mill shipments hit a record $21.1-billion in 1967 and will rise to $22.5-billion this year. Although sales were up 3.3% last year, the textile industry reduced its capital spending for new facilities. But it had spent over $2-billion between 1965 and 1966 and added 14% to its capacity.

TEXTILE CONSUMPTION

[In millions of pounds]

	Clothing	Home furnishings	Other consumer products	Industry	Export	Total
1959	2,823	1,685	687	1,330	317	6,842
1960	2,712	1,604	660	1,202	309	6,487
1961	2,784	1,630	680	1,171	295	6,561
1962	2,982	1,792	710	1,256	302	7,042
1963	3,023	1,930	737	1,255	289	7,246
1964	3,249	2,123	781	1,336	293	7,782
1965	3,515	2,394	838	1,449	295	8,495
1966	3,762	2,548	876	1,521	297	9,006
1967	3,757	2,547	879	1,531	288	9,003
1968	3,941	2,759	898	1,569	284	9,450

FIBER CONSUMPTION: MANMADE GRABBING ½ OF TOTAL

	Cotton		Wool		Manmade fibers				Total [1] (million pounds)
					Rayon-acetate		Other		
	Million pounds	Market share	Million pounds	Market share	Million pounds	Market share	Million pounds	Market share	
1959	4,335	63.4	435	6.4	1,294	18.9	771	11.3	6,842
1960	4,191	64.6	411	6.3	1,082	16.7	796	12.3	6,487
1961	4,082	62.2	412	6.3	1,156	17.6	905	13.8	6,561
1962	4,188	59.5	429	6.1	1,291	18.3	1,127	16.0	7,042
1963	4,040	55.8	412	5.7	1,471	20.3	1,317	18.2	7,246
1964	4,244	54.5	357	4.6	1,556	20.0	1,599	20.5	7,782
1965	4,478	52.7	387	4.6	1,593	18.8	2,031	23.9	8,495
1966	4,632	51.4	370	4.1	1,622	18.0	2,376	26.4	9,006
1967	4,447	49.4	304	3.4	1,517	16.8	2,730	30.3	9,003
1968	4,442	47.0	284	3.0	1,512	16.0	3,213	34.0	9,450

[1] Includes silk.

Sources: Textile Economics Bureau; McGraw-Hill Department of Economics.

One restraint on investment last year was profits (after taxes), which declined about 26% from a record $702-million in 1966. Textile profits will advance approximately 5% this year, freeing more funds for investment.

Capital spending will also remain high, because rising labor costs will continue to force firms to introduce labor saving investment.

On the negative side, lack of funds will be a major impediment to broad advances in capital spending during 1968. While money is not overly tight yet, the Federal Reserve has already indicated that funds will not be easy to get this year. The Fed raised the discount rate three months ago, and only last month it called for selective lending. And long-term interest rates are generally higher now than a year ago.

The proposed tax surcharge may also have a negative impact on capital spending. But most companies will not adjust their plans until the bill is passed. If the surcharge is enacted, the industry plans to reduce capital spending plans $14-million this year. Since the tax bill will not be acted upon until March or April, you can expect most of the spending cut to take place during the second half of the year.

Research and developed expenditures will top last year's record $44-million by approximately 7%. This will mark the sixth consecutive year of increased R&D spending by the textile industry. This reflects the strong emphasis on discovering new products and upgrading old ones—especially in the area of man-made fibers.

The U.S. economy will move ahead at full steam in 1968. Gross National Product—the market value of all goods and services—will gain 7.5% over last year, advancing to $843 billion. That's almost double last year's growth. Real growth will come to 4% this year, and inflation will eat away the remaining 3½%. In 1967, real growth was only 2.5%.

It is assumed that Congress will enact at least an 8% tax surcharge on corporations and a 6% surcharge on individuals, probably retroactive to January 1, 1968. Also, the costs and needs of the Vietnam war are expected to continue at about the current level, at least until after the 1968 election.

Government expenditures will only rise modestly this year, because of the tighter fiscal spending policy. Most agencies have been directed to cut personnel costs 2% and expenditures on controllable programs 10%. Total government spending—federal, state and local—will increase $13-billion. Federal spending will go up $5-billion, while defense spending will rise about $4.5-billion. Defense spending slowed down significantly in the third quarter of 1967, and all indications are that it will not be escalated, at least not until after Election Day 1968.

The restrained federal nondefense spending will have a big impact on state and local government expenditures, since much of the state and local spending is federally financed. Therefore, the $8-billion increase in state and local spending this year will be less than the increase in 1967, in both absolute and percentage terms.

Business capital spending will rise about 5% this year, the same increase as reported in the McGraw-Hill fall survey. This gain is small compared with the 15–17% gains of 1964–1966, but is more than double last year's advance. But this year's increase in capital spending will merely reflect the rise in capital goods prices and construction costs. There will be no gain in the physical volume of new plants and equipment. However, capital spending will still be a positive factor in the business outlook, because $66-billion is a high spending level to maintain.

Inventories will fluctuate this year, but by a much lesser magnitude than in 1967. The inventory buildup will be much larger than normal in the first half of the year and less than normal in the second half. Automobile production was sharply curtailed in the final quarter of 1967 because of the long strike, and inventories, which are still low, must be built up. Also, steel-consuming industries are accumulating steel stocks, and will continue to do so, as a hedge against the possibility of a steel strike on August 1. After the strike deadline, steel inventories will have to be cut back. But by then auto production and inventories will be back to normal.

Consumer expenditures for goods and services, accounting for nearly ⅔ of all final spending in the economy, will rise $33.5-billion or 6.7% this year. Even with the anticipated tax hike, consumers will be able to buy more durable goods than ever before. Part of the rise will be due to some postponement of auto purchases from late 1967 because of the prolonged strike. Also, a higher number of housing completions this year will result in additional demand for appliances, furniture, and a host of other items. And prices of consumer durables will be up more this year than in any year in the past decade.

Soft goods and service expenditures will rise also. Part of the stimulation will come from increased benefits to senior citizens. Under the new Social Security bill, additional benefits will more than offset the additional payroll taxes. And rising personal income will benefit about $4-billion from the increase in minimum wages beginning February 1, 1968.

Disposable personal income—the amount left over after taxes and certain other fees—will advance more than 6% to $577.8-billion. Also, the personal savings rate, which averaged a very high 6.9% last year, will drop to a more normal 6.2% in 1968. A one percentage point decline in the savings rate would cause a $5-billion increase in consumer expenditures. This would mean at least a $3.5-billion increase this year.

[Dollar amounts in millions]

	Imports				Percent change, 1966–67	Exports				Percent change, 1966–67
	1964	1965	1966	1967		1964	1965	1966	1967	
Total	$1,539.7	$1,777.5	$1,952.3	$1,714.7	−12.2	$1,536.6	$1,288.2	$1,283.7	$1,384.2	+7.8
Textile fibers and waste	407.4	435.7	436.3	284.9	−34.7	818.5	617.3	565.6	687.8	+21.6
Raw cotton, excluding linters						681.8	486.2	432.2	565.3	+30.8
Other						136.7	131.1	133.4	128.7	−3.5
Wool, unmanufactured	201.7	218.3	218.3	112.6	−48.4					
Other	205.7	217.4	218.0	172.2	−22.0					
Textile yarn, fabrics, made-up articles	681.2	798.7	908.5	793.1	−12.7	577.5	527.8	554.1	530.3	−4.3
Cotton cloth	91.6	122.7	144.2	109.6	−24.0					
Textile yarn and thread						153.2	131.0	128.3	110.3	−14.0
Cotton cloth, including duck						109.2	97.6	109.5	95.5	−12.8
Textile fabrics, woven, except cotton	348.6	422.8	448.9	385.6	−14.1	139.8	135.0	137.3	140.3	+2.2
Jute, burlap, worsted, and woolen fabrics	235.8	273.4	294.3	264.8	−10.0					
Other	112.8	149.4	154.6	120.8	−21.9					
Manmade broadwoven fabrics						93.6	61.9	67.2	100.7	+49.8
Made-up articles						43.7	51.9	54.2	53.9	−.6
Twine and cordage	55.6	48.1	45.3	40.4	−10.8					
Floor coverings and tapestries	54.4	54.3	61.6	52.5	−14.8					
Other	131.0	150.8	208.5	205.0	−1.7	38.0	50.4	57.6	30.5	−47.0
Clothing	451.2	543.1	607.5	636.7	+4.8	140.6	143.1	164.0	166.1	+1.3
Cotton										
Wool										
Other										

WHOLESALE TEXTILE PRICES: ALL CLIMBING HIGHER

[Index (1957–59=100)]

	1964	1965	1966	1967	1968
Textile products and apparel	101.2	101.8	102.1	102.0	105.0
Cotton products	99.6	100.2	102.5	100.4	102.5
Wool products	103.0	104.3	106.0	103.2	104.0
Manmade fiber textile products	95.8	95.0	89.5	86.8	89.5
Silk products	117.3	134.3	153.6	171.7	190.0
Apparel	102.8	103.7	105.0	106.9	108.5
Miscellaneous	117.9	123.0	122.6	117.6	120.0

Sources: U.S. Bureau of Labor Statistics; McGraw-Hill Department of Economics.

TEXTILE MILL OPERATING RATE: REACHING PREFERRED LEVEL OF 96 PERCENT

Year	Textiles	All manufacturing
1959	92.0	85.0
1960	82.0	77.0
1961	91.0	83.0
1962	92.0	83.0
1963	95.0	85.0
1964	98.0	88.0
1965	98.5	89.5
1966	94.5	89.0
1967	94.0	84.5
1968	95.0	85.0

Source: McGraw-Hill Department of Economics.

Textile mill profits after taxes: Advancing 5 percent after 26-percent drop

MILL PROFITS

Year:	Million dollars
1959	416
1960	329
1961	280
1962	354
1963	354
1964	507
1965	694

Textile mill profits after taxes: Advancing 5 percent after 26-percent drop—Con.

MILL PROFITS—continued

Year:	Million dollars
1966	702
1967	534
1968	561

Source: Federal Trade Commission Securities & Exchange Commission; McGraw-Hill Department of Economics.

Mill shipments: Heading for a record

Year:	Million dollars
1959	14,052
1960	13,766
1961	13,980
1962	15,141
1963	16,537
1964	17,834
1965	19,346
1966	20,430
1967	21,100
1968	22,500

Source: U.S. Department of Commerce; McGraw-Hill Department of Economics.

Mill inventories: Up to $3,600 million

Year:	Million dollars
1959	2,227
1960	2,300
1961	2,433
1962	2,608
1963	2,886
1964	2,837
1965	3,130
1966	3,330
1967	3,400
1968	3,600

Source: U.S. Department of Commerce; McGraw-Hill Department of Economics.

Inventories-to-sales ratio: Good news

Year:	Ratio
1959	1.9
1960	2.1
1961	2.0
1962	2.0
1963	2.0
1964	1.8
1965	1.8
1966	2.0
1967	2.0
1968	1.9

Source: U.S. Department of Commerce; McGraw-Hill Department of Economics.

COTTON, MANMADE FIBER TEXTILES—INCREASES IN ALL DEPARTMENTS

[Index (1957–59=100)]

Year	Cotton and manmade fiber fabrics	Cotton yarns and fabrics	Manmade fiber fabrics
1959	109.0	108.0	110.6
1960	105.1	106.1	103.6
1961	105.8	104.9	108.9
1962	115.0	108.8	131.6

COTTON, MANMADE FIBER TEXTILES—INCREASE IN ALL DEPARTMENTS—Continued

[Index (1957–59=100)]

Year	Cotton and manmade fiber fabrics	Cotton yarns and fabrics	Manmade fiber fabrics
1963	118.0	106.1	150.5
1964	127.1	111.9	171.0
1965	140.1	119.7	198.0
1966	149.1	125.5	221.0
1967	150.0	122.1	230.2
1968	165.0	128.2	260.0

Sources: Federal Reserve Board; McGraw-Hill Department of Economics.

WOOL TEXTILES AND FABRICS: SLOWLY MAKING A COMEBACK

[Index (1957–59=100)]

Year	Wool textiles	Wool fabrics
1959	106.2	105.2
1960	97.3	96.5
1961	98.1	97.7
1962	108.4	108.9
1963	102.4	101.8
1964	93.2	91.5
1965	99.9	95.0
1966	97.6	94.0
1967	92.1	91.2
1968	95.0	92.5

Sources: Federal Reserve Board; McGraw-Hill Department of Economics.

KNIT GOODS: THE CLIMB CONTINUES WITH HOSIER IN THE LEAD

[Index (1957–59=100)]

Year	Knit goods	Hosiery	Garments
1959	110.9	104.0	115.8
1960	109.8	102.3	114.9
1961	116.9	111.5	120.6
1962	123.5	115.0	129.5
1963	124.4	117.1	129.5
1964	131.5	125.3	135.9
1965	145.7	134.5	153.6
1966	156.1	152.0	159.0
1967	158.2	165.5	153.0
1968	169.0	182.0	160.0

Sources: Federal Reserve Board; McGraw-Hill Department of Economics.

PRODUCTION WORKERS: HOURLY WAGES UP AGAIN

	1964	1965	1966	1967	1968	Percent change, 1967–68
Textile mill products	1.79	1.87	1.96	2.06	2.14	+3.9
Cotton weaving mills	1.77	1.88	1.98	2.06	2.14	+3.9
Manmade weaving mills	1.83	1.92	2.01	2.08	2.16	+3.8
Wool weaving and finishing mills	1.87	1.96	2.05	2.15	2.25	+4.7
Narrow fabric mills	1.79	1.84	1.92	2.02	2.12	+5.0
Knitting mills	1.70	1.76	1.85	1.96	2.06	+5.1
Textile finishing, except wool	1.95	2.02	2.12	2.23	2.33	+4.5
Floor covering mills	1.82	1.90	1.98	2.10	2.20	+4.8
Yarn and thread mills	1.63	1.73	1.83	1.91	2.01	+5.2
Miscellaneous	56.6	60.2	63.8	61.5	63.0	+2.4

Source: U.S. Bureau of Labor Statistics: McGraw-Hill Department of Economics.

PRODUCTION WORKERS: GROWING IN NUMBER

[In thousands of employees]

	1964	1965	1966	1967	1968	Percent change, 1967–68
Textile mill products	798.2	826.7	857.1	845.8	863.5	+2.1
Cotton weaving mills	208.8	210.5	218.0	217.0	218.5	+.7
Manmade weaving mills	81.7	83.4	87.5	85.2	88.0	+3.3
Wool weaving and finishing mills	39.5	39.9	39.6	38.1	38.5	+1.0
Narrow fabric mills	24.6	26.2	27.9	28.3	29.0	+2.5
Knitting mills	193.1	205.8	209.8	203.0	207.0	+2.0
Textile finishing except wool	65.3	65.4	67.3	66.0	66.5	+.8
Floor covering mills	32.0	34.0	35.6	32.8	34.0	+3.7
Yarn and thread mills	96.8	101.2	107.7	113.9	119.0	+4.5
Miscellaneous	56.6	60.2	63.8	61.5	63.0	+2.4

Sources: U.S. Bureau of Labor Statistics; McGraw-Hill Department of Economics.

HOURS WORKED PER WEEK: A SLIGHT INCREASE

	Hours per week					Percent change, 1967–68
	1964	1965	1966	1967	1968	
Textile mill products	41.0	41.8	41.9	40.9	41.3	+1.0
Cotton weaving mills	42.0	42.7	43.2	41.9	42.5	+1.4
Manmade weaving mills	43.3	43.7	43.3	41.8	42.5	+1.7
Wool weaving and finishing mills	41.1	42.7	42.7	42.3	42.5	+.5
Narrow fabric mills	40.8	41.3	41.8	40.6	41.2	+1.5
Knitting mills	38.5	38.8	38.7	38.3	38.5	+.5
Textile finishing, except wool	42.0	42.5	43.2	42.4	42.8	+.9
Floor covering mills	41.9	42.9	42.1	39.0	40.5	+3.8
Yarn and thread mills	41.1	42.6	42.4	40.3	41.4	+2.7
Miscellaneous	41.4	42.3	42.9	41.9	42.4	+1.2

Sources: U.S. Bureau of Labor Statistics; McGraw-Hill Department of Economics.

AMENDMENT NO. 670

Mr. JAVITS. Mr. President, the amendment I am submitting with the cosponsorship of Senators JORDAN of Idaho, MILLER, and PERCY would establish a Commission on Federal Budget Priorities and Expenditure Policy. The 16-member Commission would be composed of representatives of the President, of the Senate, of the House of Representatives, and of the public, with equal representation from both parties. The Commission would be assisted by a professional staff and would aid the Commission in making a comprehensive and impartial study and investigation of the programs and policies of the Federal Government with a view toward formulating recommendations with respect to the first, establishing of spending priorities among Federal programs, including the identification of those programs which need greatest immediate emphasis and those which can be deferred in a time of expected deficits, in order to serve as a guide to the administration in making expenditures and in drawing up future budgets; second, appraising of Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated; third, improving of the Federal budgeting and appropriations process in order to increase the effective control of expenditures; fourth, examining of the responsibilities and functions which are now assumed by the Federal Government, but which could be performed better and with superior effectiveness by the private economy; fifth, reviewing of Federal responsibility and functions in order to determine which could be better performed at the State and local levels; and, sixth, improving Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how well those already implemented have achieved their purposes in practice and whether those were not yet

implemented should be given further consideration.

The Commission is authorized to submit such reports as it may consider advisable. However, with respect to the question of budgetary priorities, the Commission is asked to submit an interim report no later than January 1, 1969. Its final report is due by January 1, 1970.

Reform of the Federal budget involves more than cuts in any one year. Emergency budget reductions such as I and others have recommended would not necessarily provide an optimum allocation of public expenditures. Therefore, it is vital to look beyond our current budgetary problems to the future shape of Federal spending.

In both 1963 and 1964 and again in its 1968 report on the President's Economic Report, the minority of the Joint Economic Committee recommended the establishment of this Commission. In 1963 and 1964 the administration rejected the proposal, but I hope they do not this year.

The recommendations of an objective and nonpartisan Commission should command widespread public support. It would offer a sound basis on which to rearrange budgetary priorities and begin to reform Federal spending policies.

I ask unanimous consent that the amendment be printed in the RECORD.

The VICE PRESIDENT. The amendment will be received, printed, and will lie on the table; and, without objection, the amendment will be printed in the RECORD.

The amendment (No. 670) is as follows:

H.R. 15414

At the end of the bill insert the following:

"SEC. 8. ESTABLISHMENT OF A COMMISSION ON FEDERAL BUDGET PRIORITIES AND EXPENDITURE POLICY.

"(a) Recognizing the profound influence which the composition and level of Federal expenditures and their relationship to revenues have on the Nation's general welfare, domestic tranquility, economic growth and stability, it is hereby declared to be the intent of Congress to initiate a far-reaching objective and nonpartisan review of Federal budget priorities and expenditure policy. In the carrying out of such review, and in the formulation of recommendations with respect thereto, particular consideration shall be given to the following—

"(1) establishing spending priorities among Federal programs, including the identification of those programs which need greatest immediate emphasis and those which can be deferred in a time of expected deficits, in order to serve as a guide to the administration in making expenditures and in drawing up future budgets;

"(2) appraising Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated;

"(3) improving the Federal budgeting and appropriations process in order to increase the effective control of expenditures;

"(4) examining the responsibilities and functions which are now assumed by the Federal Government, but which could be performed better and with superior effectiveness by the private economy;

"(5) reviewing Federal responsibility and functions in order to determine which could be better performed at the State and local levels; and

"(6) improving Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how well those already implemented have achieved their purposes in practice and whether those not yet implemented should be given further consideration.

"ESTABLISHMENT OF THE COMMISSION ON FEDERAL EXPENDITURE POLICY

"(b)(A) In order to carry out the purposes set forth in the first section of this Act, there is hereby established a commission to be known as the Commission on Federal Budget Priorities and Expenditure Policy (referred to hereinafter as the 'Commision').

"(B) The Commission shall be composed of sixteen members as follows:

"(1) Four appointed by the President of the United States, two from the executive branch of the Government, including the Director of the Bureau of the Budget, and two from private life who have distinguished careers in labor, the professions, industry, local and State government, or higher education;

(2) Six members of the Senate appointed by the President of the Senate; and

"(3) Six members of the House of Representatives appointed by the Speaker of the House of Representatives.

"(C) Of each class of two members referred to in subsection (B), not more than one member shall be from any one political party.

"(D) Any vacancy in the Commission shall not affect its powers, but shall be filled in the same manner in which the original appointment was made.

"(E) Service of an individual as a member of the Commission or employment of an individual by the Commission as an attorney or expert in any business or professional field, on a part-time or full-time basis, with or without compensation, shall not be considered as service or employment bringing such individual within the provisions of sections 281, 283, 284, 434, or 1914 of title 18 of the United States Code.

"(F) The Commission shall elect a Chairman and a Vice Chairman from among its members.

"(G) Nine members of the Commission shall constitute a quorum.

"ADVISORY PANEL TO THE COMMISSION

"(c) The Commission may establish an Advisory Panel which shall consist of persons of exceptional competence and experience in appropriate fields, including social welfare, economics, and political science. Such Advisory Panel members shall be drawn equally from the Government, private industry, and nonprofit educational institutions, and shall be persons available to act as consultants for the Commission.

"STAFF OF THE COMMISSION

"(d) (A) The Commission may appoint and fix the compensation of such personnel as it deems advisable in accordance with the provisions of the civil service laws and the Classification Act of 1949.

"(B) The Commission may procure without regard to the civil service laws and the classification laws, temporary and intermittent services (including those of members of the Advisory Panel) to the same extent as authorized for the departments by section 15 of the Act of August 2, 1946 (60 Stat. 810; 5 U.S.C. 55a), but at rates not to exceed $75 per diem for individuals.

"DUTIES OF THE COMMISSION

"(e)(A) The Commission shall make a comprehensive and impartial study and investigation of the programs and policies of the Federal Government with a view to carrying out the purposes set forth in the first section of this Act.

"(B) During the course of its study and investigation the Commission may submit to the President and the Congress such reports as the Commission may consider advisable. The Commission shall submit to the President, and the Congress an interim report with respect to its findings, conclusions and recommendations pursuant to section (a)(1) no later than January 1, 1969, and a final report no later than January 1, 1970.

"POWERS OF THE COMMISSION

"(f)(A)(1) The Commissioner or, on the authorization of the Commission, any subcommittee thereof, may, for the purpose of carrying out its functions and duties, hold such hearings and sit and act at such times and places, administer such oaths, and require, by subpena or otherwise, the attendance and testimony of such witnesses, and the production of such books, records, correspondence, memorandums, papers, and documents as the Commission or such subcommittee may deem advisable. Subpenas may be issued under the signature of the Chairman or Vice Chairman, or any duly designated member, and may be served by any person designated by the Chairman, the Vice Chairman, or such member.

"(2) In case of contumacy or refusal to obey a subpena issued under paragraph (1) of this subsection, any district court of the United States or the United States court of any possession, or the District Court of the United States for the District of Columbia, within the jurisdiction of which the inquiry is being carried on or within the jurisdiction of whch the person guilty of contumacy or refusal to obey is found or resides or transacts business, upon application by the Attorney General of the United States shall have jurisdiction to issue to such person an order requiring such person to appear before the Commission or a subcommittee thereof, there to produce evidence if so ordered, or there to give testimony touching the matter under inquiry; and any failure to obey such order of the court may be punished by the court as a contempt thereof.

"(B) Each department, agency, and instrumentality of the executive branch of the Government, including independent agencies, is authorized and directed to furnish to the Commission, upon request made by the Chairman or Vice Chairman, such information as the Commission deems necessary to carry out its functions under this Act.

"COMPENSATION OF COMMISSION MEMBERS

"(g). (A) Members of the Commission who are Members of Congress or officers of the executive branch of the Federal Government shall serve without compensation in addition to that received in their regular public employment, but shall be allowed necessary travel expenses (or, in the alternative, a per diem in lieu of subsistence and mileage not to exceed the rates prescribed in the Travel Expense Act of 1949, as amended), without regard to the Travel Expense Act of 1949, as amended (5 U.S.C. 835–842), the Standardized Government Travel Regulations, or section 10 of the Act of March 3, 1933 (5 U.S.C. 73b), and other necessary expenses incurred by them in the performance of duties vested in the Commission.

"(B) Members of the Commission, other than those to whom subsection (a) is applicable, shall receive compensation at the rate of $75 per day for each day they are engaged in the performance of their duties as members of the Commisison and shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties as members of the Commission, as provided for in subsection (a) of this section.

"EXPENSES OF THE COMMISSION

"(h). There are hereby authorized to be appropriated to the Commission, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this Act.

"EXPIRATION OF THE COMMISSION

"(1). The Commission shall cease to exist days after the submission of its final report."

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. TYDINGS. Mr. President, I ask the distinguished Senator from New York if it is a fact that the trade balance of the United States for at least the past decade, and particularly for the last 5 or 6 years, has been the principal factor which, at least to date, has enabled us to avoid really fiscal disaster.

Mr. JAVITS. There is no question about that. We really got into the squeeze of the international balance of payments in a very aggravated way when we lost our grip on the export market to some extent.

It is amazing—and the Senator has heard my views on this matter many times—that with a $850 billion economy, there is nonetheless a $6.8 billion export surplus which has represented the difference apparently in the eyes of the people of the world who hold instruments of credit from the United States as to whether we were really going to favor our international commitments. When our export surplus began to go to pieces, that apparently was the final stroke.

It was the $3 billion diminution which has literally occurred within the past year, which has been so very costly to us. Even if one could say that the Senator from South Carolina [Mr. HOLLINGS] had a good case under normal conditions, one could almost as a lawyer introduce a demurrer to it on the ground that we should not do it now.

I deeply believe that the case would not stand up in that context.

Mr. TYDINGS. Mr. President, I wonder if the Senator would care to comment on the number of other nations trading with the United States who have already registered with our Government expressions of alarm or concern about the possibility of moving toward protectionism, quota system, or whatever the Senator cares to call it.

Mr. JAVITS. Will the Senator forgive me. I understand that the Vice President wishes to make an announcement.

The VICE PRESIDENT. The Chair appreciates the consideration of the Senator.

COMMISSION ON THE REVISION OF THE CRIMINAL LAWS OF THE DISTRICT OF COLUMBIA—APPOINTMENT BY VICE PRESIDENT

The VICE PRESIDENT. The Chair, under the provisions of Public Law 90–226, appoints the Senator from Nevada [Mr. BIBLE] and the Senator from Vermont [Mr. PROUTY] to the Commission on the Revision of the Criminal Laws of the District of Columbia.

UNITED STATES-MEXICO INTERPARLIAMENTARY CONFERENCE—APPOINTMENT BY VICE PRESIDENT

The VICE PRESIDENT. The Chair, under the provisions of Public Law 86–420, appoints the Senator from Michigan [Mr. GRIFFIN] to attend the United States-Mexico Interparliamentary Conference, to be held at Honolulu, Hawaii, on April 11 to 17, 1968, to replace the Senator from Wyoming [Mr. HANSEN].

TAX ADJUSTMENT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. JAVITS. Mr. President, the European Common Market has been giving us warnings constantly, and I put one into the RECORD this morning.

In addition, other nations, including Japan—they are one of our principal trading partners—have made the most urgent representations to the United States. I am not privy to our administration's secrets, but I believe that this has been considered so seriously by major trading partners of the United States that they have sent special representatives, diplomatic representatives, to our Government to make representations to it as to how serious would be the repercussions of any such new policy by the United States.

AMENDMENT NO. 671

Mr. MUNDT. Mr. President, I send to the desk an amendment on behalf of the distinguished Senator from Virginia [Mr. BYRD] and myself. It has for its purpose the establishment of a special 20-percent war tax on the taxable income of any taxpayer in the United States who has engaged in trade with any Communist country supplying material to the Government of North Vietnam. I ask that it be printed.

The PRESIDING OFFICER (Mr. TYDINGS in the chair). The amendment will be received and printed, and will lie on the table.

Mr. HOLLINGS. Mr. President, the presentation of the distinguished Senator from New York reminds me of the minority leader's position with respect to the removal of the gold cover, in his lecture about Chicken Little crying that the sky is falling.

It so happens, Mr. President, by way of some examples of nontariff barriers, that seven nations in the European economic community, in Western Europe, the Common Market, have international agreements or treaties with respect to tariff barriers—six of those nations have quotas, six of them have import licenses, three have consular fees, import surcharges, prior deposit requirements, and 13 have import incentives.

Now it is said that to suggest one little provision in the U.S. Senate, to write in a policy for woolens and manmade fibers similar to that we have had with great success, and which has been agreed to by 31 nations in the field of cotton, would revolutionize the trade policy of the world. It is said that this suggestion comes at a terrible time, when we could file a demurrer, and that it has nothing to do with jobs.

Of course, this is not the fact.

The fact is that the distinguished Senator from New York has agreed with almost every other Senator when a problem has arisen in the last year and a half in which the word "jobs" has occurred, even when applied to the Export-Import Bank. The Senator from New York—I have documentation of his quotation—said that the answer is jobs. When it came to foreign aid, we heard that the answer is jobs. When he came to riots in the streets, he said the answer is jobs. But then when we discuss jobs, the Senator from New York says, "we've given an improper signal to the European economic community, and there's going to be trade chaos."

The fact is that in 1966 we had an imbalance in textile trade of $902 million, with a total deficit in balance of payments of approximately $1.4 billion. Two-thirds was represented in the textile industry alone. In the past year, according to the Department of Commerce, there has been a $766 million imbalance in textiles alone.

So if we start with the initial part of the Senator's statement with respect to concern for balance of payments in trades, he would certainly be speaking in support of this bill.

Mr. President, before I answer the remainder of the Senator's argument, I should like to return to the record we would like to make with respect to the fairness and the concern with which this problem has been approached.

President John F. Kennedy, on February 26, 1962, wrote Representative Carl Vinson, then chairman of the Armed Services Committee of the House, and I ask unanimous consent that the entire letter be printed at this point in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

THE WHITE HOUSE,
Washington, February 26, 1962.

HON. CARL VINSON,
House of Representatives,
Washington, D.C.

DEAR CARL: As you know, I have long shared the concern over the textile industry expressed by you and the other Congressmen who signed the letter of February 15. Every segment of our economy must prosper if we are to achieve satisfactory growth rates and satisfactory employment levels.

Nine months ago I proposed seven measures to help overcome the handicaps faced by the industry.

First, I directed the Department of Commerce to launch an expanded program of research, covering new products, processes and markets. I understand that the National Academy of Sciences was asked by the Department of Commerce to help explore this whole broad area and to report its findings and recommendations. A labor-management committee appointed by the Secretary of Commerce is advising and assisting in the development of recommendations and a report is scheduled for completion on March 5.

Second, existing depreciation allowances on textile machinery have been revised to permit more rapid replacement and to take into account obsolescence. This action is already proving helpful in speeding modernization of textile equipment.

Third, in accordance with my direction, the Small Business Administration has made available necessary financing for modernization of textile machinery, lending over $6 million since this program was initiated.

Fourth, the Department of Agriculture submitted to me, and I transmitted to the Tariff Commission, a proposal for the imposition of an equalization fee to offset the cost to the United States mills of the adverse differential in raw cotton costs between domestic and foreign textile producers. The Tariff Commission has just concluded hearings upon this matter and I have already requested them to complete their investigation and report as soon as practicable..

Fifth, I have submitted to the Congress a Trade Expansion Bill, which includes a proposal to permit plants and workers seriously injured or threatened with serious injury as a result of increased imports to receive assistance from the Federal Government. Hearings upon this legislation are scheduled to begin March 12.

Sixth, all cotton textile products are now covered by a special international agreement reached at Geneva on July 17, 1961, authorizing the limitation of imports to the level of the 12 months ending June 30, 1961. This agreement expires September 30, 1962. The long-term agreement, which was just negotiated, will continue the same level of imports, with minor adjustments, for an additional five years. It provides the tools with which we can prevent adverse effects upon the cotton textile industry from imports, and the tools will be used.

I concur in your evaluation of the importance of the long-term arrangement. Of course, adherence by the nineteen governments involved must still be obtained, and the United States will exert every effort to obtain this adherence.

The rights of the United States under both the short-term arrangement and the long-term arrangement will be exercised in such a manner that their force will not be modified or diluted by administrative judgment or action. Representatives of the Departments involved have explained to you and others the way the Arrangements will be administered and I asure you and your colleague of my continuing interet. Under our plan for administering the Arrangements the industry can plan production with complete confidence that its markets will not be disrupted by imports.

Finally, there is now pending before the Office of Emergency Planning an application by the textile industry for relief under the national security provisions of the Trade Agreements Extension Act. Consideration of this case upon its merits is being expedited and I am requesting the Office of Emergency Planning to make a recommendation to me without any unnecessary delay.

I have also requested the Departments involved to implement my program for the wool, man-made fiber and silk divisions of the industry. Almost all of the points in the program announced on May 2, 1961, apply equally to each of these.

I appreciate very much your warm expressions of support.

Sincerely,

Mr. HOLLINGS. I quote one sentence:

I have also requested the Department involved to implement my program for the wool, man-made fiber and silk divisions of the industry. Almost all of the points in the program announced on May 2, 1961 apply equally to each of these.

Here is the father of free trade in modern times. After Cordell Hull, with his emphasis on reciprocal free trade, President Kennedy came to Congress, in his message on the Trade Expansion Act of 1962, asking for Executive authority to implement trade negotiations and agreements. My measure—we will go over it in detail—has a proviso in the next to the last sentence that notwithstanding any part of this particular amendment, the President has the authority to enter into any agreements and limit, decrease or increase, or otherwise limit the rate of importation of textile articles, regardless of any other provisions in the bill.

So the ultimate authority is given to the Executive.

In addition to the letter of February 26, 1962, we have other documents that go right to the comprehensiveness of the particular program. A statement by President Johnson in October of 1964, at Macon, is significant. At that time he said:

We must now focus on the remaining weak spots and implement the rest of our program.

Immediately, they say, "Why don't you go ahead and do it? Why don't you agree?" The one fly in the ointment, the one hurdle, is the crowd we have over here in great numbers, going with great fanfare to the White House—having teas and coffees—with the Prime Minister, even coming out and helping us in Vietnam for a change; I thought that was a fringe benefit—the entire Cabinet of Japan.

The State Department has arranged another trip for American interests and pubilc officials next month, from the United States to Japan, where all is going to be lovey-dovey. The whole idea is that we should not be outwitted by the sharp Japanese businessman. That is the heart of this problem. We are not concerned about the underdeveloped nations, the emerging nations, the European Economic Community. We are concerned about the Japanese.

This is the Japanese position: We tried in December of 1962, at the leadership of Mr. Hickman Price, the Assistant Secretary of Commerce, when he went to London, to the conference which President Kennedy directed that they should have—and with the State Department, like a reluctant child, constantly kicking and screaming, "Nobody is going to talk." President Kennedy then directed the State Department, with Commerce and other representatives, to go to London to have a conference on his textile program with regard to woolens.

Mr. Hickman Price said it was a farce, that the other side had been notified through our State Department that there was no reason to think they were going to have any agreements or they should really sit down and discuss the measure. Mr. Price had to rent a room the following morning because no arrangements had been made for a meeting room.

They had another meeting in June of 1964, and then, in June of 1965, in Tokyo, A Daily News article reported on that particular safari—trying to get agreements in woolens and manmade fibers—headed by Mr. Warren Christopher of the State Department.

Mr. President, at that particular time the Japanese stated as follows:

We are merely attending a conference to inform the Americans once and for all that we have no intention of entering any international agreement involving quantitative restrictions on importation of woolen goods.

They further stated:

Japan's position on an agreement and conference has not changed since last year when we said no! Since August, 1964, there have been developments which may be important. These have been a hardening of our position, not a softening of same.

Mr. President, I ask unanimous consent to have printed in the RECORD the entire article to which I have referred.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[Japanese Statement]

REPORT ON UNITED STATES-JAPAN WOOL TEXTILE CONFERENCE IN TOKYO, JUNE 7–8, 1965

(Under caption "Hard Words in the Asukanoma Room" in Daily News Record of September 30, 1965)

WASHINGTON.—The Japanese woolen exporter rose to his feet. "We are not North Vietnam," he told the Americans defiantly. "We hope you will make a distinction between your friends and enemies."

When the exporter, Kyutaro Izaki, sat down, last June's Toyko wool cloth conference had been shattered. Angry and discouraged, the American delegation packed its bags and came home.

This is one of the dramatic insights contained in an extraordinary document which has just come into DNR's possession. It is an unofficial stenographic record in two languages, of what went on behind the closed doors of the Asukanoma Room at Tokyo's Hotel Okura last June 7–8.

DNR and the world's press reported on that meeting between United States and Japanese Governments and wool textile representatives. They reported the Japanese had firmly rejected a United States bid for an international conference on wool marketing.

What they did not report, what no one has reported, are details of the sometimes savage infighting which occurred in the course of that meeting, when the normal niceties of such negotiations went out the window and the Japanese mounted belligerent attacks on the American proposals.

Now that DNR has turned up the record, the story can be told. Against the background of renewed rumblings on the wool cloth import front (see DNR Page One, Sept. 29), what happened in Tokyo takes on new significance.

The gap not only between U.S. and Japanese positions on wool, but between the basic philosophies of how negotiations should be conducted between civilized nations, becomes astoundingly wide when you read this record.

Here are some of the highlights:

It was Warren Christopher's (Dean Rusk's special representative) remark that "if relief from disruptive imports is not forthcoming, Congress may well take matters into its own hands," that brought Izaki up fighting.

"We were shocked by your presentation," he said. "We were shocked by your presentation on economic matters. We are confident that if you will get an objective analysis you will support our position that our exports have not injured the U.S. This includes worsteds. I am sure we could talk all day but not agree . . . furthermore we are shocked by your political presentation. We are the closest friends and allies, therefore, you surprised us by your political threats. So I assure you, we too have a government and legislature and we have leaders who are concerned with our welfare and they will protect us.

"We too," Izaki went on, "have means for our protection including trade in textiles. Therefore, to avoid an ugly showdown, you should check the real facts and change your position.

"The reason we refuse you is not because we are unreasonable. We are not easily frightened and our relationship will suffer. We do not like political threats.

"We are not North Vietnam," he concluded. "We hope you will make a distinction between your friends and enemies."

Izaki's savage onslaught was especially distasteful to the Americans with its reference to a rapidly escalating shooting war, with heavy American casualties. As Izaki sat down, two more Japanese threw in more polite, but equally tough remarks.

Shokichi Abe, Chairman of the Japan Wool Spinners' Association, told the meeting:

"We have no intention of participating in an international wool conference. It is a domestic problem and must be solved domestically. You should not resort to political pressure."

Hikoichiro Miyazaki, President of the Japan Textile Products Exporters' Association, added, "LTA is a dissatisfaction to me and I am not pleased by it, therefore I oppose an agreement on wool."

But it was Izaki's statement that popped the lid on the kettle.

Shin-ichi Arai, Director of MITI's Textile Bureau, had the gavel. Realizing perhaps that the meeting was about to break up in such rancor it would be difficult ever to sit down constructively with the same cast of characters, he moved for a 30-minute lunch break. The Americans were invited to eat with their hosts. They declined, and went off to huddle alone.

They were angry and disturbed. It was agreed during their luncheon caucus that Izaki had made further talk impossible. The Americans had no intention of negotiating under a gun.

When they came back into the Asukanoma Room, where the sessions were held, Christopher stood up.

"I speak more in sorrow than in anger," he said. "We feel that we have received the answer to our report in such terms, and in such a way, as to rule out the usefulness of any further discussions. There are many factual matters which might have been clarified or corrected, but it would not be useful to do so in the atmosphere established this morning."

As they came out of the room, Morton H. Darman, President of The Top Co., Boston, and a United States delegate, told DAILY NEWS RECORD of the "harsh and unfriendly attitude of the Japanese."

Just how harsh, how unfriendly, was not revealed until the record became available here this week.

Other Japanese delegates had also spoken bluntly. The day before the sessions began DAILY NEWS RECORD quoted a Japanese official as branding the talks, "Operation Waste of Time," and saying, "We are merely attending a conference to inform the Americans once and for all that we have no intention of entering into any international agreement involving quantitative restrictions on the importation of woolen goods."

Shiro Miyamoto, Chief of the Textile Bureau's Textile Products Division, and lead-off Japanese speaker, had rattled off statistics aimed at demonstrating Japan's efforts to curtail production and insisted that in 1960 American spinning and number of looms "each increased but here we banned additional capacity."

Ichiro Yoshioka, Chief of the Textile Export Section, was much blunter. He said Japan was in the red in its trade with America.

"Japan will not go along with setting up another trade barrier, no matter what items are involved . . ."

Arai, relinquishing his chairmanship to make a statement, said, "We are not happy at trend of discussions to establish new trade barriers . . . Japan's position on an agreement and conference has not changed since last year when we said no! Since August 1964, there have been developments which may be important. These have been a hardening of our position, not softening of same."

He went on, covering several topics, in increasingly hard language:

"Disappointments on cotton renegotiation in 1965 . . . mounting resentment to cotton arrangement in Japan . . . attitude of U.S. that prosperity is rampant in Japan . . . U.S. is moving in direction of a violation of Article I of LTA . . . we are not convinced about U.S. position paper . . . we were told that LTA discrimination against Japanese cottons would be removed, but this has not happened," and so on.

But all of these remarks were still within the ground rules of hard bargaining between professionals over a conference table.

It was Izaki's gratuitous slap at the United States and his reference to Vietnam that ruptured the meeting.

Arai knew this and closed the session with this remark:

"The meeting of two days is coming to a close. There were A.M. expressions made which were not pertinent and I want you to know they were not meant. We have had honest and somewhat too frank exchange of views (but) we know (we) understand each other."

But there was a postscript. As the record now reveals it went this way:

"At conclusion, member of foreign office conferred with Arai. Arai then called for re-opening the meeting for the purpose of expunging from the record the Izaki statement regarding North Vietnam. This was done."

Izaki's statement was expunged from the record. Whoever the Japanese foreign office man was, he was a diplomat. But before his intelligent and tactful intervention, Izaki's remark had been permitted to remain an hour in the record, as one American delegate put it, "like a cupful of vinegar on a sea of milk."

The foreign office official had realized that they could not let the record stand as it was and still hope one day again to sit down with Americans and bargain on wool. So they cut it out.

How right he was to change the record was made clear when the U.S. delegation reported back to Washington. It was said here that several Senators and Representatives were so angered they very nearly went on the record with their protests. That they did not is a tribute to cool thinking on the part of American woolen men who felt that would only make things worse.

In fact, as one source puts it, the air has now cleared to the extent that at least the Japanese are willing to talk (by cable) on specific segments of the over-all problem, especially on worsteds.

But while the record has been changed and the tempers cooled, it's apparent that the Izaki remark will not soon be expunged from the memories of those Americans who heard it.

—J. W. B.

Mr. HOLLINGS. Mr. President, finally, the matter was climaxed when Mr. Christopher put forth the position of the United States in trying to obtain agreements. I shall quote the response of the Japanese:

"We are not North Vietnam," he concluded. "We hope you will make a distinction between your friends and your enemies."

The position of Japan has been very militant and obviously so because they have an $889 million balance of trade in their favor with the United States, and as of 1966 $430 million of that is represented in textile articles.

Mr. President, here is a nation with less than 1 percent of its gross national product going into the national defense, with no sacrifice in blood or material wealth, with us defending the Far East and making the sacrifice, not only with our boys but also in billions and billions of dollars, and then they say we should realize they are not North Vietnam, and that they are not going to talk to us, and they are going to bring the cabinet over and entertain everybody, and we are going to let the jobs be exported from the United States to Japan.

Yesterday I attended a groundbreaking in my backyard at what they call an industry but which was wholly and solely a warehouse facility so they could import from foreign countries textile articles. That is where the jobs are going. There is still some $370.2 million in textile commodities as an unfavorable balance in textile trade alone between Japan and the United States.

Mr. President, in support of the figure of $889 million, I offer and ask to have printed in the RECORD a report from the Office of Business Economics, Department of Commerce Survey of Current Business, dated June 1967, for the period 1961 to 1966.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

SURVEY OF CURRENT BUSINESS—OFFICE OF BUSINESS ECONOMICS—DEPARTMENT OF COMMERCE

[The balance of trade with Japan for the year 1966 shows a deficit balance of $889,000,000. This item appears on line 23]

Line	Credits +; debits −	Japan[1]						Australia, New Zealand, and South Africa[1]			
		1961	1962	1963	1964	1965	1966	1963	1964	1965	1966
1	Exports of goods and services	2,122	1,943	2,289	2,526	2,676	2,961	1,175	1,540	1,763	1,651
2	Excluding transfers under military grants	2,122	1,943	2,289	2,526	2,676	2,961	1,175	1,540	1,763	1,651
3	Merchandise, adjusted, excluding military	1,767	1,540	1,820	1,974	2,051	2,341	849	1,156	1,258	1,149
4	Transfers under military sales contracts	24	24	25	16	31	24	26	40	96	[illegible]
5	Transfers under military grants, net										
6	Transportation	119	118	127	136	142	153	58	73	68	74
7	Travel	13	13	20	26	27	34	20	26	30	33
8	Fees and royalties from direct investments	11	14	15	18	20	26	36	47	59	66
9	Other private services	74	81	88	101	107	98	57	58	71	78

Footnote at end of table.

SURVEY OF CURRENT BUSINESS—OFFICE OF BUSINESS ECONOMICS—DEPARTMENT OF COMMERCE—Continued

[The balance of trade with Japan for the year 1966 shows a deficit balance of $889,000,000. This item appears on line 23]

Line	Credits +; debits −	Japan [1]						Australia, New Zealand, and South Africa [1]			
		1961	1962	1963	1964	1965	1966	1963	1964	1965	1966
	Exports of goods and services—Continued										
10	Other U.S. Government services	7	7	9	8	11	9			1	1
	Income on U.S. investments abroad:										
11	Direct investments	15	19	21	30	47	43	98	105	140	137
12	Other private assets	80	112	133	184	208	206	28	33	39	47
13	U.S. Government assets	12	15	31	33	32	27	3	2	1	
14	Import of goods and services	−1,633	−1,960	−2,142	−2,410	−3,140	−3,850	−837	−799	−806	−992
15	Merchandise, adjusted, excluding military	−1,054	−1,358	−1,497	−1,769	−2,427	−2,966	−655	−601	−635	−806
16	Military expenditures	−385	−378	−362	−326	−346	−476	−105	−103	−57	−59
17	Transportation	−91	−108	−126	−136	−154	−171	−46	−55	−64	−66
18	Travel	−46	−50	−52	−54	−60	−62	−13	−14	−20	−21
19	Private payments for other services	−4	−6	−5	−6	−7	−8	−1	−1	−2	−2
20	U.S. Government payments for other services	−7	−7	−12	−16	−15	−15	−8	−15	−17	−23
	Income on foreign investments in the United States:										
21	Private payments	−27	−38	−64	−79	−106	−123	−6	−6	−7	−9
22	U.S. Government payments	−19	−15	−24	−24	−25	−29	−3	−4	−4	−6
23	Balance on goods and services (lines 1 and 14)	489	−17	147	116	−464	−889	338	741	957	659
24	Excluding transfer under military grants (lines 2 and 14)	489	−17	147	116	−464	−889	338	741	957	659
25	Unilateral transfers, nets; transfers to foreigners (−)	−27	−28	−32	−29	−30	−32	−14	−11	−13	−17
26	Excluding military grants	−27	−28	−32	−29	−30	−32	−14	−11	−13	−17
27	Private remittances	−21	−21	−25	−21	−22	−22	−11	−8	−9	−13
28	Military grants of goods and services										
29	Other U.S. Government grants	−2	−1		−1						
30	U.S. Government pensions and other transfers	−4	−6	−7	−7	−8	−10	−3	−3	−4	−4
31	Balance on goods, services, and unilateral transfers (lines 23 and 25, or 24 and 26)	462	−45	115	87	−494	−921	324	730	944	642
32	Transactions in U.S. private assets, net; increase in assets (−)	−828	−527	−839	−697	−13	365	−111	−159	−323	−313
33	Direct investments	−29	−54	−68	−78	−19	−31	−108	−136	−175	−170
34	Foreign securities newly issued in the United States	−61	−101	−164		−52	−4	−17			
35	Redemptions	2	4	9	18	7	6	15	15	16	24
36	Other transactions in foreign securities	−11	−23	−29		7	10	−10	12	−38	−5
	Claims reported by U.S. banks:										
37	Long-term	−4	−51	−155	−136	−15	119	29	−43	−97	−127
38	Short-term	−670	−212	−431	−482	59	266	−12	−3	−17	−17
	Claims reported by U.S. residents other than banks:										
39	Long-term	−30	−57	35	1	−9	3	−2	5	−1	4
40	Short-term	−25	−33	−36	−20	9	−4	−6	−9	−11	−22
41	Transactions in U.S. Government assets, excluding official reserve assets, net; increase in assets (−).	−23	−56	−53	50	62	−50	31	14	−11	−39
42	Loans and other long-term assets	−64	−98	−93	−18	−24	−112			−64	−56
43	Foreign currencies and other short-term assets	4	3	−21	3	5	−2	−1	1		
	Repayments on credits:										
44	Scheduled	37	39	61	65	67	64	17	12	50	17
45	Nonscheduled					14		15	1	3	
46	Transactions in U.S. official reserve assets, net: increase in assts (−)				−1		56			8	
47	Gold						56			8	
48	Convertible currencies				−1						
49	Gold tranche position in IMF										
50	Transactions in foreign assets in the United States, net; increase in foreign assets (U.S. liabilities) (+):	−256	535	250	200	291	−149	71	26	49	91
51	Direct investments		25	−11	−38	33	−24		2	−5	
52	U.S. securities other than Treasury issues		1	1			5			−1	
53	Long-term liabilities reported by U.S. banks			1	−1	2	194	1		1	18
	Other liabilities reported by U.S. private residents other than banks:										
54	Long-term			3	−4			−1		3	−2
55	Short-term	32	−15	−28	7	4	−5	5	13	−5	41
	Liabilities of U.S. Government, excluding marketable or convertible Securities:										
56	Associated with specific transactions	9		−5	1	1	4	28	5	−32	29
57	Other nonmarketable, nonconvertible, medium-term securities										
58	U.S. Government marketable or convertible bonds and notes					4					
59	Deposits and money market paper held in the United States	−297	524	289	235	247	−323	38	6	88	5
60	Errors and omissions and transfers of funds between foreign areas, net: receipts by foreign areas (−)	645	93	527	361	154	699	−315	−611	−667	−381

[1] Data for earlier periods have not been separately estimated, but are included in the totals shown in table 1.

Mr. HOLLINGS. Mr. President, I also ask unanimous consent to have printed in the RECORD a set of tables that would be of great interest to all Senators. They represent the most up-to-date information we can obtain.

There being no objection, the charts were ordered to be printed in the RECORD, as follows:

U.S. IMPORTS OF TEXTILES

[In millions of pounds]

	As fiber filaments and filament yarn	As products	Manmade fiber total	Cotton	Wool	Total
1961	60.1	23.5	83.6	188.9	127.4	399.9
1962	87.6	30.6	118.2	309.8	145.6	573.6
1963	145.2	36.2	181.4	304.3	152.6	638.2
1964	158.2	50.0	208.2	300.2	141.1	649.5
1965	159.3	79.0	238.3	360.6	156.1	755.0
1966	212.7	122.2	334.9	507.0	142.9	984.8
1967	196.4	137.6	334.0	438.5	121.8	894.3
Average, 1961–66	137.2	56.1	194.1	328.5	144.3	666.8
Percent change, 1961–66	+253.9	+420.0	+300.6	+168.4	+12.2	+146.3

Source: Textile Organon, April 1967, p. 66; March 1967, p. 52; April 1966, p. 66; Wool Situation, Oct. 24, 1967, tables 216 and 217; Cotton Situation, Oct. 27, 1967, tables 2 and 26; Textile Economics Bureau.

DOMESTIC CONSUMPTION OF TEXTILE FIBERS

[In millions of pounds]

	Manmade	Cotton	Wool	Total
1961	1,842.2	4,031.2	535.0	6,408.4
1962	2,161.5	4,277.5	570.3	7,009.3
1963	2,515.7	4,136.7	558.6	7,211.0
1964	2,850.5	4,331.4	490.8	7,672.7
1965	3,237.9	4,664.3	527.5	8,429.7
1966	3,565.2	4,947.9	500.5	9,013.6
1967	3,793.7	4,670.8	423.7	8,888.2
Average, 1961–66	2,695.5	4,398.2	530.4	7,624.1
Percent change, 1961–66	+93.5	+22.7	−6.4	+40.7

Source: Textile Organon, March 1967, p. 52.; Wool Situation, Oct. 24, 1967, tables 216 and 217; Cotton Situation, Oct. 27, 1967, tables 2 and 26.

RATIO OF IMPORTS TO DOMESTIC CONSUMPTION OF TEXTILES

[In percent]

	Manmade fiber	Cotton	Wool	Total
1961	4.5	4.7	23.8	6.2
1962	5.5	7.2	25.5	8.2
1963	7.2	7.4	27.3	8.9
1964	7.3	6.9	28.7	8.5
1965	7.4	7.7	29.6	9.0
1966	9.4	10.2	28.6	10.9
1967	8.8	9.4	28.7	10.1
Average, 1961–66	6.9	7.4	27.2	8.6

Source: Textile Organon, March 1967 and October 1967; Wool Situation, Oct. 24, 1967, tables 216 and 217; Cotton Situation, Oct. 27, 1967, tables 2 and 26; U.S. Department of Commerce, Textile Economics Bureau, Statistics on Cotton, 1925 through 1962, table 20.

S. 1796 BASE PERIOD IMPORTS OF MANMADE STAPLE FIBER, FILAMENTS, AND FILAMENT YARN (IN POUNDS) AND IMPORTS OF TEXTILE MANUFACTURES (IN SQUARE YARD EQUIVALENTS)

[In millions]

	Manmade staple fiber, filaments, and filament yarn	Textile manufactures (not including floor coverings)			
		Cotton	Wool	Manmade fiber	Total
1961	60.1	720.2	85.3	100.5	906.0
1962	87.6	1,164.7	141.0	141.7	1,447.4
1963	145.2	1,101.2	151.7	173.7	1,426.6
1964	158.2	1,057.5	130.5	266.3	1,454.3
1965	159.3	1,312.8	180.3	443.6	1,936.7
1966	212.7	1,824.2	174.7	783.0	2,781.9
Average	137.2	1,196.8	143.9	318.1	1,658.8
Percent change, 1961–66	+253.9	+153.3	+104.8	+679.1	+207.1

Source: U.S. Department of Commerce; Textile Economics Bureau.

U.S. FOREIGN TRADE IN PRODUCTS OF THE TEXTILE INDUSTRY

A. In millions of dollars. (Source: Office of Textiles, Department of Commerce; Textile Organon)

	Imports				Exports				Balance of trade			
	Cotton	Wool	Man-made fiber	Total	Cotton	Wool	Man-made fiber	Total	Cotton	Wool	Man-made fiber	Total
1960	268.7	216.3	81.1	566.1	284.2	8.9	273.4	566.5	+15.5	−207.4	+192.3	+0.4
1961	198.8	200.3	76.4	475.5	272.4	9.2	268.1	549.7	+73.6	−191.1	+191.7	+74.2
1962	306.8	272.4	104.3	683.5	217.3	9.6	322.3	549.2	−89.5	−262.8	+218.0	−134.3
1963	298.8	297.1	124.3	720.2	262.5	9.6	326.6	598.7	−36.3	−287.5	+202.3	−121.5
1964	308.3	289.1	170.4	767.8	206.5	10.9	406.3	623.7	−101.8	−278.2	+235.9	−144.1
1965	369.2	356.6	247.5	973.3	218.9	11.3	335.7	565.9	−150.3	−345.3	+88.2	−407.4
1966	463.1	353.8	322.5	1,139.4	231.3	20.1	360.4	611.8	−231.8	−302.4	+6.6	−527.6
1967 [1]	416.7	306.6	351.5	1,074.8	230.1	15.0	358.2	603.3	−186.6	−291.6	+6.7	−471.5
Percent change, 1960–66	+72.3	+63.6	+297.7	+101.3	−18.6	+125.8	+31.8	+7.9				

B. In millions of pounds of fiber equivalents. (Source: Textile Economics Bureau, Inc.)

1960	252.3	132.1	105.3	489.7	233.3	4.7	202.4	440.4	−19.0	−127.4	+97.1	−49.3
1961	188.9	127.4	83.6	399.9	239.2	4.5	202.1	445.8	+50.3	−122.9	+118.5	+45.9
1962	309.8	145.6	118.2	573.6	220.3	4.4	245.5	470.2	−89.5	−141.2	+127.3	−103.4
1963	304.3	152.5	181.4	638.2	207.8	5.6	242.9	456.3	−96.5	−146.9	+61.5	−181.9
1964	300.2	141.1	208.3	649.6	213.2	7.0	278.8	499.0	−87.0	−134.1	+70.5	−150.6
1965	360.6	156.1	238.3	755.0	173.8	15.6	265.5	454.9	−186.8	−140.5	+27.2	−300.1
1966	507.0	142.9	334.9	984.9	189.6	12.7	298.6	500.9	−317.4	−130.2	−36.3	−483.9
1967	438.5	121.8	334.0	894.3	188.4	10.2	262.0	460.6	−250.1	−111.6	−72.0	−433.7
Percent change, 1960–66	+100.9	+8.2	+218.0	+101.1	−18.7	+170.2	+47.5	+13.7				

[1] Based on 11 months' data.

JANUARY 1968 PRICE INDEXES

[1957–59=100]

Wholesale Price Index:	
All items	107.8
Cotton products (2.6 percent below average)	105.2
Consumer Price Index:	
All items	118.6
Apparel and upkeep	115.9
Apparel minus upkeep and footwear (6.4 percent below average)	112.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, Whole Price Index, Consumer Price Index.

TABLE I.—U.S. IMPORTS, EXPORTS, AND BALANCE OF TRADE OF TEXTILE SEMIMANUFACTURES, MANUFACTURES, AND APPAREL,[1] 1956, 1962–67

[In millions of dollars]

Year	Exports	Imports	Import balance
1956	498.2	533.0	34.8
1962	448.3	939.6	491.3
1963	459.9	1,006.7	546.8
1964	530.0	1,041.8	511.8
1965	510.3	1,267.0	756.7
1966	548.9	1,452.5	903.6
1967	544.3	1,376.1	831.8

[1] Excludes manmade filament yarns, glass yarns, tire cord, and tire cord fabric, linoleum, rubber and leather apparel, and clothing donated for charity.

1967 BALANCE OF TEXTILE TRADE WITH JAPAN

[In millions of dollars]

Imports	382.6
Exports	−12.4
Total	[1] 370.2

[1] Import balance or trade deficit, U.S. Department of Commerce.

	Average 1958–60	1961	1962	1963	1964	1965	1966	1967
Earnings ratios, net profit after taxes as a percent of sales:								
Textile mill products and apparel	1.8	1.7	2.0	1.9	2.6	3.1	3.0	[1] 2.7
All manufacturing	4.5	4.3	4.5	4.7	5.2	5.6	5.6	[1] 4.9
Earnings ratios, net profit after taxes as a percent of net worth:								
Textile mill products and apparel	6.3	6.1	7.8	6.9	10.1	11.8	11.7	6.9
All manufacturing	9.4	8.9	9.8	10.3	11.6	13.0	13.5	11.5

[1] Annual rate based on 3 quarters.

Source: Earnings ratios, FTC–SEC Quarterly Financial Report for Manufacturing Corporations.

AVERAGE HOURLY EARNINGS OF WAGE EARNERS

[In U.S. dollars]

	Textiles			Apparel			Manmade fiber			Averages
	1961	1966	4/67	1961	1966	4/67	1961	1966	4/67	
United States	1.63	1.93	2.02	1.64	1.87	2.01	2.36	2.71	2.80	2.28
United Kingdom [1]	.84	1.14	1.15	.87	1.20	1.23	.94	1.38	1.38	1.25
West Germany	.62	.96	.96	.77	.88	.88	[2] .77	[2] 1.16	1.25	1.02
France	.47	.63	[3]	.45	.65	[3]	[2] .65	[2] .88	[3]	.72
Italy	.32	.54	.56	.26	.44	.45	.40	.58	.57	.53
Japan	.23	[1] .66	[3]	.20	.32	[3]	[2] .48	[2] .81	[3]	.60

[1] Men only.
[2] Chemicals.
[3] Not available.

Source: U.S. Department of Labor, Division of Foreign Commerce Conditions.

GEOGRAPHICAL DISTRIBUTION OF THE TEXTILE INDUSTRY, 1966 (MID-MARCH)

	Textile mill products		Apparel and related products		Manmade fibers		Total	
	Employment	Number of establishments	Employment	Number of establishments	Employment	Number of establishments	Employment	Number of establishments
Alabama	38,875	120	38,962	209	[1] 3,000	2	80,837	331
Arizona	[1] 175	4	3,587	72			3,762	76
Arkansas	3,360	20	12,918	78			16,278	98
California	8,779	245	66,931	2,306			75,710	2,551
Colorado	177	8	1,657	76			1,834	84
Connecticut	13,288	131	15,916	298	[1] 175	1	29,379	430
Delaware	1,639	13	3,466	23	[1] 1,500	1	6,605	37
District of Columbia			147	20			147	20
Florida	1,932	34	14,991	427	[1] 7,500	2	24,423	463
Georgia	104,988	372	62,050	444	[1] 1,535	2	168,573	818
Hawaii			2,305	73			2,305	73
Idaho			41	10			41	10
Illinois	6,407	81	39,877	790			46,284	871
Indiana	1,028	10	14,052	163			15,080	173
Iowa	277	7	3,743	72			4,020	79
Kansas			4,083	69			4,083	69
Kentucky	2,793	23	25,571	129			28,364	152
Louisiana	306	8	6,420	62	[1] 175	1	6,901	71
Maine	12,140	55	3,827	44			15,967	99
Maryland	2,773	30	24,947	319	[1] 1,500	1	29,220	350
Massachusetts	37,746	413	56,527	985	[1] 375	1	94,648	1,399
Michigan	3,807	44	20,484	244			24,291	288
Minnesota	2,462	24	8,177	158			10,639	182
Mississippi	6,464	29	32,716	144			39,180	173
Missouri	1,844	32	35,479	411			37,323	443
Nebraska	[1] 210	2	1,658	35			1,868	37
New Hampshire	10,633	83	2,090	39			12,723	122
New Jersey	27,933	549	78,862	2,161			106,795	2,710
New Mexico			520	20			520	20
New York	58,772	1,565	315,000	11,141	[1] 1,681	3	375,453	12,709
North Carolina	246,000	1,245	59,799	428	[2] 10,743	9	316,542	1,682
Ohio	9,981	82	18,942	359	[1] 1,500	2	30,423	443
Oklahoma	595	4	6,318	68			6,913	72
Oregon	2,441	25	3,022	74			5,463	99
Pennsylvania	68,910	757	179,718	2,198	[1] 3,000	2	251,628	2,957
Rhode Island	21,848	292	3,852	77	[1] 175	1	25,875	370
South Carolina	141,199	350	40,614	226	[2] 8,656	8	190,469	584
Tennessee	30,832	153	65,519	273	20,850	11	117,201	437
Texas	6,971	66	50,077	585			57,048	651
Utah			2,437	42			2,437	42
Vermont	705	17	1,581	30			2,286	47
Virginia	40,072	105	29,906	174	[2] 21,202	10	91,180	289
Washington	610	19	4,673	127			5,283	146
West Virginia	1,537	5	4,819	41	[1] 3,000	2	9,356	48
Wisconsin	6,923	62	7,481	165			14,404	227
Total, 45 States	927,432	7,084	1,375,762	25,889	86,567	59	2,389,761	33,032

[1] Estimated.
[2] Partially estimated.

Source: U. S. Department of Commerce, Bureau of the Census, 1966 County Business Patterns.

EMPLOYMENT STATISTICS FOR THE TEXTILE INDUSTRY, 1966 TO FEBRUARY 1968

	Manmade	Textile mill products	Apparel	Total
January 1966	100.2	938.9	1,333.7	2,372.8
January 1967	101.5	950.8	1,392.4	2,444.7
Net	+1.3	+11.9	+58.7	+71.9
January 1967	101.5	950.8	1,392.4	2,444.7
January 1968	103.5	952.3	1,362.2	2,418.0
Net	+2.0	+1.5	−30.2	−26.7
February 1966	100.3	946.4	1,395.3	2,442.0
February 1967	99.6	945.2	1,407.5	2,452.3
Net	−.7	−1.2	+12.2	+10.3
February 1967	99.6	945.2	1,407.5	2,452.3
February 1968	(1)	[2] 965.5	[2] 1,403.2	[2] 2,472.2
Net		+20.3	+4.3	[2] +19.9
March 1966	101.0	962.6	1,401.0	2,464.6
March 1967	96.4	948.1	1,396.3	2,440.8
Net	−4.6	−14.5	−4.7	−23.8
April 1966	101.9	958.0	1,385.0	2,444.9
April 1967	97.5	944.1	1,376.2	2,417.8
Net	−4.4	−13.9	−8.8	−27.1
May 1966	102.7	962.6	1,401.0	2,466.3
May 1967	97.0	941.0	1,382.2	2,420.2
Net	−5.7	−21.6	−18.8	+46.1
June 1966	104.2	975.9	1,418.5	2,498.6
June 1967	97.4	957.0	1,395.4	2,449.8
Net	−6.8	−18.9	−23.1	−48.8
July 1966	105.5	958.6	1,355.6	2,419.7
July 1967	98.5	957.0	1,395.4	2,450.9
Net	−7.0	−1.6	+39.8	+31.2

Footnotes at end of table.

EMPLOYMENT STATISTICS FOR THE TEXTILE INDUSTRY, 1966 TO FEBRUARY 1968—Continued

	Manmade	Textile mill products	Apparel	Total
August 1966	105.6	977.1	1,424.5	2,507.2
August 1967	99.2	955.4	1,405.5	2,460.1
Net	−6.4	−21.7	−19.0	−47.1
September 1966	104.5	970.7	1,417.2	2,492.4
September 1967	100.1	957.3	1,398.0	2,455.4
Net	−4.4	−13.4	−19.2	−37.0
October 1966	103.3	969.4	1,422.7	2,495.4
October 1967	100.1	960.9	1,401.7	2,462.7
Net	−3.2	−8.5	−21.0	−32.7
November 1966	102.8	966.6	1,421.9	2,491.3
November 1967	100.4	962.3	1,403.3	2,466.0
Net	−2.4	−4.3	−18.6	−25.3
December 1966	102.5	960.0	1,405.0	2,467.5
December 1967	103.2	962.1	1,391.1	2,456.3
Net	+.7	+2.1	−13.9	−11.1

[1] Not available.
[2] Estimate.

Mr. HOLLINGS. Mr. President, the first chart shows U.S. imports of textile articles in millions fo pounds. The second chart shows domestic consumption of textiles.

The third chart shows the ratio of imports to domestic consumption of textiles in millions of pounds. The charts shows the ratio of imports to domestic consumption from 1961 to 1967 in manmade fiber has gone from 4.5 to 8.8 percent. For the present year, the rate approaches 12 percent as an authoritative projection.

The chart on ratio of imports to domestic consumption shows that cotton has gone from 4.7 percent in 1961 to 9.4 percent in 1967; wool has gone from 23.8 percent in 1961 to 28.7 percent in 1967.

Mr. President, there is also a table of the base period of imports of manmade staple fiber, filaments and filament yarn and imports of textile manufacturers in square equivalents. This chart would show the effect of the present amendment on the textile trade practice.

Next is a chart headed, "U.S. Foreign Trade in Products of the Textile Industry." This chart shows an imbalance in 1966 of $527.6 million.

I use the figure used by former Secretary of Commerce John Connor in the $900 million figure. Some will ask how this difference occurred. The wool figure does not include floor coverings, and there are many other textile commodities and articles not used in this chart by the Department of Commerce.

The next table is, U.S. Foreign Trade in Products of the Textile Industry, Continued.

Then, we go to the 1968 price indices. The wholesale price index for all items used in the period 1957–69, base period, 100, was 107.8.

For cotton products the chart shows 2.6 percent below the average for all items. For the consumer price index for all items, the price index for 1968 is 118.6, and for apparel and upkeep it is 115.9, or apparel minus upkeep and footwear 112.2, or 6.4 percent below the national average.

The price increases in cotton have been at the retail level. I think this is a good place to explain it because I know the Senator from Louisiana, the chairman of the Committee on Agriculture, in a meeting this afternoon has been very concerned about the price of cotton itself. One of the most popular items is 8.5 ounce twill. This is used in shirts and trousers on farms and has a wide variety of industrial as well as military use. In 1963 work pants cost $2.93; today the same pair of pants cost $3.29, which is an increase of 11.8 percent. During the 5-year period there have been five increases in wages at the retail level amounting to 29.5 percent. Since 1963 the retail level average increased from $1.25 to $1.40, and in some instances to $1.60.

The cost of cotton in 1963 was 35.92 cents per pound. In 1968 the same cotton cost 30.50 cents per pound or a decrease of 15.1 percent. The wholesale price of 8.5 ounce twill today is the same as it was 5 years ago in 1963.

In summary, cotton is down 15.1 percent, wages are up 29.5 percent at the mill, prices received by the mill are the same, and the consumer is paying 11.8 percent more, which indicates the increased cost is at the retail level and not at the mill level. Our selling price was the same in 1963 prior to the passage of the Agricultural Act of 1965.

Going further, I wish to introduce into the RECORD the average hourly earnings of wage earners for the United States, the United Kingdom, West Germany, France, Italy, and Japan. It shows the averages in the United States for the period 1961 through April of 1967 of $2.28, for the United Kingdom $1.25, for West Germany $1.03, for France $.72, for Italy $.53, and for Japan $.60.

The next chart shows U.S. imports, exports, and balance of trade of textile semimanufactures, manufactures, and apparel, 1956, 1962–67.

In 1967, balance of textile trade with Japan, we had imports of $382.6 million against exports of minus $12.4 million leaving import balance or trade deficit of $370.2 million.

The next chart is the geographical distribution of the textile industry with respect to employment.

Mr. SPONG. Mr. President, will the Senator yield?

Mr. HOLLINGS. I am glad to yield to the Senator from Virginia.

Mr. SPONG. Do the figures in the tables being presented by the Senator from South Carolina include the current figures on employment in the textile industry in the United States?

Mr. HOLLINGS. No. I do have the current figures of employment up to January. There has been a setback in the last 2 months. I shall include also another table, showing the fluctuation. From January 1967 to January 1968, there has been a drop of approximately 27,000 jobs.

Mr. SPONG. I thank the Senator.

Mr. HOLLINGS. I shall detain the distinguished Senator from Maryland, who is now presiding, but a few more minutes. I shall place in the RECORD, by unanimous consent, a list of industries that are headed overseas.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

SELECTED FOREIGN LOCATIONS OF PLANTS OWNED, WHOLLY OR IN PART, BY SELECTED AMERICAN APPAREL AND TEXTILE FIRMS

APPAREL AND LOCATION

The B.V.D. Company, Inc., Latin American Countries.
Blue Bell, Inc., Malta, Spain, Canada, Colombia, Belgium.
Botany Industries, Inc., Finland.
Cluett Peabody and Co., Inc., W. Germany, Sweden, U.K., Canada, Switzerland.
Cole of California, Netherlands.
Colonial Corporation of America, Jamaica.
The Duplan Corporation, Canada.
Exquisite Form Industries, Inc., W. Germany, Philippines, Canada, Venezuela.
Fownes Brothers & Co., Inc., Philippines.
Form Fit (Genesco, Inc.), Jamaica.
Wm. Gluckin Co., Ltd., Philippines, Bermuda.
H. W. Gossard Co., Canada, Australia.
Hanes Corporation, Canada.
Jantzen, Inc., Canada, U.K., Australia.
Jonathan Logan, Inc., Canada, U.K., Ireland, Venezuela.
Kayser-Roth Corp., Venezuela, Canada, Israel, Latin American countries.
Liberty Fabrics of N.Y., Canada, Panama, U.K.
Lovable Brassier Co., Jamaica, Japan.
The Manhattan Shirt Co., Belgium.
McGregor-Doniger, Inc., France.
Peter Pan Foundations, Inc., Belgium, Netherlands.
The Puritan Sportswear Corp., Canada, Panama.
Reliance Manufacturing Co., Canada, Hong Kong.
Rose Marie Reid, Netherlands, Mexico, Chile, South Africa.
Spartans Industries, Inc., Hong Kong, Panama.
White Stag (Bantamac Corp.), Austria.

TEXTILE AND LOCATION

Aberfoyle Manufacturing Co., Canada, Australia.
Beaunit Corporation, Israel, Canada.
Berkshire Hathaway, Inc., Canada.
Bigelow-Stanford, Inc., W. Germany, Italy, Finland.
Burlington Industries, Inc., Mexico, Canada, Colombia, France, W. Germany, South Africa, U.K.
Collins & Aikman Corp., Canada, Belgium.
Indian Head Mills, Inc., United Kingdom, Nigeria.
Johnson & Johnson, Twenty-one countries listed.
The Kendall Co., Canada, Mexico, Argentina, Brazil, Colombia, South Africa, U.K.
Reeves Brothers, Inc., United Kingdom.
Riegel Textile Corp., Canada.
J. P. Stevens & Co., Canada, Australia.

United Elastic Corp., Nova Scotia, Belgium.
United Merchants and Manufacturers, Inc., Canada, Argentina, Brazil, Uruguay, Venezuela.
West Point-Pepperell, Inc., Italy, U.K.

CHEMICAL FIBERS AND LOCATION

Celanese Corp. of America, Canada, Mexico, Colombia, Venezuela.
E. I. DuPont De Nemors & Co., Inc., Canada, Mexico, Argentina, Netherlands.
Monsanto Chemical Co., U.K., Australia, Argentina, Mexico, Belgium.
Rohm & Haas Co., Brazil, Italy.

Mr. HOLLINGS. Mr. President, we are not telling the textile industry that it is not going to make money. The textile industry is similar to the watch industry that tried to compete. We brought the Elgin Watch Co. from Illinois to South Carolina. After 5 years of operation under the policies of the Tariff Commission, that industry has been exported, and those jobs are gone. In September of last year, the Elgin Watch Co. in South Carolina was closed.

Today we are cutting back in employment, and the industrialists are going to compete by going into overseas facilities. They are contracting for exporting goods in Japan, Hong Kong, Jamaica, and other countries. They are even going into Portugal, and into Colombia, South America.

So our amendment is in terms of a national policy. I have submitted statistical material, and I simply state at this time that we are not trying to introduce any protectionist legislation or new trends at all; we are merely trying to bring the foreign countries to grips with a most important item in an industry that has been found to be the second most important to our national security, with respect to our imbalance of trade, representing between $776 million and almost $900 million in the outflow of gold, and indicating, finally, after having been studied by Congress itself in committee hearings over a 10-year period, from 1950 to 1960, that the seven-point program has not been fully implemented.

The industrialists are coming now and saying, "If this is the national policy, we know how to compete. If this is the policy, fine business. You tell us, and we will go overseas with the jobs."

That is what every Member of Congress has been talking about since early last year. We spent, in 1966, $441 million for Appalachia, which the distinguished Senator from New York [Mr. JAVITS] supported.

We are going to export thousands of jobs from Appalachia because of a callous trade policy, a policy which is not based on business experience at all, but is based on the fallacy and the euphemism of the cry, "Free trade," which cannot be supported at all in the bitter experience of international trade.

Mr. HART. Mr. President, in my judgment, this is not the time to consider the amendment offered by the able and distinguished Senator from South Carolina [Mr. HOLLINGS]. I say this for several reasons. First, the Committee on Finance has not acted on the bill. We are dealing with an exceedingly complex issue. It is not unique. Most of the items on which we spend more than 5 minutes are complex, although not always. But surely this amendment falls within the definition of a complex subject. It would have a damaging precedent effect, as I see it.

I shall not comment with respect to the substance of the amendment. I do counsel against hasty action on a measure such as this. It would establish a significant change in our national trade policy and focus interest on a significant segment of American industry, and will surely affect our relations and life with a number of our neighbor nations.

If this is a fair summary of what is involved, then action on such a matter as this should be taken only after a thorough and objective study and analysis of all the facts. The Committee on Finance has not considered the subject in any great detail. The House Committee on Ways and Means has not considered it. We are not moving through regular procedures. I am not known as one who insists always that regular procedures be followed; but in this instance, I think that to follow the regular procedures would be a highly prudent course.

Last October, the President and the chairman of the House Committee on Ways and Means jointly requested the Tariff Commission to study the effect of the impact on the textile industry. The report is now available, and its conclusions have been fairly summarized by others.

Surely, textiles are important to world trade, but this amendment does not stand alone. It is one of 18 import quota measures which are now before the Senate. What if we do hang on the pending bill an amendment with respect to one industry? What shall we do with respect to the 17 others, two of which I plead guilty to having cosponsored myself? I will stand in support of the two that I cosponsored if, after hearings and analysis, the ex parte recital of problems by the affected industries proves to be true. But I would not want to hang the authors of this amendment on this bill, because they are absent that kind of record. The total effect of the 18 bills that I have mentioned would affect products amounting to $6 billion of our imports.

Mr. President, reference has already been made to the implications that would follow in terms of reactions of nations who sat with us in the Kennedy round. I do not pretend that there is no American industry that does not have problems connected with imports. They are problems which must be considered by the Tariff Commission, the executive branch, and Congress.

What I am saying is, in effect: "Stop, look, and listen." Hasty and ill-considered action of this kind could easily unravel the whole fabric of world trade. And, particularly in view of the fact that imports of cotton and woolen textiles have actually fallen over the past year, I see no excuse for such haste.

Mr. President, I ask unanimous consent to have printed in the RECORD the following documents:

First, a statement by the President, dated October 4, 1967, requesting a report from the Tariff Commission by January 15, 1968, on the economic condition of the U.S. textile and apparel industries;

Second, a letter of October 4, 1967, from WILBUR D. MILLS to the Acting Chairman of the U.S. Tariff Commission;

Third, the summary of the Tariff Commission Report on Textiles and Textile Products, January 1968;

Fourth, a letter to me from the Greater Detroit Board of Commerce, dated October 25, 1967, opposing import-restricting legislation; and

Fifth, a copy of Michigan Senate Concurrent Resolution No. 22, urging Congress to defeat legislation imposing import quotas and restricting world trade, which was approved by both the Michigan Senate and House of Representatives.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

STATEMENT BY THE PRESIDENT, OCTOBER 4, 1967

I have today asked the United States Tariff Commission to report to me by January 15, 1968, in the fullest detail possible on the economic condition of the United States textile and apparel industries. In this report, I expect in particular an intensive analysis of the *present* and *prospective impact* of imports upon these industries.

This Administration has consistently acted in recognition of the fact that the textile and apparel industries are of great importance to our economy. In recent months representatives of these industries have expressed to me and to many others a deep concern over their future well-being in light of a number of factors, and especially import trends. A large number of the members of the Congress in both the House and Senate—including Chairman Mills of the Ways and Means Committee—have sponsored bills which deal with the question of imports.

In considering this widespread concern, I have concluded that we must have all the facts possible to guide our future actions in this important field, and I am pleased that Chairman Mills is joining my request. I hope that the Tariff Commission's report will permit all of us who are deeply interested in the welfare of the textile and apparel industries to take a course of action which will be both in their interest and the national interest.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., October 4, 1967.

Hon. GLENN W. SUTTON,
Acting Chairman, U.S. Tariff Commission, Washington, D.C.

DEAR MR. CHAIRMAN: I wish to join with the President in his request that the Commission make a comprehensive examination of the economic condition of the United States textile and apparel industries, including the present and future impact of imports upon such industries.

The report of this investigation should permit both the President and the Congress to formulate a policy for the textile and apparel industries which will be in their interest as well as the national interest.

With kindest regards and best wishes, I am

Sincerely yours,

WILBUR D. MILLS.

[Summary of Tariff Commission Report]

TEXTILES AND TEXTILE PRODUCTS—AN OVERALL VIEW

Particularly since the early 1950's, the various producing industries discussed herein have been subject to rapid and profound changes—of both foreign and domestic origin. In the industrialized countries of the world, the production of textiles, while ex-

panding, has shifted in emphasis from natural fibers to a complex of fibers involving cellulosic and noncellulosic manmade materials as well as cotton and wool. Indeed, for such countries, there was a singular similarity of trend, with production and consumption of manmade fibers accelerating (both in absolute and relative amounts), the consumption of cotton remaining fairly stable, and that of wool tending to decline, if not in absolute amounts, at least relatively.

Concurrently, increasing numbers of countries have achieved independence and, in endeavoring to attain a measure of economic growth, many of these have turned to the production and exportation of textiles. To a significant extent, the textile industries in these newly developing countries were based upon cotton, and in some areas were supported by U.S. aid programs.[1] In more recent years some of these have also turned increasingly to the production of textiles from manmade fibers and blends thereof.

This increase in the world output of textiles and change in fiber composition affected U.S. exports. With the emergence of manmade fibers in the industrialized countries, and of many new producers of raw cotton and of cotton textiles in lesser developed countries, U.S. exports of raw cotton declined. Noteworthy, for example, was the decrease in shipments of raw cotton to the European Economic Community, where expanded output of manmade fibers, coupled with the increased production of cotton in associated countries, reduced the requirements of the Community for imports. Of no less significance was the increased competition in world textile markets, as a result of which United States exports showed little growth whereas imports increased rapidly.

Within the U.S. textile industries, changes of great magnitude were also taking place. From 1961 to 1966, the annual U.S. mill consumption of all textile fibers expanded rapidly, rising from about 6.6 billion pounds to about 9.0 billion.[2] This annual growth rate, amounting to about 6.5 percent, was several times higher than in the previous decade. Virtually all of this increase was attributable to manmade fibers, the aggregate consumption of which increased by 1.9 billion pounds from 1961 to 1966. Whereas manmade fibers accounted for about 31 percent of the total U.S. mill consumption in 1961, this proportion rose to about 45 percent by 1966. The share for cotton declined from 62 percent to 51 percent in the same period, and that for wool from 6 percent to about 4 percent.

This dramatic shift in the fiber composition of consumption also had a pronounced effect upon the technology and the traditional structure and organization of the producing industries. With the emergence of large chemical concerns as important producers of textile fibers, sizable and increasing amounts of capital were invested in the development of new products, new processing technology, and market promotion, while the use of manmade fibers often resulted in the simplification, or even elimination, of some processing operations. Modern management techniques, and the introduction of new, sophisticated, high-speed machinery resulted in greater efficiency. New products, such as laminated fabrics, were introduced with increasing frequency and gained wide consumer acceptance. As these changes occurred, often at an accelerating rate, many small concerns, lacking adequate capital resources, found it increasingly difficult to adjust to new conditions of production and marketing. Partly as a result of this difficulty, notably in the past decade, there was a pronounced tendency toward merger and consolidation within the industry, and larger companies have thus accounted for a greater share of the market.

In addition to the foregoing changes, total imports also expanded sharply from 1961 to 1966, whether measured by quantity, by value, or in relation to consumption. Such imports, moreover, have encompassed a wider range or variety of goods than heretofore, and they have been supplied by ever increasing numbers of countries.

Accompanying these significant changes in the production and marketing of the textile and apparel industries, the domestic producers, have, by most broad measures, enjoyed a period of unparalleled growth since the early 1960's.[3] By and large this growth is attributable to the sustained rise in the level of economic activity in the U.S. economy. As the national product, industrial output, and population and disposable incomes expanded, the demand for textiles for both personal and industrial use grew accordingly.

Along with increased output, there was also a marked expansion in sales, employment, and new investment in plant and equipment during this period. Similarly, overall corporate profits (whether measured as a ratio of profits to sales, or on the basis of the rate of return on stockholders' equity) increased. From 1961 to 1966, for example, the value of shipments rose from $29.1 billion to $39.6 billion, or 36 percent. For the producers of textile mill products, profits as a percentage of net sales rose by 48 percent. The corresponding increase for the producers of apparel and related products was 52 percent. The corresponding gain for all manufacturing corporations over the same period was 21 percent. In the third quarter of 1967, profit ratios (based on net sales) of textile producers were higher than in earlier periods of that year, whereas those of all manufacturing corporations were not. Notwithstanding that the profit ratios for the producers of textiles have expanded at a faster pace since 1961 than have those for all manufacturing, these ratios continue to be substantially below those of all manufacturing corporations. Thus, in July-September, 1967, the net profit of the textile mill products industries (5.3 percent) was about a third lower than that of all manufacturing corporations (7.8 percent). The profit ratio for apparel products (4.7 percent) was about 40 percent lower. It should be observed, however, that the rate of return on equity for apparel producers tended to be as high as that for all manufacturing corporations during 1961–66. The comparable rate of return for the producers of textile mill products was below that of all manufacturing.

The foregoing indexes of economic activity are, of course, overall measures, or averages, which conceal significantly divergent trends within industry groups covered by the broad classification for "Textile Mill Products," and "Apparel and Related Products." The causes for these divergencies reflect the interaction of a variety of complex economic forces. These include such factors, for example, as changes in technology and the failure or inability to adjust thereto; the swift, and often accelerating, change in consumer tastes and fashion; the influence of the very marked shift in the composition of raw fibers consumed; competition from nontextile products such as paper or plastics; and, finally, the increased imports.

By most broad measures, whether in terms of quantity or in relation to consumption, the trend in the imports has been upward since 1961, as is to be expected during a period of expanded economic activity. The impact of such imports, however, is clearly unevenly distributed and varies according to the market conditions for the product concerned.

An increase in the ratio of the imports to consumption is not necessarily indicative of the impact that such imports had, or are having, upon particular domestic producers. Some imports, such as yarn or woven fabrics, for example, constitute the raw materials of domestic producers of finished products but may be directly competitive with yarn or fabric manufactured by domestic mills for sale to others. To the extent that such imports displace the domestic output of yarn or fabrics, they obviously affect the domestic production of raw textile fibers.

The relationship between domestic output and imports is in fact considerably more complex than is indicated by this illustration. Some of the products of the types imported are not produced in great quantity in the United States for a variety of reasons. Many of the imported products are directly competitive, but the impact of imports varies according to whether the domestic output is mainly captive of a large, prosperous, integrated, multiproduct mill or is produced chiefly by a small independent mill which derives its income principally from the sale of fabric to others.

The competitive impact also varies over time. In periods of relatively full employment of domestic textile resources, the imports of such materials frequently are complementary rather than supplementary to domestic production. In periods of slack demand, the imports may have a more pronounced economic effect than when business activity is at a high level, even though the imports be of a lower relative magnitude.

With regard to apparel, the increasing level of imports in recent years reflects in great part the active efforts of both retail and wholesale institutions in the United States to broaden the variety of their product lines and the price ranges at which they are sold. A large but unknown portion of this merchandise is comparable to the domestic product both in terms of price and quality. A substantial proportion of the total volume and value of the imported merchandise appears to be made up of products which are of low price and are marketed principally in retail outlets which promote and sell these products mainly on the basis of price; such products appear to be sold principally to lower income groups or to others for whom

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[1] U.S. aid programs identifiable with textile mills totaled $16.7 million in the fiscal years 1955–59, $13.4 million in 1960–63, and $7.5 million in 1964–67, or an aggregate of about $38 million from 1955 to 1967. Of the total amount, Near East and South Asian countries (chiefly India and Iran) received $13 million; East Asia (Indonesia and Korea) $13 million, and Africa (virtually all in Sudan) $10 million. During the fiscal years 1960–67, program assistance for textile machinery totaled $44 million, compared with commercial exports of such machinery valued at $941 million in the same period.

[2] It should be noted that a comparison of 1961 with 1966 results in some upward bias in growth rates because of the low level of economic activity in the early 1960's and the impetus that has been given the economy by the hostilities in Viet-Nam. Nonetheless, the recent growth in the production of textiles kept pace with that of nondurable goods manufacturing in general, and the expansion during the intervening years 1962 to 1965 was of high magniture relative to that of the 1950's.

[3] The Federal Reserve Board Index of production (1957–59=100) shows that the production of textile mill products expanded 33 percent from 1961 to 1966, while that for apparel and related products rose 34 percent. Although production declined in the first half of 1967, a reflection of the recent leveling of the economy as a whole, the September 1967 index of output of mill products (141.2) was almost as high as the 1966 average (142.5). The production index for apparel products in August 1967 (146.1) was higher than in immediately preceding months, but still lower than the 1966 average of 150.1.

cost is a major consideration.[4] On the other hand, still other products are characteristically of high price and style, for which demand and the domestic output may be limited. Thus, the effects of the imports of apparel, like imports of fabrics, vary greatly. Imported cotton shirts selling for low prices may have a considerable impact upon a small concern whose output is limited to shirts of the same price range, but have little or no effect upon that of a large, multiproduct producer whose shirts sell at substantially higher prices. The quantitative data respecting either the trend of imports or the relationship between imports and consumption overall fail to indicate the actual effects such imports have either on profits or on employment for particular producers.

As noted above, there has been a general increase in the level of imports. The percentage of U.S. consumption represented by such imports varies. Based on quantitative data, the report shows that in the aggregate, the annual imports of yarns of the three major fibers (cotton, wool, and manmade fibers) rose from about 25 million pounds in 1961 to about 121 million pounds in 1966. They were consistently less than 1 percent of apparent consumption in each of the years 1961–65, and were 1.4 percent of consumption in 1966. U.S. imports of broadwoven fabrics rose from 356 million square yards in 1961 to 1.0 billion in 1966. In that period, the annual ratio of imports to consumption rose from about 2.7 percent to about 6.5 percent.[5] In terms of their raw fiber equivalents or content, the annual imports of wearing apparel increased from 79 million pounds to 186 million over the 1961–65 period, and increased further to 194 million pounds in 1966. The annual ratio of imports to consumption increased from 2.7 percent to 5.1 percent from 1961 to 1965. The comparable ratio for 1966 is not available.

By quantity, about two-thirds of the actual increase in imports from 1961 to 1966 was composed of products (such as yarns and fabrics) for which further processing was required in the United States. Most of the remainder consisted of apparel products. Although the volume of imports in each of these broad categories was substantially larger in 1966 than in 1961, the actual increase in the volume of domestic production was of substantially greater magnitude over the same period.

With the leveling in the domestic economy in the first half of 1967, the total value of imports declined.[6] An upturn in the economy in 1968 would doubtless have the effect of stimulating a further expansion in imports, particularly of mill and apparel products, including those made from manmade fibers and blends thereof, for which the demand is expanding most rapidly. Data respecting the supply elasticities of existing or potential foreign suppliers of textiles are, however, limited.

With respect to longer-term prospects, the President's National Advisory Commission on Food and Fiber estimated recently that the total domestic consumption of all fibers will reach about 10.0 billion pounds in 1970, compared with 8.7 in 1967. The forecast for manmade fibers is 4.5 billion pounds, compared with 3.9 billion in 1967.[7][8][9]

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[4] Commissioner Clubb observes that the Commission has not assembled evidence which supports the proposition that low price goods are sold to low income groups, but general experience would indicate that this is probably true. To the extent that it is true, of course, any import restriction which increased the price of such goods would operate as a tax on these low income consumers.

[5] As indicated in table 20, the import-consumption ratio for cotton fabric rose from 2.9 percent in 1961 to 7.4 percent in 1966, and that for fabrics made from manmade fibers from 1.3 percent to 4.5 percent. The comparable ratio for wool fabrics rose from 8.8 percent in 1961 to 17.1 percent in 1965 and was 14.4 percent in 1966. A large part of the increased imports of wool fabric over the 1961–66 period consisted of so-called Prato cloth from Italy. Imports of this fabric may be expected to decline if certain tariff classification changes under consideration by the Congress are enacted.

[6] In January-September 1967, the annual rate of the total foreign value of textile imports, including fibers, was 9 percent lower than in 1966. The value of imports of textile mill products was 10 percent lower; the annual rate for clothing was 8 percent higher.

[7] *Cotton and Other Fiber Problems and Policies in the United States,* National Advisory Commission on Food and Fiber, Washington, D.C., July 1967.

[8] Commissioner Culliton wishes to make the following statement:

"I disassociate myself from the foregoing material on pages 4–13. I do this not because I object strongly to specific observations but because I disagree with certain explicit and implied relationships and the relative emphasis on various factors.

"In my opinion the Commission's collection, selection, and organization of available data, as presented in Volume II and the analysis in Volume I, treat with facts and significant relationships. I prefer to have the Commission's investigation, which was done under extreme time pressures, rest on such factual and analytical work alone without the addition of this particular statement."

[9] Statement by Commissioner Clubb follows:

"During the course of the Commission's investigation a number of important factors were developed which I believe should be stated clearly at the beginning of the Report. All of these are mentioned someplace in the 400 odd pages of the Report's two volumes, but I fear that unless they are all mentioned in one place some will be lost or diluted in the mass of other material.

"The first and most important factor is that the 'textile and apparel industries,' which are the subject of this Report, contain many diverse elements, having widely varying experiences with profits, employment, investment and imports. When all of these are lumped together into 'textile and apparel industries,' the aggregate figures undoubtedly conceal many individual cases of both hardship and success. Profits, employment and investment may be going up for the entire industry, but certain segments of the industry may be in a state of considerable distress; imports may not be accounting for a significant part of the total market, but they may be almost completely displacing domestic production in isolated areas.

"The Commission investigation was addressed only to the industry-wide questions, and therefore the principal limitation of the report is that it provides information which is primarily useful in determining whether or not industry-wide problems exist. No attempt has been made to identify individual areas of difficulty which might justify separate treatment.

"With this qualification in mind, the following statements appear to be true of the 'textile and apparel industries:'

"1. *Producers.* Profits, which are lower than the average for manufacturing industries, have been rising in recent years at a faster rate than for the average manufacturing industry; sales and investment are also rising, and the short-term prognosis is quite favorable.

"2. *Employees:* Employment has been relatively stable in the face of continuing automation; take home pay, hourly pay, and overtime have all increased in recent years. Indeed there is some evidence that in certain worker categories labor shortages exist.

"3. *Industry Structure:* There appear to be two developments taking place which are changing the structure of the textile industry. First, the marked and continuing shift to the use of manmade fibers has caused the portions of the industries associated with such fibers, notably chemical concerns, to assume a greater role within the industry. Second, there appears to be a trend toward greater concentration in the textile industry, with some of the larger firms becoming still larger, and some of the smaller firms going out of business.

"4. *Imports:* Imports are rising at a faster rate than the sales of domestic producers. Nonetheless, overall imports of textile and apparel merchandise remain below 6% of total U.S. consumption of these articles. It should be noted, however, that in some categories, imports account for a substantially higher proportion of U.S. consumption.

"5. *U.S. Consumers:* It appears that a substantial portion of the total apparel imports are in the form of low price merchandise. There is some indication that such items are purchased largely by low income groups, although this cannot be said with complete certainty. (See note on page 10.) To the extent that such imports are purchased by low income consumers, however, it is perhaps relevant to note that any import restrictions on them raise the price of such purchases, and would in effect operate as a tax on these low income consumers.

"Finally, it may be relevant to note that the fiber producers, textile manufacturers, and apparel producers are related in such a way that Government programs designed to assist one group may have adverse effects upon others. For example, programs of assistance to cotton and wool producers may raise the raw material costs of the textile mills and make the mills less able to compete with foreign mills which have lower raw material costs.

GREATER DETROIT BOARD OF COMMERCE,
Detroit, Mich., October 25, 1967.

Hon. PHILIP A. HART,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HART: The Greater Detroit Board of Commerce represents approximately 3700 commercial and industrial enterprises in this area, a great many of these heavily involved in international trade. These firms employ hundreds of thouasnds of people in every part of the world and their total overseas trade is reckoned in billions of dollars of dollars. Eight out of ten industrial workers in Michigan are employed by firms engaged in international business and one in seven owes his livelihood directly to imports and exports.

Consequently, it is inconceivable to us that a bill of the implications of the Dent Bill could even be proposed, let alone receive a majority vote in the present House of Representatives. If such is the thinking in the Congress, it is well nigh time that our representatives in Washington learn of our urgent concern over the spate of bills now proposing quotas or other import controls on various commodities. Have we forgotten so easily the disaster of the Smoot-Hawley days and are we blind to the fact United States exports and imports have risen from five billion to over fifty billion dollars annually since the start of efforts to lower tariffs and artifical barriers to trade, with a healthy favorable balance of trade year after year? Our World Affairs Committee and our Export-Import Committee have both met to discuss what seems to us to represent a trend and this Board of Commerce wishes to advise our representatives in Washington of our urgent concern.

The bills in question, some on their own feet and some as riders, pose a direct threat to the international commerce of the United States, to the industry and agriculture of the State of Michigan at the very moment when our State Government and private enterprises are cooperating with our Federal Gov-

ernment in efforts to expand exports. Expanding exports is certainly a most palatable way to improve our balance of payments position. The threat of imposing quotas already has foreign governments protesting, and we may be absolutely certain of retallation for any new restrictions.

Several of these bills are about to become the subject of hearings, both in House Committees and Senate Committees, and we would like to go on record by stating that passage of any of them would seriously undermine the patient and determined efforts of the United States, over many years, to reduce trade barriers and expand international commerce throughout the world. These bills all seek to do this by erecting import controls and non-tariff barriers for specific commodity groups or industries.

It is a major U.S. achievement that this nation has led the Free World in substantial tariff reductions at GATT. Legislation to implement some of the tentative agreements reached in Geneva will shortly be introduced. To preserve the gains made in that historic series of negotiations, this type of legislation is essential. The present bills, designed to impede imports in one way or another, are directly in conflict with that goal. The proper course for the United States trade policy in the years ahead is to seek reduction in the remaining non-tariff barriers erected by other nations against American goods . . . not to erect more such barriers of our own.

In light of the fact that our domestic economy is undergoing increasingly severe inflationary pressures, it seems particularly shortsighted to promote additional restrictions on imports. Imports, in addition to any other economic virtue they may have, do provide, in many instances, an anti-inflationary pressure so badly needed.

Therefore, the Greater Detroit Board of Commerce urges you not only to oppose these import-restricting bills with your vote but also to use your influence to develop legislation that will preserve our trade expansion gains. Finally, we would sincerely appreciate receiving your views on the matter.

Respectfully,

DWIGHT HAVENS, CCE,
President.

[From the Michigan State Chamber of Commerce World Trade Bulletin, Nov. 21, 1967]

MICHIGAN LEGISLATURE RAPS PROTECTIONIST MOVEMENT

Senator Gilbert E. Bursley, Chairman, International Commerce Committee, Michigan State Senate, was the sponsor of Senate Concurrent Resolution No. 22, which was recently approved by both the Michigan Senate and House of Representatives. The self-explanatory text of Senate Concurrent Resolution No. 22 follows:

"A concurrent resolution memorializing the Congress of the United States regarding the imposition of import quotas on major commodity areas.

"Whereas, The State of Michigan is vitally concerned with a healthy growth in its exports which already total $2.5 billion annually including $150 million of Michigan agricultural products; and

"Whereas, The United States has pursued a 30-year foreign trade policy leading to freer interchange of goods between nations and a rising standard of living for all and has led the Free World in substantial tariff reductions at GATT and desires to preserve the gains made in that historic series of negotiations; and

"Whereas, The country today is faced with: (a) the grave threat that congressional legislation backed by special-interest protectionist forces could reverse our favorable and growing foreign trade balance—a United States foreign policy disaster, and (b) moves now afoot to restrict imports—in most cases by quotas—which would embroil the United States in a costly trade war, and (c) with the imposition of import quotas on major commodity areas such as steel, lead, zinc, textiles, chemicals, petroleum and meat which would inevitably and positively lead to reciprocal action by foreign countries creating barriers against the United States and Michigan exports; and

"Whereas, The imposition of quotas would result in higher prices for millions of United States and Michigan consumers and thereby contribute to inflationary pressures and such import quotas would endanger billions of dollars of United States exports worsening our balance of payments position and inevitably increase government controls over industry and threaten individual enterprise; and

"Whereas, Other positive actions can be taken by the Congress to assist American and Michigan industries unfairly injured by foreign imports; now therefore be it

"Resolved by the Senate (the House of Representatives concurring), That the Congress be urged to defeat any legislation imposing import quotas and restricting world trade; that the Congress liberalize the adjustment assistance provisions of Title III of the Trade Expansion Act by making it easier for the Tariff Commission to find injury for this purpose and by providing more liberal loans, tax benefits and retraining programs for workers in the firms or sectors of industry seriously injured by imports; and that the Congress support all efforts to remove some of the nontariff barriers at home and abroad seriously impairing world trade; and be it further

"Resolved, That copies of this resolution be transmitted to the President of the United States, to the President of the Senate, the Speaker of the House of Representatives and to each member of the Michigan delegation to the Congress of the United States."

Mr. LONG of Louisiana. Mr. President, notwithstanding the votes of the Senate today on two motions to strike certain parts of the Williams amendment, I am not at all convinced that that is what the Senate wants to do, nor what the House wants to do, nor that it is in the best interests of the United States.

Tomorrow, I shall undertake to place in the RECORD a better analysis than I have available to me at the moment of all the public works funds that would be frozen under this proposal, which would undertake to stop all existing construction as well as all future construction on matters which the Federal Government pays for, either directly or through State governments. I believe that it will be a shock to Senators to find the extent to which the Senate would appear to have voted to stop all desirable public works in terms of hospitals, flood control, navigation, reclamation, and other important matters throughout this country.

I am undertaking to determine whether it would affect all Hill-Burton hospital construction. I have the impression at the moment that it would, although I am not positive that would be the case. I shall certainly take the opportunity to study it overnight.

Furthermore, I note with regard to the proposal to levy a 10-percent surtax at this time, that, although a majority of the Senate voted for it, I have just counted those Democrats who will run for office next year and the Republicans who will run for office next year to see how they voted, and I cannot help but note that of those who will run for office next year, seven were in favor of the surtax and 19 against. That would be a margin of 2½ to 1.

I must say that one should keep in mind that over in the House of Representatives, all its Members run for office every 2 years. One can argue as much as he wants about the extent to which a Senator, or a Member of Congress, should listen to his constituents, I would point out that there is a considerable indication right here in the Senate, where Senators acquire a 6-year attitude of looking at things, that, in fact, those who will run for office in the coming election voted, by a heavy majority, against the surtax. In the House of Representatives, where all Members must run for reelection this year, my guess is that those Members would be more inclined to heed the attitude of those who would vote for or against their being returned to office than is the case in the Senate.

I would hope, when Senators vote on this matter, they will keep in mind that, if the amendment should be adopted in the Senate, there may very well be an adamant position on the part of the House of Representatives and that, for one reason or another, the House, may not be willing to accept the amendment.

I would very much dislike to see the bill to which the amendment is offered killed or even delayed beyond this week. If that should be the case, anyone buying an automobile after midnight on Sunday could buy it without paying the 5-percent tax which exists at this time. The tax would go from 7 to 2 percent, and the Government could lose much revenue, and there would be quite a bit of difficulty in getting the tax back on again. This is important in view of the existing need for revenue of the Government.

In the event the matter should reach an impasse and the bill delayed indefinitely, the Government would lose a great deal of revenue, which everyone agrees the Government needs.

I shall discuss the amendment further tomorrow. I remain firm in my conviction that this is not an action that the Senate should take. After we have disposed of the amendment of the Senator from South Carolina [Mr. HOLLINGS], one way or the other, as an amendment to that amendment, I shall then undertake to direct myself to the merits of the Williams substitute.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I shall be glad to yield the floor.

Mr. WILLIAMS of Delaware. I merely wanted to point out that the section of this bill which was approved this afternoon as applying to public works does not any more mean stopping all public works than did the Executive order issued by President Truman during the Korean war. The amendment which we adopted merely proposes that when considering all new public works construction projects they first must be certified by the Office of Emergency Planning as being essential from the standpoint of the national interest. It does not at all stop all public works projects, unless the Office of Emergency Planning certifies that such projects would not be essential and the President supports its decision.

I realize that this issue can be argued indefinitely. I expect the administration will make arguments with respect to those sections that it does not like, but it all comes down to the point I made earlier: Do we want to control expenditures? And if so where do we start? We are going to have to start on projects in my State as well as others. I think the Senate took a constructive stand this afternoon and one to which I hope the administration downtown will pay attention.

Mr. LONG of Louisiana. Mr. President, the language of the amendment—and may I say the amendment would be meaningless if it did not contain language of this sort—is that the project would be withheld, even if it were under construction, unless the Office of Emergency Planning were to certify that it would cause irreparable damage to the public health or welfare to delay or postpone the completion of the project.

If that language means what it says, and if those who vote for it mean what the clear language says it would mean that a great number of public works projects, which I shall list in a moment, would be discontinued unless they were found to be in a category where a failure to continue construction—or to postpone it to a future date—would cause irreparable damage to the public health or welfare.

Very few, if any, projects could meet that test. There must be involved an injury to the public health or welfare that cannot be repaired. That is the clear language of the amendment. All these projects are clearly in the public interest, or Congress would not have provided for them. They must meet cost-ratio tests; Congress would not authorize expenditures if they did not. So they are all presumed to be in the national interest.

If this language is to be applied to them, it could have no other meaning than that an additional test would be imposed. What would be the test that would be imposed? The test would be that this particular project could not be postponed without doing damage to the public health and welfare which would be irreparable, which could not be repaired.

With regard to any navigation project, unless it stood in an unusual category, one could point out that it would cost more money to build it later on, but there are railroads, highways, airlines, pipelines, and other modes of transportation, even perhaps other water transportation, not quite as adequate, but that we could get by with until the new project was completed.

With respect to flood control items, it could be contended that we got by without a particular levee or embankment or a certain control structure since time immemorial. It could be said that, although we would be in better shape to meet the 100-year flood, or the 200-year flood, or one that occurred only once in 300 years—or even one every 5 years, and with respect to the latter there was no more reason to expect one to occur next year than the previous year—even if the flood occurred, the damage could be repaired, and therefore it would not be irreparable damage; it was damage that could be repaired.

So under the clear language of this proposal, virtually every public works project would be covered; that is, it would freeze all those projects.

I am sure the director might see fit to certify some of these as being in that category. Perhaps the Senator might want to amend his language so he would not do irreparable damage to the public interest.

But, Mr. President, any member of the Appropriations Committee who voted to recommend any one of these flood-control projects, or any one of these other projects, would stand on this floor and defend that project as being in the national interest, if one merely said the project should go forward if it were in the national interest. Furthermore, any Senator interested in a project affected by this freeze advocated by the Senator from Delaware would be heard to say, in the strongest terms, here on this floor, that his particular project is of the utmost national interest and the utmost urgency.

So if one seeks a big public works cutback and a big public works freeze, he will have to find some other test to set aside projects which may be viewed as having less significance to the national interest than others.

Back in earlier days, when President Truman laid down a so-called freeze on public works, it applied to new construction. It was an across-the-board ruling that all projects that were not under construction should not go under construction, that there were to be no new starts.

President Eisenhower had a rule of that sort for a while. Everyone knew precisely what it meant. If the thing was not under construction, it was not be put under construction. That envisioned a considerable reduction—not nearly as much as would be necessary to do what the Senator has in mind, I fear, but at least it meant a considerable reduction in expenditures that would otherwise have occurred.

But the Senator's proposal seeks to put on existing construction the same test that Harry Truman put on new construction. He is not using the same language that President Truman used, so far as I know. I do not know where he got the language. But President Truman's attitude was that nothing was sufficiently essential to start construction on it, although the government did continue construction on certain things while the Korean war was going on, if those projects were already under construction.

The proposal of the Senator from Delaware, by its clear language, would seem to me to mean that nothing would continue, even though Congress had voted to construct it, unless it were in a select category and could be distinguished from other public works, as one so essential that unless it were immediately completed, the potential injury to public health and welfare would be immediate, and could not be repaired.

I would say, Mr. President, that that is very strong language, and it would require a complete stop of almost all public construction if it were literally construed; and we really have no right to construe it any other way.

Here are some of the kinds of things that would be involved:

Sewage treatment facilities to which Congress makes a contribution. They would be involved in this. These projects would be frozen—even those presently under construction.

There would be a complete freeze on the Hill-Burton hospital program.

There would be a freeze on portions of the model cities program, including the part that involves water and sewage.

There would be a freeze on the mass transit program.

There would be a freeze on the watershed program of the Soil Conservation Service.

There would be a freeze on the Western land reclamation and irrigation programs.

There would be a freeze on public roads, rivers and harbors, and beach erosion, which is a major Federal program.

There would be a freeeze on construction of new post offices and other Federal buildings.

I might say, Mr. President, that while some Senators may feel it is good politics to vote for this kind of thing, I note that the votes of those Senators who are running for office this year have indicated that they are fairly sure about how the public would react to this thing. In addition to the fact that we have the war in Vietnam, which is a heavy burden for any Senator to carry—and I think we have an obligation toward our allies there—one must also support and explain his attitude if it be in support of any softness with respect to the lawlessness and riots that we have had on the streets. If he is also confronted with the responsibility for a major deficit, he has to take the responsibility for a big tax increase. Then, having imposed on the public a very heavy tax increase, they would have to explain a vote to take away everything—the sewers they needed, the hospitals they needed, the flood control, the navigation, the Federal buildings, the post offices, the model cities program, the soil conservation and reclamation programs—just about everything the public was expecting to get. I must say, Mr. President, that with a prosperous Nation such as we have here, this denial of everything people were hoping to get, and approval of a big tax increase to go along with it, will be very, very unpopular with the rank and file of people.

There are probably some people who would like it. I should think that one could take this stand on a part of Manhattan Island and win approval for it; but if he were speaking on some other part of Manhattan Island, I think it would be very unpopular to speak of eliminating programs for housing, for sanitation, for transportation, for model cities and other Federal programs, resulting in unemployment and in the loss of people's aspirations and hopes.

Furthermore, Mr. President, those are not all the cuts that this amendment entails. The amendment would not only bring an end to all the desirable public works in the country, but also would require enormous cutbacks in aspects of the poverty program and various other programs. The education programs

would have to take major cuts. Every department of education in the whole United States would be advising Senators that they resented this big cutback in the funds available for teachers, for schools, for facilities to help impacted areas, and for less privileged children in the schools that they are attending.

So I would say, Mr. President, that Senators would do well to ponder and consider the full import of the amendment, for a number of reasons.

In the first instance, this is not an amendment that the American people are likely to approve. In the second instance, it is not an amendment that the House of Representatives is likely to agree to. We have before us a bill which is essential to maintain the existing level of revenues. This bill should be passed. The national interest really requires that the bill be passed and signed into law before April 1, which is Monday. So the bill, in the national interest, really must be signed some time Sunday, and it must be on the President's desk, in order for him to sign it on that day. Between now and then, meanwhile, we will find it necessary to confer with the House of Representatives and discuss this matter. In my judgment the matter involves proposals which will not meet with the approval of the majority of the House of Representatives, thus, even it having discussed the matter, the amendment is agreed to in conference, I would anticipate that the House is likely to refuse to accept it. If the House does refuse to accept it, but would accept a smaller surcharge, it is quite likely that the amount which they would accept would not meet with the approval of the Senator from Delaware. In that event those who think as he does, and strongly approve the amendment, would probably oppose the conference report here on this floor.

If that should be the case, it is quite possible that this bill might not become law in time to meet the deadline, which as I just mentioned is only a few days before us.

So, I would hope that when the Senate considers the matter on tomorrow, after having had a chance to analyze the amendment further, it will not see fit to agree to it.

Mr. WILLIAMS of Delaware. Mr. President, I point out that the amendment was introduced on the 31st day of January. Hearings were held before the Finance Committee for 4 days, and not one of the objections mentioned by the Senator from Louisiana was raised either by the administration or by any Senator. Surely one can make any kind of a fantastic argument when he is against the bill. My good friend, the Senator from Louisiana, forgot to bring in mothers. Does that mean he is not all for motherhood? One can bring in a lot of arguments on the matter when he is against any spending cuts of any description.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. In just a moment. The amendment is very clear.

It was considered by the Finance Committee. None of these arguments were raised in the committee hearings. There is no basis for such an argument here today. The amendment was approved by the Senate this afternoon. It was debated extensively, and having had it agreed to I have no desire to continue with the debate. I do not see the need for it.

Mr. LONG of Louisiana. I hope that the Senator knows that the Williams substitute has not come to a vote.

Mr. WILLIAMS of Delaware. The Senator is correct, but this proposal was approved by the Senate on a rollcall vote.

Mr. LONG of Louisiana. We voted on one section of it, and we voted on another section. But the Senators who voted for one part were not the same ones who voted for the other part. Some voted for one part and against the other part.

The package, we might say, has not been voted upon by the Senate as yet. I hope that by the time the Senate votes on the whole package, it will be constrained to vote against it. But if it does not, that is the privilege of the Senate.

ADJOURNMENT UNTIL 11 A.M.

Mr. LONG of Louisiana. Mr. President, if there is no further business to come before the Senate, I move, in accordance with the order previously entered, that the Senate stand in adjournment until 11 a.m. tomorrow.

The motion was agreed to; and (at 6 o'clock and 53 minutes p.m.) the Senate adjourned until tomorrow, Wednesday, March 27, 1968, at 11 a.m.

NOMINATIONS

Executive nominations received by the Senate March 26, 1968:

U.S. District Judge

William C. Keady, of Mississippi, to be U.S. district judge for the northern district of Mississippi, vice a new position created by Public Law 89–372, approved March 18, 1966.

U.S. Attorney

Rowland K. Hazard, of Rhode Island, to be U.S. attorney for the district of the Canal Zone for the term of 8 years (reappointment).

Assistant Secretary of the Air Force

J. William Doolittle of Illinois to be an Assistant Secretary of the Air Force.

Assistant Secretary of the Army

William K. Brehm of Michigan to be an Assistant Secretary of the Army.

Assistant Secretary of the Navy

Randolph S. Driver of Pennsylvania to be an Assistant Secretary of the Navy.

Barry James Shillito of Ohio to be an Assistant Secretary of the Navy, vice Graeme C. Bannerman, resigned.

In the Army

The following-named officers to be placed on the retired list in grades indicated under the provisions of title 10, United States Code, section 3962:

To be general

Gen. Dwight Edward Beach O18747, Army of the United States (major general, U.S. Army).

To be lieutenant generals

Lt. Gen. William White Dick, Jr., O18384, Army of the United States (major general, U.S. Army).

Lt. Gen. Robert Hackett, O18380, Army of the United States (major general, U.S. Army).

Lt. Gen. Lawrence Joseph Lincoln, O18968, Army of the United States (major general, U.S. Army).

Lt. Gen. Edgar Collins Doleman, O19131, Army of the United States (major general, U.S. Army).

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 26, 1968

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. JAVITS to amendment numbered 662 intended to be proposed by Mr. WILLIAMS of Delaware to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz:

On page 7, line 23, strike out the period and insert the following: ", except that the President shall not reserve from expenditure any amounts from appropriations or other obligational authority available for the following purposes:

"(1) education,

"(2) low-income housing,

"(3) water and air pollution prevention,

"(4) prevention and detection of crime,

Amdt. No. 672

finished textile articles of natural or manmade fibers or combinations or blends thereof, which may be entered, or withdrawn from warehouse, for consumption during any calendar year shall not exceed the average annual quantity of such articles entered, or withdrawn from warehouse, for consumption during the six calendar years 1961–1966: *Provided,* That commencing with the calendar year beginning January 1, 1969, the total quantity of textile articles which may be entered or withdrawn from warehouse, for consumption for each ensuing calendar year shall be increased or decreased by an amount proportionate to the increase or decrease (if more than 5 per centum) in the total United States consumption of such textile articles during the preceding calendar year in comparison with the average annual consumption for the six-year period 1961–1966 as determined by the Secretary of Commerce: *Provided further,* That the portion of any increase in the quantity of any such textile article which may be entered, or withdrawn from warehouse, for consumption during any quarter of the calendar year shall not exceed the proportionate per centum share which the total quantity of imports of textile articles accounted for during the like period of the calendar year ended December 31, 1966. The quantities of any textile article which may be entered, or withdrawn from warehouse, for consumption during the balance of the calendar

year in which this Act becomes effective shall be equal to that proportionate per centum share of the average annual imports of such article for the years 1961–1966 which the number of days remaining in the calendar year bears to the full year. The Secretary of Commerce shall determine and allocate the allowable quantities of textile articles which may be entered, or withdrawn from warehouse, for consumption among supplying countries by category of product on the basis of the shares such countries supplied by category of product to the United States market during a representative period, except that due account may be given to special factors which have affected or may affect the trade in any category of such articles. The Secretary of Commerce shall certify such allocations to the Secretary of the Treasury. Notwithstanding the foregoing, in the case of textile articles originating in any country which has entered, or hereafter enters, into an agreement with the United States governing the amount of textile articles which may be imported into the United States from such country, the President by proclamation may increase, decrease, or otherwise limit the quantity of textile articles from such country which may be entered, or withdrawn from warehouse, for consumption in conformance with such agreement. All determination by the President and the Secretary of

Commerce under this section shall be final. This section shall become effective one hundred and eighty days after enactment of this Act.

Amdt. No. 668 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Proposed by Mr. HOLLINGS to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 26, 1968

Ordered to be printed

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 26, 1968
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. JAVITS (for himself, Mr. JORDAN of Idaho, Mr. MILLER, and Mr. PERCY) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: At the end of the bill insert the following:

SEC. 8. ESTABLISHMENT OF A COMMISSION ON FEDERAL BUDGET PRIORITIES AND EXPENDITURE POLICY.

(a) Recognizing the profound influence which the composition and level of Federal expenditures and their relationship to revenues have on the Nation's general welfare, domestic tranquillity, economic growth and stability, it is hereby declared to be the intent of Congress to initiate a far-reaching, objective, and nonpartisan review of Federal

budget priorities and expenditure policy. In the carrying out of such review, and in the formulation of recommendations with respect thereto, particular consideration shall be given to the following—

(1) establishing spending priorities among Federal programs, including the identification of those programs which need greatest immediate emphasis and those which can be deferred in a time of expected deficits, in order to serve as a guide to the administration in making expenditures and in drawing up future budgets;

(2) appraising Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated;

(3) improving the Federal budgeting and appropriations process in order to increase the effective control of expenditures;

(4) examining the responsibilities and functions which are now assumed by the Federal Government, but which could be performed better and with superior effectiveness by the private economy;

(5) reviewing Federal responsibility and functions in order to determine which could be better performed at the State and local levels; and

(6) improving Government organization and pro-

cedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how well those already implemented have achieved their purposes in practice and whether those not yet implemented should be given further consideration.

ESTABLISHMENT OF THE COMMISSION ON FEDERAL EXPENDITURE POLICY

(b) (A) In order to carry out the purposes set forth in the first section of this Act, there is hereby established a commission to be known as the Commission on Federal Budget Priorities and Expenditure Policy (referred to hereinafter as the "Commission").

(B) The Commission shall be composed of sixteen members as follows:

(1) Four appointed by the President of the United States, two from the executive branch of the Government, including the Director of the Bureau of the Budget, and two from private life who have distinguished careers in labor, the professions, industry, local and State government, or higher education;

(2) Six members of the Senate appointed by the President of the Senate; and

(3) Six Members of the House of Representatives

appointed by the Speaker of the House of Representatives.

(C) Of each class of two members referred to in subsection (B), not more than one member shall be from any one political party.

(D) Any vacancy in the Commission shall not affect it powers, but shall be filled in the same manner in which the original appointment was made.

(E) Service of an individual as a member of the Commission or employment of an individual by the Commission as an attorney or expert in any business or professional field, on a part-time or full-time basis, with or without compensation, shall not be considered as service or employment bringing such individual within the provisions of sections 281, 283, 284, 434, or 1914 of title 18 of the United States Code.

(F) The Commission shall elect a Chairman and a Vice Chairman from among its members.

(G) Nine members of the Commission shall constitute a quorum.

ADVISORY PANEL TO THE COMMISSION

(c) The Commission may establish an Advisory Panel which shall consist of persons of exceptional competence and experience in appropriate fields, including social welfare, economics, and political science. Such Advisory Panel members

shall be drawn equally from the Government, private industry, and nonprofit educational institutions, and shall be persons available to act as consultants for the Commission.

STAFF OF THE COMMISSION

(d) (A) The Commission may appoint and fix the compensation of such personnel as it deems advisable in accordance with the provisions of the civil service laws and the Classification Act of 1949.

(B) The Commission may procure, without regard to the civil service laws and the classification laws, temporary and intermittent services (including those of members of the Advisory Panel) to the same extent as authorized for the departments by section 15 of the Act of August 2, 1946 (60 Stat. 810; 5 U.S.C. 55a), but at rates not to exceed $75 per diem for individuals.

DUTIES OF THE COMMISSION

(e) (A) The Commission shall make a comprehensive and impartial study and investigation of the programs and policies of the Federal Government with a view to carrying out the purposes set forth in the first section of this Act.

(B) During the course of its study and investigation the Commission may submit to the President and the Congress such reports as the Commission may consider advisa-

ble. The Commission shall submit to the President and the Congress an interim report with respect to its findings, conclusions, and recommendations pursuant to section (a) (1) no later than January 1, 1969, and a final report no later than January 1, 1970.

POWERS OF THE COMMISSION

(f) (A) (1) The Commissioner or, on the authorization of the Commission, any subcommittee thereof, may, for the purpose of carrying out its functions and duties, hold such hearings and sit and act at such times and places, administer such oaths, and require, by subpena or otherwise, the attendance and testimony of such witnesses, and the production of such books, records, correspondence, memorandums, papers, and documents as the Commission or such subcommittee may deem advisable. Subpenas may be issued under the signature of the Chairman or Vice Chairman, or any duly designated member, and may be served by any person designated by the Chairman, the Vice Chairman, or such member.

(2) In case of contumacy or refusal to obey a subpena issued under paragraph (1) of this subsection, any district court of the United States or the United States court of any possession, or the District Court of the United States for the District of Columbia, within the jurisdiction of which the inquiry is being carried on or within the jurisdiction of

which the person guilty of contumacy or refusal to obey is found or resides or transacts business, upon application by the Attorney General of the United States shall have jurisdiction to issue to such person an order requiring such person to appear before the Commission or a subcommittee thereof, there to produce evidence if so ordered, or there to give testimony touching the matter under inquiry; and any failure to obey such order of the court may be punished by the court as a contempt thereof.

(B) Each department, agency, and instrumentality of the executive branch of the Government, including independent agencies, is authorized and directed to furnish to the Commission, upon request made by the Chairman or Vice Chairman, such information as the Commission deems necessary to carry out its functions under this Act.

COMPENSATION OF COMMISSION MEMBERS

(g) (A) Members of the Commission who are Members of Congress or officers of the executive branch of the Federal Government shall serve without compensation in addition to that received in their regular public employment, but shall be allowed necessary travel expenses (or, in the alternative, a per diem in lieu of subsistence and mileage not to exceed the rates prescribed in the Travel Expense Act of 1949, as amended, without regard to the Travel Expense Act of 1949, as amended (5 U.S.C. 835–842), the

Standardized Government Travel Regulations, or section 10 of the Act of March 3, 1933 (5 U.S.C. 73b), and other necessary expenses incurred by them in the performance of duties vested in the Commission.

(B) Members of the Commission, other than those to whom subsection (a) is applicable, shall receive compensation at the rate of $75 per day for each day they are engaged in the performance of their duties as members of the Commission and shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties as members of the Commission, as provided for in subsection (a) of this section.

EXPENSES OF THE COMMISSION

(h) There are hereby authorized to be appropriated to the Commission, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this Act.

EXPIRATION OF THE COMMISSION

(i) The Commission shall cease to exist days after the submission of its final report.

Amdt. No. 670 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. JAVITS (for himself, Mr. JORDAN of Idaho, Mr. MILLER, and Mr. PERCY) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and an automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 26, 1968

Ordered to lie on the table and to be printed

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued March 28, 1968
For actions of March 27, 1968
90th-2nd; No. 51

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HIGHLIGHTS: House subcommittee approved bill to provide fringe benefits for ASC county committee employees. Senate adopted Hollings amendment to control textile imports.

SENATE

1. TAXATION. Continued debate on H. R. 15414, the tax adjustment bill (S3409, S3421-~~24~~, 76 ~~S3477~~). Agreed to, 55-31, the Hollings amendment to control textile imports (pp. S3423-47). Rejected, 18-47, a McGovern amendment (in the nature of a substitute for the Williams-Smathers-Lausche amendment) to eliminate its expenditure reductions and income tax surcharge and impose an excess profits tax (pp. S3448-54).

Both Houses

2. WATER POLLUTION. /received from Interior Volume II of the Department's first report on the national requirements and costs of water pollution control. (H. Doc 291). pp. S3396, H2340

3. EXPORT-IMPORT BANK. Sen. Muskie announced hearings before the Banking and Currency Committee on Apr. 5 on S. 3218, the Export-Import Bank bill. pp. S3409-10

4. REORGANIZATION. Sen. Pearson urged the establishment of a new "Hoover-type Commission on the Operation of the Executive Branch" and inserted a supporting article. pp. S3411-12

5. FOREIGN AID. Sen. Byrd, Va., stated the Partners of the Alliance Program "has given thousands of our citizens an opportunity to become personally involved in helping the people of Latin America to help themselves" and inserted the remarks of Virginia's Governor Godwin at the Alliance Dinner. pp. S3413-14

6. FORESTRY; RESEARCH. Sen. Byrd, W. Va., commended the research centers being conducted by the Forest Service and inserted an article, "Off-Beat Benefits of Forestry Research." p. S3421

HOUSE

7. CHERRIES. Passed, 197-185, without amendment H. R. 4282, to amend the Agricultural Adjustment Act, as reenacted and amended, by the Agricultural Marketing Agreement Act of 1937, to permit the establishment of a marketing order for cherries for canning or freezing without the approval of the processors of cherries (pp. H2267-76). Rejected a motion to recommit the bill (p. H2275).

8. REORGANIZATION. The Daily Digest states that the Government Operations Committee "disapproved H. Res. 1101, disapproving Reorganization Plan No. 1; and ordered reported favorably to the House H. R. 15688, amended, extending the reorganization plan." p. D257

9. CONSERVATION. The Interior and Insular Affairs Committee voted to report (but did not actually report) H. R. 8578, amended, land and water conservation fund amendments. p. D257

10. SALINE WATER. The Interior and Insular Affairs Committee voted to report (but did not actually report) S. 2912, amended, saline water conversion authorization. p. D257

11. CONTRACTS. The Interior and Insular Affairs Committee voted to report (but did not actually report) S. 1946, to amend the Foss Reservoir Master Conservancy District's repayment contract. pp. D257-8

12. FORESTRY. The Interior and Insular Affairs Committee voted to report (but did not actually report) H. R. 14074, to authorize construction of an entrance road at the Great Smoky Mountains National Park in N. C. p. D258

13. PERSONNEL. A subcommittee of the Post Office and Civil Service Committee approved for full committee consideration S. 1028, to provide fringe benefits for ASC county committee employees. p. D258

siderable magnitude that affects the entire organization, but is one that several departments have a particular interest in, from an organizational point of view, the proper approach is to put the total responsibility for solving the problem into the hands of an able individual selected for that particular task. Finally, I would like to point out that in developing a solution to the Algerian problem, a problem which, in my opinion, was far more difficult and complex than our Vietnam problem, the government of France established a special cabinet level post, a Minister for Algerian Affairs; M. Louis Joxe, was appointed Minister, and I discussed his problems in the midst of his labors on a number of occasions. So, I would strongly recommend that the selection and appointment of an American of national and international stature to such a position. It would make clear our serious intent to get on with a settlement of the problem. In approaching the problem, it would free the individual charged with this responsibility of any obligations to those who have taken different positions in the past, and finally, combined with a cessation of the bombings in the North, it should provide the first essential step that could lead to peace in Southeast Asia.

A settlement of our Southeast Asian involvement should enable us to divert our attention and our resources to our domestic problems and to other troublesome areas in oter parts of the globe. And there are other areas of the globe now in critical need of our attention. I recently returned from a visit to the Middle East and North Africa. The Soviet penetration of that area is now going on at an alarming rate. Conditions in the Middle East must be stabilized and this can only be achieved by the United States playing a more active role in seeking a solution to the Israeli-Arab problem. The conditions pertaining today, if allowed to continue in their present troublesome state, would only lead to further fighting later on. We should seek to have a Commission appointed by the United Nations to look into the Middle East situation. This Commission should be charged with an examination of the present conditions in the Middle East area, the obligations and intentions of the several nations having a major interest in this area, and the development of a solution that will restore stability and tranquillity to the area. Doing this will do more than solve the Middle East problem. It will insure the continuing integrity of the defense of Western Europe. For I can assure you that a major Soviet penetration into the Middle East and the North African areas will at once place Western Europe in clear jeopardy. Western Europe itself deserves our most serious consideration. The present organization and staffing of NATO is no longer appropriate to the needs of Europe. NATO must be reorganized to reflect the growing military and economic importance of the European Economic Community. Our troop commitment to Europe should be drastically reduced. The military command of the NATO forces in Europe should be a European with an American deputy. Changes such as these will not only reflect the realities of political, economic, and military conditions in Europe today, but will also result in a significant dollar saving for the United States.

Finally, while there is a great deal that could and should be said about our domestic condition, I would like to mention one aspect of our national life. There are many anomalies in our society and there are just as many causes for them. One of the strangest of all to me, and one of the most disturbing, is the fact that a young man of 18 can be drafted and sent off to war to give his life for his country, but, except in two states, he is not allowed to vote and hence influence the election of those who go to public office where matters of war and peace are determined. A short time ago I spoke at Brandeis University and the question of resisting the draft arose. I counseled compliance with the law, stating that the proper way to bring about a change in the Selective Service Act was to elect those to public office who understood and were sympathetic to your views. It was obvious by the reaction that some members of the audience disagreed with me, that they believed that they should take the law into their own hands and refuse to serve. I have looked into the situation further and I have been surprised to learn that in *only* two states, Georgia and Kentucky, is the voting age 18 and in those states those eligible for the draft are allowed to vote. The voting age in Alaska is 19 and in Hawaii, 20. In all others it is 21. It is time that the Federal Government take the initiative in urging upon the states changes in their constitutions that will bring this anomaly to an end. The voting age should be uniform and should be the same age that is used as the basis for determining a man's eligibility to serve in the Armed Forces of his country and give his life if necessary. The voting age should be 18.

The age of rapid technological change in which we live brings us both new opportunities and new dangers. We must learn with Heraclitus that change is a fundamental fact of life. We must learn, with Marsh, to peer into the future to assess the ultimate, as well as the proximate, consequences of our scientific achievements. We must recognize that technological advances have rendered obsolete our old ideas of national strategy and the application of national power. Our international policy must reflect that recognition. And no where is it more important that this be so than in our involvement in Southeast Asia.

These briefly, are the thoughts I have attempted to convey to you this evening. My own thoughts on resolving the conflict may prove to be inadequate. But to remain silent in a time of national crisis is unworthy of free Americans. To do so is to merit the appellation once bestowed by a President of this university on the deist Ethan Allen, who, he said, was "ye wickedest man ever to walk ye guilty globe." That title, at least, is one I hope to avoid.

TO PRINT A REVISED EDITION OF THE "ELECTION LAW GUIDEBOOK" AS A SENATE DOCUMENT—REPORT OF A COMMITTEE (S. REPT. NO. 1027)

Mr. JORDAN of North Carolina, from the Committee on Rules and Administration, reported an original resolution (S. Res. 271) authorizing the printing of a revised edition of the "Election Law Guidebook" as a Senate document, and submitted a report thereon, which resolution was placed on the calendar, as follows:

S. RES. 271

Resolved, That a revised edition of Senate Document Numbered 91 of the Eighty-ninth Congress, entitled "Election Law Guidebook," be printed as a Senate document, and that there be printed one thousand additional copies of such document for the use of the Committee on Rules and Administration.

JANE W. BELL

Mr. JORDAN of North Carolina, from the Committee on Rules and Administration reported the following original resolution (S. Res. 272); which was placed on the calendar:

S. RES. 272

Resolved, That the Secretary of the Senate hereby is authorized and directed to pay from the contingent fund of the Senate, to Jane W. Bell, widow of J. Heywood Bell, Jr., an employee of the Senate at the time of his death, a sum equal to one year's compensation at the rate he was receiving by law at the time of his death, said sum to be considered inclusive of funeral expenses and all other allowances.

ANNE M. CRAIG

Mr. JORDAN of North Carolina, from the Committee on Rules and Administration, reported the following original resolution (S. Res. 273); which was placed on the calendar:

S. RES. 273

Resolved, That the Secretary of the Senate hereby is authorized and directed to pay, from the contingent fund of the Senate, to Anne M. Craig, widow of Rupert T. Craig, an employee of the Senate at the time of his death, a sum equal to three months' compensation at the rate he was receiving by law at the time of his death, said sum to be considered inclusive of funeral expenses and all other allowances.

TAX ADJUSTMENT ACT OF 1968—AMENDMENTS

AMENDMENT NO. 674

Mr. WILLIAMS of New Jersey submitted an amendment intended to be proposed by him to the amendment (No. 662) proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, which was ordered to lie on the table and to be printed.

AMENDMENT NO. 675

Mr. RANDOLPH (for himself, Mr. BYRD of West Virginia, and Mr. MUSKIE) submitted an amendment, intended to be proposed by them, jointly, to the amendment (No. 662) proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to House bill 15414, supra, which was ordered to lie on the table and to be printed.

AMENDMENT NO. 676

Mr. MONRONEY submitted amendments, intended to be proposed by him to the amendment (No. 662) proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to House bill 15414, supra, which were ordered to lie on the table and to be printed.

UNLAWFUL SEIZURE OF U.S. FISHING VESSELS BY FOREIGN COUNTRIES—AMENDMENT

AMENDMENT NO. 677

Mr. GRIFFIN submitted an amendment, intended to be proposed by him, to the bill (S. 2269) to amend the act of August 27, 1954, relative to the unlawful seizure of fishing vessels of the United States by foreign countries, which was ordered to lie on the table and to be printed.

NOTICE OF HEARING ON S. 3218, RELATING TO THE BALANCE-OF-PAYMENTS DEFICIT

Mr. MUSKIE. Mr. President, I would like to announce that the Committee on

Banking and Currency will hold a hearing on April 5, 1968, on S. 3218, a bill to enable the Export-Import Bank of the United States to approve extension of certain loans, guarantees, and insurance in connection with exports from the United States in order to improve the balance of payments and foster the long-term commercial interests of the United States.

The hearing will commence at 10 a.m. in room 5302, New Senate Office Building.

Persons desiring to testify or to submit written statements in connection with the bill should notify Mr. Lewis G. Odom, Jr., staff director and general counsel, Senate Committee on Banking and Currency, room 5300, New Senate Office Building, Washington, D.C. 20510, telephone 225–3979.

NOTICE CONCERNING NOMINATION BEFORE COMMITTEE ON THE JUDICIARY

Mr. EASTLAND. Mr. President, the following nomination has been referred to and is now pending before the Committee on the Judiciary:

Rowland K. Hazard, of Rhode Island, to be U.S. attorney, for the district of the Canal Zone, for the term of 8 years (reappointment).

On behalf of the Committee on the Judiciary, notice is hereby given to all persons interested in this nomination to file with the committee, in writing, on or before Wednesday, April 3, 1968, any representations or objections they may wish to present concerning the above nomination, with a further statement whether it is their intention to appear at any hearing which may be scheduled.

COMMENT BY JOSEPH McCAFFREY ON 11TH MEETING OF CANADA-UNITED STATES INTERPARLIAMENTARY GROUP

Mr. AIKEN. Mr. President, on Thursday, March 21, Joseph McCaffrey gave a much appreciated commentary, over Channel 7 News. The commentary related to the interparliamentary meeting between Members of the U.S. Congress and the Canadian Parliament which was held last week. I ask unanimous consent to have the commentary printed in the RECORD.

There being no objection, the commentary was ordered to be printed in the RECORD, as follows:

CHANNEL 7 NEWS, MARCH 21, 1968

(Commentary by Joseph McCaffrey)

There are many regrets about the war in Viet-Nam, not the least perhaps, is that it diverts our attention from other areas and countries in the world. While we concentrate on the war, our relationships in other areas of the world are deteriorating.

Fortunately, an interested group within the United States Congress is working this week to counter this trend with one important country, Canada.

Yesterday saw the start of the 11th meeting of the Canada-United States Interparliamentary group, with a Senate-House delegation hosting members of the Canadian House of Commons and Senate. During the day one panel group discussed trade and economic matters, including the balance of payments problems, the automotive agreement and the International Grains agreement. A second panel focused on defense and security issues, including NATO and policies toward Communist China.

Last year millions of Americans discovered Canada because of its marvelous EXPO 67. Although they knew it was there, as people know that the North Pole and the South Pole are there, they never fully realized what a great country Canada really is and, especially, what great people the Canadians are. We have an important link with Canada because our futures are locked together. Unfortunately, we accept our relationship with her, spending more time and worry on other countries around the globe, than we do with the country we share a common border from the Atlantic to the Pacific.

Perhaps, this may be the reason we get along so well. Each of us respects the other, and each minds its own business pretty well. But it is nice to see official delegations from the two countries sit down and talk over common problems, as is now being done here in Washington. And it's especially nice to have such good neighbors.

BILLBOARD BAN IN VERMONT

Mr. AIKEN. Mr. President, on Tuesday, March 26, 1968, the New York Times carried an editorial entitled "Victory for Vermont." The editorial relates to a new bill for control or elimination of billboards, which was passed recently by the Vermont State Legislature. Apparently, Vermont and Hawaii are the only two States of the Union that now have legislation for the effective control of unsightly billboards.

I ask unanimous consent that the editorial be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

[From the New York Times, Mar. 26, 1968]

VICTORY FOR VERMONT

When you have the Green Mountains, who needs a billboard? In deciding to ban off-premise billboards, Vermont has acted intelligently in its own economic self-interest. Tourism is one of the state's major industries, and visitors come to enjoy Vermont's beauty and serenity, not to read huge glaring signs for headache pills or Tom, Dick and Harry's Motel.

Since travelers need information on where to stay, eat, shop and seek recreation, the new Vermont law makes provision for "sign plazas" at periodic intervals where businessmen can advertise their services. Those who conduct roadside businesses will still be able to erect signs on their own property, but the height, frequency and character of these signs are to be regulated by the state. Elsewhere, the landscape will be uncluttered by intrusive and unnecessary signs.

Several states have banned billboard advertising on scenic highways or on certain major roads, but Vermont and Hawaii are the only states to do away with all off-premise signs. The esthetic argument for following their example is beyond dispute: the slovenly approaches to virtually every city in America would be dramatically improved if the ugly signs were taken down.

Since most visitors to Vermont arrive by automobile, that state's experience may soon prove the economic argument that roadside businesses can flourish without festooning the countryside with billboards. If so, the triumph of the antibillboard forces in Vermont may lead to victories for common sense in other states.

MRS. LYNDON B. JOHNSON CALLS UPON PRIVATE ORGANIZATIONS TO DEDICATE THEIR TALENTS AND ENERGIES TO THEIR COMMUNITIES

Mr. BREWSTER. Mr. President, speaking at a B'nai B'rith luncheon at the Shoreham Hotel in Washington, D.C., Mrs. Lyndon B. Johnson commended this organization's gift to aid the Anacostia Neighborhood Museum. She welcomed their contribution to the "growing effort of all responsible citizens to solve the problems the Nation faces—in housing, in employment, in our environment."

Mrs. Johnson spoke of her work with the Anacostia Neighborhood Museum—located in one of Washington's neediest neighborhoods. The Smithsonian Institution agreed to provide exhibits they had tucked away in their basement. An old abandoned theater was found and young people in the area went to work painting the place, sewing curtains for the stage, cleaning up an adjoining debris-filled lot and putting in trees, benches and walks. Today, the Anacostia Neighborhood Museum is a meeting place and learning place, with a busy program of art, drama, science classes, going on among the exhibits. And the building which served only as an eyesore has become the action spot for a neighborhood with very few outlets and opportunities.

The gift offered by the B'nai B'rith will be used for much needed art supplies, duplicating machines, audio-visual equipment for the growing circle of participants.

The efforts of Mrs. Johnson and the many groups that have joined with her in improving facilities serving our deprived neighborhoods serve as an answer for the many who ask "What can we do?" Mrs. Johnson has proved that individual efforts on individual projects can and do make a difference. And she posed a challenge to us all when she said:

We are living in an era when dreams are possible—when we dare to draw the curtain back on the ghetto and face up to the great problems we see.

Mr. President, I ask unanimous consent that Mrs. Johnson's speech be printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

REMARKS OF MRS. LYNDON B. JOHNSON AT THE B'NAI B'RITH LUNCHEON, WASHINGTON, D.C., MARCH 26, 1968

Mrs. Rosenbluth, friends of B'nai B'rith, thank you so much for your delightful program and your generous gift.

I am directing it to a project in southeast Washington which I have watched become "a possible dream." It is the Anacostia Neighborhood Museum located in one of the neediest areas of the city.

Let me tell you about it because it is the kind of project or dream which I think would be possible in almost any town—perhaps in your town.

Almost every town has a museum—often with more exhibits tucked away in a basement than they have room to show. That was the case of the Smithsonian Institution here. Dr. Dillon Ripley felt that the museum

on Civil Disorders becomes "curiouser and curiouser."

FORESTRY RESEARCH BENEFITS

Mr. BYRD of West Virginia. Mr. President, the March 24 edition of the Morgantown, W. Va., Dominion-Post had a most interesting editorial concerning the benefits of research being conducted by the U.S. Forest Service's forestry research centers.

West Virginia is fortunate to have three such centers located within its borders. These centers are located at Morgantown, Princeton, and Parsons. All three will, over the years, continue to make substantial contributions to forestry knowledge. And all three will also help the economies of the areas surrounding them to grow.

As a member of the Senate Appropriations Committee and of its subcommittee which has jurisdiction over Forest Service funding, I have been privileged to help further this worthwhile work through the appropriation of needed funds. And, in many instances I have secured appropriations for these forestry research laboratories which were not included at all in the President's budget.

I have always attempted to be receptive to the need for additional moneys for this worthy research.

I ask unanimous consent that the editorial entitled "Off-Beat Benefits of Forestry Research" be printed in the RECORD.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

OFF-BEAT BENEFITS OF FORESTRY RESEARCH

In attempting to point to some of the concrete benefits of forestry research at installations such as Morgantown's U.S. Forestry Research Center, we've overlooked some of the off-beat contributions made by such projects.

The Northeastern Forest Experiment Station at Upper Darby, Pennsylvania, parent outfit of our Morgantown research facility, pointed out one of these contributions in a report issued this past week, noting that forestry research is now aiding rehabilitation in a strange but helpful way.

Working as a team, federal forestry scientists and private industry technicians have developed a technique to hasten remodeling of old, rundown tenement buildings. It holds much promise of helping speed urban rehabilitation in overcrowded cities.

Federal housing authorities estimate that between 9.5 to 10 million dwelling units in our nation's cities need remodelling. Most units have a common problem—the floors sag. In some buildings this sag is as much as 8 inches; in most, it averages between 2 and 4 inches. Why is this sag a problem in rehabilitation?

Because it both limits and in some cases prohibits the economical use of prefabricated sections such as walls, prehung doors, complete kitchen and bathroom units—sections which reduce installation time and lower on-site costs. These are two vital factors in the remodelling project.

Thus the key to a rapid and still relatively inexpensive job is a level floor.

Scientists, technicians and engineers from private industry (Union Carbide Chemicals, South Charleston) and the Northeastern Forest Experiment Station of the Forest Service, U.S. Department of Agriculture teamed up to devise a solution to the floor sagging problem.

Tried in a flat in New York City, the system proved to be fast, economical and a structurally sound way of rehabilitating sagging old floors.

Forestry research showed that two men using the system can establish a level floor-bearing base in a 12 by 12 foot room in less than 14 minutes. The cost for labor, materials and equipment is less than 7 cents per square foot, or $9.65 for the room.

The savings? The scientists point out that "If only one cent per square foot were saved by using this system, the potential total savings for the New York City rehabilitation project alone could be over $5.8 million." (It is estimated that 580 million square feet of new floors in about 480,000 apartments is needed in New York City alone.)

Just what is the system?

A leveling device holds 2 by 2 inch wooden strips in a level position over the old floors. A cushion of quick-hardening plastic foam is sprayed under and around the wooden strips. This bonds them to the old floors and provides a level foundation for a new floor.

We predicted last year when Morgantown's new forestry research facility opened that we would be surprised at some of the things that will be developed here and at other forestry centers.

The story about sagging floors, we think, proves the point.

EQUITY FOR UNINCORPORATED BUSINESSES

Mr. HARTKE. Mr. President, at the appropriate time today it is my intention to call up my amendment No. 659, which provides equity for the unincorporated sole proprietorship or partnership on a par with the provisions in the Finance Committee amendment dealing with a special treatment of the first $25-000 of profit for the incorporated business. Because the amendment is complex in some respects, I wish at this time to present in an orderly fashion some of its aspects in a way which may not be possible later under the pressures of perhaps limited time.

First, it is my belief that small business, whether incorporated or unincorporated, deserves equity of treatment. Second, there is a need for this small measure of assistance—a tax deferment on payment of estimated income tax up to $5,500 of tax liability until the next calendar year. Such a treatment is presently accorded all businesses with taxable income of $100,000 or less. The Finance Committee amendment, now in the bill, reduces the amount which can be deferred—or, put another way, does not assist on speeding up payments until they are current—for the first $25,000 of incorporated business income.

Third, there is precedent now in the law, which will continue to exempt farmers, fishermen, and oyster farmers. Fourth, while there will be a loss of currently received Treasury income for the time being and throughout the same 5 years in which the speedup in the committee amendment occurs, there is no permanent loss of income. The transitional deferral for which my amendment provides is just that—not a loss, but a transitional deferral. After 5 years the unincorporated businessman deriving two-thirds or more of his income from his business will be exactly where the incorporated business stands—both will have the same treatment. Consequently, while it is proper to talk about the Treasury effect of this amendment being temporarily adverse, it is entirely untrue to talk about the Treasury cost of the amendment, which in the long run will have no cost.

First as to equity. In my opinion, there is very good reason to provide an opportunity for the unincorporated business, whether a "mom and pop" store or a widget manufacturer with three employees, to be treated in his small business aspects identically with the incorporated small business. To do so, it is necessary either to restore the House provision of $40, which will put all incorporated business on a par with individuals including those in unincorporated business, or else take the course of equity my amendment offers.

Second, we need to encourage small business entrepreneurs of all kinds, and many features of our laws do so—but only for the incorporated enterprise. Many of the smaller businesses without incorporation are run by ordinary people who have never given a thought to the possibilities of incorporation. Often they have no knowledge of any possible benefits such a procedure might provide; and if they do have a vague realization of them, they are not the kind—certainly the typical one-man or family small business in retail trade—is not the kind—to view lawyers, incorporation, papers, and new types of taxes as very desirable.

Yet, although we have need for these stalwart individuals in the American free-enterprise tradition, they are declining in numbers. In each year since 1961, except for 1964—and this was a 5-year period of prosperous economic growth—both sole proprietorships and partnerships have declined in numbers. The figures are from the Statistical Abstract of the United States, and since the 1968 edition is not yet out, the 1967 figure does not appear.

In 1961 there were 9,242,000 sole proprietorships. In 1962 there were 9,183,000; in 1963, 9,136,000; in 1964, 9,193,000; in 1965, 9,078,000; and in 1966, 9,087,000. Thus there were about 150,000 less in 1966 than 5 years earlier. How many of them could have been helped by the kind of measure I am proposing?

Partnerships show the same decline, in the same years: 939,000; 932,000; 924,-000; 922,000; 914,000; and in 1966, 923,-000. Business failures in this group, primarily small businesses, average about 13,000 per year. For small businesses, the opportunity to defer tax payments at a critical time may mean the difference between life and death for the business.

Third, I said there is precedent. In title 26, section 6073(b) there is this exemption, which will remain untouched and continue in existence under the committee amendment even though they are unincorporated, for farmers or fishermen. I cite the language of the statute:

Declaration of estimated tax required by section 6015 from individuals whose estimated gross income from farming or fishing (including oyster farming) for the taxable year is at least two-thirds of the total estimated gross income from all sources for the taxable year, may, in lieu of the time prescribed in subsection (a), be filed at any time on or before January 15 of the succeeding taxable year.

Mr. President, I submit that this provision already in the law, a provision

which extends to farmers and fishermen not merely deferral privileges on the first $25,000 of such business income, whether incorporated or not, but covers all sizes of income from such sources—I submit that this provision provides equity for these food suppliers and provides precedent for so dealing with other unincorporated business.

Fourth, as to the Treasury effect. I have been given figures in which the Treasury estimates that effect in terms of a range. As my amendment is drawn, there would be a 5-year phasein of the $5,500 maximum, with $1,100 the first year, $2,200 the second, $3,300 the third, and so on until parity with the corporate deferral is reached.

Since there are many more unincorporated businesses and partnerships whose taxable income from the business is $5,500 or less than there are with higher income, the first year effect—I do not say cost, since any immediate loss is recouped in a subsequent year—is to be the largest in that first year. Treasury estimates the first-year shift forward would amount to $400 to $600 million. The second year there would be added another—to use the median of the range—$350 million; the third year, $250 million; the fourth, $250 million; and the fifth, $100 million. Thus the total effect over a 5-year spread is $1.45 billion during the period of transitional deferral. But as I have said, there is no permanent loss to the Treasury; the deferral will be completed in 5 years and the payments will be completely caught up in totals equivalent to those which would prevail under the present system, except for year-to-year fluctuations in the taxable income—a negligible effect.

Finally, I am happy to say that the two small business organizations of the Nation, the National Federation of Small Businesses and the National Small Business Association, support this amendment. I have been promised a telegram to that effect from the federation, and when it is available I may wish to include its text in the RECORD. I do have in hand a letter of support from the National Small Business Federation, which I ask may be included in the RECORD at this point by unanimous consent.

I have detailed here the reasons this amendment should be approved by the Senate. It is an equity amendment; it is needed; it has precedent in present law; and while it has an offset to the effect of the shift toward current collections by incorporated business, it involves no permanent Treasury loss. For these reasons, Mr. President, I hope my colleagues will give it support.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

NATIONAL SMALL BUSINESS ASSOCIATION,
Washington, D.C., March 22, 1968.

Hon. VANCE HARTKE,
Senate Office Building,
Washington, D.C.

DEAR SENATOR HARTKE: Anything that can be done to relieve the pressing capital needs of smaller businesses will reap rich dividends for the country by contributing to their growth. This, in turn, means hiring of more people and greater revenue for the government.

Therefore, we endorse your proposed amendment to H.R. 15414 which will allow individuals engaged in trade or business to deduct from the payment of estimated taxes their first $5,500.00 of tax liability.

Although the capital needs of the smaller corporation may be greater, as a rule, than that of the individual engaged in trade or business there is a consistency in principle for the exemption of both categories. We urge adoption by the Congress of your proposed amendment.

Your continuing efforts on behalf of the small business community are much appreciated by the National Small Business Association.

Sincerely,

JOHN A. GOSNELL,
General Counsel.

ANTIPOVERTY OFFICIAL ACCUSED IN ATTEMPTED RAPE

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent to insert in the RECORD an article, entitled "Suspect in Attempted Rape Seized in Stakeout at Scene," which appeared in the Washington, D.C., Post of March 27, 1968.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

SUSPECT IN ATTEMPTED RAPE SEIZED IN STAKEOUT AT SCENE

A suspect was arrested early yesterday in an attempted rape case after he was found at the scene looking for his wallet, police reported.

They said a coed at the George Washington University Law School was returning home along Connecticut avenue shortly before midnight and was crossing the Taft Bridge when she was struck on the head and knocked to the ground.

Her attacker dragged her down a hill at the end of the bridge and into bushes where she fought with him, knocking his glasses off and dropping her books.

While the assailant groped for his glasses, the student picked up her books and fled to a nearby telephone where she called police. They said when they arrived, the student gave them a wallet that she said she had found among her books.

Policemen were staked out in the bushes where the attack took place and at 2 a.m. the suspect turned up and started to search among the bushes, police said.

[Taken into custody was Maurice A. Davis, 35, of Clarksville, W. Va. They said Davis was assistant director of the antipoverty Community Action Program in Morgantown, W. Va. He was in Washington attending a U.S. Office of Education program, according to police.]

Davis was arraigned on a charge of assault with intent to commit rape. U.S. Commissioner Sam Wertleb set bond at $5,000 and continued the case to April 18.

SENATOR RANDOLPH REQUESTS REVIEW OF "PUBLIC WORKS MORATORIUM" SECTION OF SUBSTITUTE FOR EXCISE TAX BILL

Mr. RANDOLPH. Mr. President, in connection with the pending business, I ask unanimous consent to include at this point in the RECORD a copy of a memorandum on section 3 of the Williams-Smathers substitute amendment to H.R. 15414.

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

To: Members of the Senate.
From: Senator Jennings Randolph.
Subject: Section 3 of the Williams-Smathers Substitute Amendment to H.R. 15414—Moratorium on Public Works Projects.

Judging from the vote in the Senate on this subject on March 26, and from my conversations with Senators today, there appears to be some need for clarification of the scope and impact of Section 3 of the pending measure, which would halt or postpone the planning and construction of public works.

First, there is no definition of public works in the bill. Without such definition we must rely on two primary sources for the meaning of the term; (a) Title 40, U.S.C., Section 460 defines public works in the following words: "The term 'public works' shall include any public works other than housing". (b) In the Special Analyses of the Budget of the United States 1969, compiled by the Bureau of the Budget, pages 77 through 93 are entitled, Federal Activities in Public Works. This chapter presents a wide variety of programs, ranging from the traditional public works program carried forward by the Corps of Engineers in rivers, harbors and flood control, to grants for water and sewer facilities under the Department of Housing and Urban Development, grants for vocational education facilities and grants for public hospitals.

The all-encompassing scope of these above definitions of public works is supported by the language of the pending bill, Section 3 (a) (1) (B) which refers to "any grant to any State or local government agency for . . . any such public works project." This language encompasses the entire range of Federal-aid projects.

The pending measure thus would not only cripple such direct Federal resources development programs as flood control, reclamation, and water shed projects, but it would also bring to a halt the planning and construction of post offices and Federal office buildings, grants for rural water and sewer systems, grants for urban water and sewer systems, grants for airport construction, grants for public hospitals, health research facilities, community health service facilities, mental health centers, Veterans' hospitals and grants for vocational schools—to name but a few of the programs which would be affected by the pending measure.

Subsection 2 of Section 3 is directed specifically at halting of on-going planning or construction activities of public works. Since most Federally funded construction is performed by private contractors, this would mean that literally thousands of contracts with design engineers and builders would have to be temporarily halted, all of which would have to be accomplished by negotiation, with the government being subject in many, if not most, instances to damages for postponing the contract. In the Bureau of Reclamation alone there are an estimated 1,000 contracts for uncompleted construction involving outstanding obligations as of December 31, 1967, of $161 million. In the General Services Administration there are a total of 186 buildings under design or construction at a total obligation of $1,030,379,000. Termination or postponement of these contracts and the thousands of other contracts throughout the range of Federal public works programs would create widespread disruptions within the construction industry, dislocation of the economy in many communities, and would impair many of natural resources and human development programs.

I shall talk on this matter in greater detail in the Senate either today or tomorrow.

CONCLUSION OF MORNING BUSINESS

Mr. BYRD of West Virginia. Mr. President, is there further morning business?

The PRESIDING OFFICER (Mr. McGOVERN in the chair). Is there further morning business? If not, morning business is closed.

TAX ADJUSTMENT ACT OF 1968

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar No. 995, H.R. 15414.

The PRESIDING OFFICER. The clerk will state the bill by title.

The LEGISLATIVE CLERK. A bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The PRESIDING OFFICER. Is there objection to the request of the Senator from West Virginia? The Chair hears none, and the Senate will proceed to its consideration.

The Senate resumed the consideration of the bill.

Mr. BYRD of West Virginia. Mr. President, notwithstanding the order of yesterday, under which we would go on controlled time, I ask unanimous consent that there be a brief quorum call and that the time not be charged against either side under the order.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

Mr. BYRD of West Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. HOLLINGS. Mr. President, I yield 2 minutes to the distinguished Senator from New Hampshire, who has not only worked on this particular measure, but has been giving leadership on textile industry problems since long before I came to Congress.

Mr. McINTYRE. I thank my distinguished friend from South Carolina.

Mr. President, I would like to add my voice to those which have already been heard in support of the amendment offered by the Senator from South Carolina [Mr. HOLLINGS].

The American textile industry has earned the right to a favorable vote on this amendment. The men and women who work in the textile industry have all earned their right to a favorable vote today. Their forebearance in the face of a mounting tide of imports has earned them the right to the support so badly needed which this amendment offers.

I feel that a vote for the amendment offered by the Senator from South Carolina can be fully consistent with a position in favor of free and expanded world trade. The Hollings amendment offers a strong incentive to all nations to reach free negotiated agreements regarding trade in textiles. It does not impose rigid quotas or other barriers to trade. It does not rely on artificial tariffs. It simply reaffirms our view that increased trade carries with it increased responsibilities to avod disrupting the economies of importing nations.

I could not let this opportunity pass without also expressing my strong hope that a similar approach may yet be worked out for trade in shoes and leather goods. Shoe imports resemble textile imports in their historic increases during the present time. If we succeed today in convincing the major trading nations to take a more reasonable approach to textile exports, perhaps we can follow the same course in bringing about a more orderly market in shoes.

Mr. PERCY. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator has a half hour of time available on his side of the aisle.

Mr. PERCY. I yield myself 5 minutes against the time on our side of the aisle.

The PRESIDING OFFICER. The Senator from Illinois is recognized for 5 minutes.

Mr. PERCY. Mr. President, it will not be my purpose to attempt to judge the textile industry need for quota protection in the brief time available this morning. There is neither time for the Senator from South Carolina to make a complete case on the merits for his amendments, nor is there time for those of us who oppose this measure to relate the many arguments that are available—in the new Tariff Commission report and other authoritative sources—to counter this proposal on its merits. In this regard, it would not matter if we had 2 days for the purpose: the details of this complex industry and the implications of passage of this amendment for our domestic economy as well as the world trade simply do not permit that easy a delineation.

There are, however, several reasons why I feel and feel strongly that the amendment is unwise and untimely as an amendment to this bill. First, a quota is a Government grant-in-aid. It is Government assistance just as surely as a preferential tax rate or a subsidy. It gives its recipient advantages other domestic industries do not have. The implications of favoring this industry in this summary action, in view of the long line of industries looking for similar favors, should be a warning that quota amendments will only have begun to appear if we pass this amendment. In the last session the initial plan was to pass them all at once. That produced a ground swell of opposition. Now the strategy appears to favor passing them singly, after the textile bill has opened the path. Let there be no mistake about it: this vote is—in great measure—a vote on several, if not all, of the pending quota bills.

Second, as both the able Senator from New York [Mr. JAVITS]—who regrettably is detained in New York on business or he would be here leading this fight—and the distinguished Senator from Michigan [Mr. HART] pointed out yesterday, the imposition on this quota will have a serious international effect. Negotiations are now underway among numerous of our trading partners who seek to give us a 3-year trade advantage by implementing their Kennedy round tariff reductions at once while we implement ours in three successive stages. Not only will these positive benefits be placed in jeopardy, but the dangers of imposition of additional trade barriers to counter this quota and its announced protectionist policy are very real and very serious threats. Regardless of whether we think these countermeasures against us are warranted—and regardless of whether they seem fair—the authorities are pretty well agreed that they are inevitable.

We are hardly in the best position to bargain internationally. And so I think we ought to at least have the opportunity to see if we could not assist the textile industry—if indeed they need help—by other means that would have less serious consequences. This is the job—initially at least—of the committee. I might add, the administration could perform a very useful service by proposing some alternate means and mechanisms wherewith to assist in adjustment in import-affected industries, where the imports result from reduction of trade barriers.

Third, let me say a word about jobs. I join the Senator from New York and the Senator from South Carolina in my enthusiasm for full employment. The State of Illinois is the leading export State in the Union. One out of every eight jobs in Illinois is a result of the availability of that export market. One out of eight Illinois jobs depends on exports to other countries. A considerable number are agricultural jobs.

Mr. CARLSON. Mr. President, will the Senator yield?

Mr. PERCY. I yield.

Mr. CARLSON. Mr. President, I appreciate very much the statement that is being made by the distinguished Senator from Illinois with respect to the pending amendment.

I share his concern regarding action being taken today without extended hearings. I sincerely believe that a matter of this importance should have hearings before the Senate Finance Committee. There is no doubt that there are problems in the textile industry and in many other industries. However, to act hastily today, I think, would be a mistake. Therefore, I shall support the motion to table the amendment.

Mr. President, I have a telegram from the farm organizations of this Nation who have a great interest in the matter in view of the expanded market for agricultural products. As a matter of fact, $7 billion of agricultural products are exported annually. It happens to be a part of the international trade picture.

Mr. President, I ask unanimous consent to have the wire to which I referred printed at this point in the RECORD.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

WASHINGTON, D.C.

Senator FRANK CARLSON,
Washington, D.C.:

We understand that Senator Hollings will offer textile quota amendment to excise tax bill later today or tomorrow. We believe this action should be avoided and urge you

to oppose Hollings amendment. U.S. Tariff Commission in recent report in effect found textile imports were not injurying the domestic industry. Additional import restrictions could seriously impair our ability to export farm commodities and undoubtedly would lead to the retaliatory action by major importing nations. In view of these facts we strongly urge committee consideration of this most important matter before any decision made on floor action.

Mearl Gifford, Great Plains Wheat, Inc.; Cole Carpenter, Mid-Continent Farmers Association; Glen Hofer, National Association of Wheat Growers; Kenneth Naden, National Council of Farmer Cooperative; Oren Lee Staley, National Farmers Organization; Tony Dechant, National Farmers Union; Herschel Newsom, National Grange; Glen Pogeler, Soybeans Council of America; A. F. Troyer, Soybean Growers of America; John Palmer, Tobacco Association, Inc.; Clarence Palmby, U.S. Feed Grange Council.

Mr. MORTON. Mr. President, will the Senator yield?

Mr. PERCY. I yield.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. PERCY. Mr. President, I yield myself an additional 2 minutes.

The PRESIDING OFFICER. The Senator from Illinois is recognized for an additional 2 minutes.

Mr. MORTON. Mr. President, I have received the same telegram that the Senator from Kansas has received. The names of the organizations affixed to the wire are a part of the record that has been made by the Senator from Kansas.

The Farm Bureau was not a signatory to that wire. I took the liberty of calling them a few minutes ago, and I can speak authoritatively that they support the position taken in the wire which the distinguished Senator from Kansas has had printed in the RECORD.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. PERCY. Mr. President, I yield myself an additional 2 minutes.

The PRESIDING OFFICER. The Senator from Illinois is recognized for an additional 2 minutes.

Mr. PERCY. Mr. President, I hate to think of the number of these jobs—in my State as well as other States—that will be lost if we signal the start of a new protectionist policy by enacting this amendment today. I recognize that the textile industry lost a number of jobs in 1967. I am also aware that a number of other industries did, too—some who are asking for Government assistance and some who are not. But note well: Textile World, the magazine of the textile industry, indicates an increase in every single category of production workers in 1968 over the 1967 total. And employment in 1968 is forecast to pass the employment peak of the industry record year 1966.

In summary, Mr. President, an unarguable case for this quota cannot be made. And in the absence of such a case, such a far-reaching proposal should receive full hearings, at the very least, so that the Senate may act in the best interests of all of its constituents, not simply those of one industry. The single fact that we are contemplating an industry which effectively reduced its import competition in the last year, while increasing its exports, argues forcefully for a closer look and a fuller analysis.

Mr. HOLLINGS. Mr. President, I yield myself 3 minutes to reply to the Senator from Illinois and the Senator from Kansas.

The PRESIDING OFFICER. The Senator from South Carolina is recognized for 3 minutes.

Mr. HOLLINGS. Mr. President, on October 18, 19, and 20 of last year, the Senate Finance Committee held hearings on this particular measure. It was then S. 1796. It is now word for word incorporated in this amendment.

In reference to the matter of hearings, we have had over the last several years three committee hearings before the committee headed by the Senator from Rhode Island [Mr. PASTORE] and two Finance Committee hearings. We have had the Cabinet committee hearings under President Kennedy. We had the Tariff Commission hearings, first under President Eisenhower, later under President Kennedy, and now under President Johnson.

We cannot show it in the CONGRESSIONAL RECORD, and I do not want to clutter the RECORD with all of the material, but we have a stack of hearing transcripts 2 feet high on this measure.

We have heard the members of the subcommittee on this measure. The Senator from Rhode Island [Mr. PASTORE], the chairman of that committee, will tell you that the only reason we have not had more hearings is that it would be perfectly ridiculous and a perfect sham to have witnesses continue to tell the same story without receiving some kind of action in the matter.

Mr. PERCY. Mr. President, will the Senator yield?

Mr. HOLLINGS. I yield on the time of the Senator from Illinois.

Mr. PERCY. Mr. President, I ask if the Senate Finance Committee has had hearings following the very exhaustive studies made by the Presidential Commission on the Textile Industry, published in January of this year.

Mr. HOLLINGS. The studies that the distinguished Senator refers to as being very exhaustive were exhaustive only in their confusion and not with respect to factfinding.

I ask unanimous consent to have printed at this point in the RECORD a document, entitled, "A Brief Appraisal on the Tariff Commission Report on Textiles and Apparel," prepared by the International Ladies' Garment Workers Union, AFL–CIO, and the Amalgamated Clothing Workers of America, AFL–CIO, under date of March 13, 1968.

There being no objection, the document was ordered to be printed in the RECORD, as follows:

A BRIEF APPRAISAL OF THE TARIFF COMMISSION REPORT ON TEXTILES AND APPAREL

Following a request by President Johnson to the United States Tariff Commission to "make a comprehensive investigation of the economic conditions of the United States textile and apparel industries, including the present and future impact of imports upon such industries", the Tariff Commission submitted a two volume report to the President on January 15, 1968. Unfortunately, instead of presenting a comprehensive, unbiased picture of existing conditions and prospective developments, the Commission presented a partisan report, normally not expected from an impartial government agency charged with providing factual information for the President to use in developing policy.

The Tariff Commission's Report is neither balanced nor complete. It distorts past and current developments, both domestic and international, by selective emphasis and the deliberate choice of data. It sidesteps the question of the future impact of imports on the domestic textile and apparel industries and seeks to minimize the impact of imports to date. Moreover, the Report often shows a lack of familiarity with the industries under investigation, and resorts to facile generalization in the total absence of supporting fact. As a result, it contains numerous factual and interpretative errors.

Some of the more serious defects of the Report, each of which can be readily documented, are briefly summarized below.

1. The Commission's Report continually changes the dates used in historical comparisons shifting from dates going back to 1954, to 1958, to 1961, to 1962 and to 1963 as the beginning of time periods, and also varying the terminal dates. At times it completes the period with either 1965, or 1966, even though data for 1967 was available, as is clear from other sections of the Report. Data for 1967 were occasionally used when they suited the Commission's purpose. This shifting of dates permits the Commission to develop arguments of convenience. The statistical results presented in the report are often determined by the choice of the time period rather than by an effort to place events in their proper historical perspective.

2. The Commission chose to include raw fibers used in the manufacture of textiles within the scope of its investigation even though the President requested only an investigation of the textile and apparel industries. This change in the scope of the investigation was then utilized to distort the degree of import penetration for textile and apparel products considered as a totality, to minimize the balance of trade deficit in textiles and apparel, and to confuse the very issues the Commission was asked to investigate.

3. The Commission generally ignores imports as a causal factor in the decline of domestic production. This is done even where imports of a particular item are rising in the face of a decrease in the domestic production of that item.

4. In an effort to deemphasize the impact of imports on domestic markets, the Commission repeatedly stresses that the imports are either not produced in this country in significant quantities, or that they are in some undefined way different from the domestic product, or that they serve needs of the lower income groups of this country that presumably are not met by domestic producers. This is done in generalized form and without documentation. This is the approach of the advocate who generalizes from the hypothetical or highly unusual situation instead of dealing with the available facts. The Commission's contentions are not sustained by the facts.

5. The Commission fails to take proper account of the import developments which led to the adoption of the Short Term and the Long Term International Cotton Textile Arrangements. It thus ignores the parallel between the earlier developments in cotton textile and apparel imports and subsequent developments in textile and apparel imports of other fibers.

6. The Commission fails to assess the Long Term Cotton Textile Arrangement as a practical international instrument which, despite weaknesses, has introduced a degree of orderliness into international trade and, at the same time, permitted a continued expansion of imports.

7. The Commission fails to deal with limitations or contradictions in the statistical data which it utilizes.

8. The data published by the Commission in various sections of its report are at variance with the published figures of the data-collecting departments and agencies of the Federal government, or by other research institutions, and cannot be substantiated.

9. In utilizing Census data, the Commission does not show any awareness of the duplication in the data that arises in the specific industries as a result of intra-industry transactions. Nor does it show any awareness of the effect of such duplication on the changes in the particular industry's unduplicated sales volume to others. Thus, it utilizes the combined figures on the dollar volume of apparel contractors and of their principals for whom contracting costs are a cost of doing business. As a result of the Commission's failure to eliminate this duplication, the data distort the sales performance of the different branches of the industry and the trends of business volume.

10. The Commission's Report often shows no awareness of the difference between data for an industry and data for the principal product of that industry. This misunderstanding leads to confusing statements and invalid explanations and conclusions.

11. In presenting and analyzing import data the Commission resorts to comparisons of product groupings which are not comparable from one time period to another, and fails to call attention to or take account of changes in import classifications which make its comparisons invalid.

12. The Commission relies on its own estimates of import penetration of textile and apparel products in terms of raw fiber weights. It fails to take account of the more sophisticated series maintained on the same basis by the Office of Textiles of the Department of Commerce which has been utilized by the United States Government in international negotiations.

13. The Commission ignores the impact of apparel imports on domestic fabric and yarn producers, and the impact of fabric imports on domestic yarn producers. It thus significantly underestimates the impact of textile and apparel imports.

14. The Commission recognizes that the overall measure of import penetration in fabrics is best measured in terms of square yards rather than by fabric weight. Yet it fails to pursue this principle in measuring import penetration for apparel. Thus, while comparisons of domestic production and of imports for a limited number of apparel products are made in terms of the number of items, the Commission fails to develop a comprehensive measure of overall apparel penetration in terms of physical units. Nor does the Commission use data presented in the course of its hearings which take account of the factors requiring the development of such a measure. The Commission's figures grossly understate the degree to which apparel imports have penetrated the United States market.

15. The Commission's discussion of non-tariff barriers employed by many foreign countries to curtail imports of textiles and apparel, particularly from developing countries, is meager and superficial. It ignores the strong pressures that these barriers create in developing countries and other exporting nations to concentrate their exports in the United States market.

16. The Commission's Report reveals a lack of understanding of the economics and operation of the apparel and textile industries and their problems. It totally ignores the special characteristics of these industries and of their labor force.

17. The Commission's Report emphasizes the increase in the number of larger firms in the apparel industry. It neglects the fact that this industry continues to be a mainstay of small business. As a result, the Commission loses sight of the negative impact of imports on numerous firms in the industry and ignores the national policy of promoting and encouraging small business.

18. The Commission repeatedly assumes, without evidence, that the impact of imports is different on larger and small firms. In the process it neglects serious effects of imports on both large and small firms. It also totally ignores the impact on workers regardless of the size of the company. Even when a large firm is able to switch to the manufacture of other products, the result may still be displacement of those workers affected by imports. When large firms transfer part or all of their production offshore as a result of rising imports, the effect is unemployment for their workers.

19. The Commission's Report shows little understanding of the nature of labor costs. It repeatedly treats changes in hourly earnings of workers as though these were unit labor costs. It fails to recognize that unit labor costs and hourly earnings typically do not move alike.

20. The Commission's Report fails to take account of the ease and rapidity with which countries abroad can create and expand apparel producing capacity for export to the United States. It ignores the ease with which apparel production can be relocated from the United States abroad through the use of the contracting out practices which have long been an integral characteristic of this industry in its domestic operations.

21. The Commission fails to take account of the ease with which importers of apparel shift from one product to another, or from one fiber to another used in the manufacture of a particular product. They thus ignore factors which intensify import penetration and help bypass international arrangements which seek to regulate imports of a single fiber or of specific products.

22. The Commission ignores the ease with which importers shift their purchases from country to country. It thus neglects the facility with which importers bypass restraint levels applicable to any individual country and increase import penetration. It also ignores the resulting build up of overcapacity and overproduction of particular products, and the economic and political repercussions likely to follow.

23. The Commission fails to make any analysis in depth of the multi-fiber character of the apparel industry and its bearing on the industry's present and prospective import problem.

24. With but one exception, the Commission's Report fails to take account of the testimony presented in the course of its six day hearing. It disregards testimony presented to it even on matters on which there was neither conflict nor disagreement by witnesses with widely different points of view.

LAZARE TEPER,
Director of Research, ILGWU.
MILTON FRIED,
Director of Research, ACWA.

Mr. HOLLINGS. The document prepared by these two organizations representing American workers states:

The Commission presented a partisan report, normally not expected from an impartial government agency charged with providing factual information for the President to use in developing policy.

The Tariff Commission's Report is neither balanced nor complete. It distorts past and current devolopments, both domestic and international, by selective emphasis and the deliberate choice of data. It sidesteps the question of the future impact of imports on the domestic textile and apparel industries and seeks to minimize the impact of imports to date.

The document I have had printed in the RECORD is a very comprehensive report and analysis of the Tariff Commission report.

Mr. President, the distinguished Senator from Illinois, along with three other Senators, state in the memorandum which is on the desk of each Senator this morning that we are now at a crucial stage. And I would have to agree.

The Journal of Commerce of Tuesday, March 12, contains a figure for the month of January on textile imports and reads:

Textile imports in January of this year reached the highest level of any single month in history, according to the U.S. Department of Commerce.

Imports of cotton, wool and man-made fiber textile products in January were 291.2-million square yards.

Mr. President, I ask unanimous consent that the article to which I have just referred be printed at this point in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From the Journal of Commerce, Mar. 12, 1968]

JANUARY IMPORTS OF TEXTILES AT NEW PEAK

WASHINGTON, March 11.—Textile imports in January of this year reached the highest level of any single month in history, according to the U.S. Department of Commerce.

Imports of cotton, wool and man-made fiber textile products in January were 291.2-million square yards. The previous high was 280.3-million square yards in September of 1966.

Imports of products made of man-made fibers and blends were 31 per cent higher than the previous record monthly high in August of 1966.

The figures were released following a meeting of the Management-Labor Textile Advisory Committee.

January was the month in which the first step of the new "Kennedy Round" tariff reductions was in effect. Over-all reductions in textile tariffs averaged 13 per cent.

Substantial rises were recorded in imports of wool and man-made fiber textiles. The man-made fiber textile imports were 119.1-million square yards compared with 79.6-million square yards in January of last year. Wool imports were 12-million square yards compared with 9.9-million square yards a year ago. Cotton textiles were 160.1-million square yards compared with 160.3-million square yards in January of 1967.

Mr. HOLLINGS. Mr. President, the Senator has referred to profits.

I have here the available information on hand for the 1967 profit picture from the annual statement of the Cone Mills Corp. The net earnings per common share in 1966 was $3.56. The net earnings per common share for 1967 was one-half as much or $1.84.

For the Graniteville Co., the net earnings per common share decreased 14 percent from 1966 to 1967.

For the M. Lowenstein & Sons, Inc., the net sales in 1966 were $300 million and decreased to $291 million in 1967. The earnings after income taxes were $7,893,423 in 1966 and $5,107,661 in 1967.

For the Dan River Mills, Inc., the net earnings dropped from $15,312,000 in 1966 to $7,847,000 in 1967. That is a 50 percent drop in profits.

Yesterday we placed in the RECORD a table showing that this industry still does not enjoy the status of other American

industries with relation to percentage of profit as it concerns investment.

Mr. President, with relation to the statement that this treatment of the textile industry would trigger a wave of protectionism throughout the world, the fact of the matter is that seven countries have nontariff barriers. Nine countries have quotas. Twenty-six countries have import licenses. Twelve countries have consular fees and import charges. And 30 countries have export incentives.

We are not asking for any protectionism. The thrust of this measure is a matter of negotiations. Perhaps we cannot get negotiations in Vietnam, but Congress will greatly help in this matter by getting negotiations with respect to woolens and manmade fibers. That is the thrust of this particular measure.

I believe that one of the best analyses that we have ever had, when it comes to jobs, was the statement of George Perkel, the director of research for the Textile Workers Union of America, AFL–CIO; and I ask unanimous consent that his statement be printed at this point in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF GEORGE PERKEL, DIRECTOR OF RESEARCH, TEXTILE WORKERS UNION OF AMERICA, AFL–CIO, ON THE NEED FOR IMPORT QUOTAS ON TEXTILES, BEFORE THE U.S. TARIFF COMMISSION, WASHINGTON, D.C., NOVEMBER 15, 1967

On behalf of the 200,000 workers represented by our organization who are engaged in the production of synthetic fibers and textile mill products, we welcome this opportunity to present our views on the need for import quotas on synthetic fibers and all textile products.

The hearings being conducted by the Tariff Commission are taking place at a most critical time. Imports of man-made fibers and textile products have been growing by leaps and bounds. At the same time, new orders have been declining and inventories of finished goods at domestic mills have accumulated to a point where drastic production cutbacks have been initiated. Workers have been laid off and the manhours worked in the industry have been sharply reduced.

THE CRISIS CONFRONTING TEXTILE WORKERS

The workers in this industry face the gravest crisis since the fifties. The memory of the mill liquidations, unemployment and short weeks which plagued us in that dolorous decade is too strong to permit complacency in the face of the ominous handwriting on the wall.

Consider the signs of deterioration which confront us:

The Federal Reserve Board index of textile production has dropped by more than 4% so far this year (from a seasonally adjusted average of 142.5 in the 1st 8 months of 1966 to 136.6 for the corresponding period in 1967).

Production of broad-woven fabrics declined by 6% in the 1st half of 1967 from the level in the corresponding period of the preceding year. The decline in cottons was 5%; synthetic goods, 6%; and wool, 16%.

Inventories of broad-woven fabrics were 17% higher at the end of August 1967 than in the preceding year, with cottons up by 23%, synthetics by 9%, and finished wool apparel fabrics by 2%.

Unfilled orders at the end of August 1967 was down by 32% for all broad-woven fabrics, with cottons down by 38%, synthetics by 6%, and wool by 16%.

Shipments of rayon and acetate yarn declined by 11% in the first 8 months of 1967 and rayon staple fiber dropped by 14%.

These declines have had a substantial impact on the workers in the industry. Employment of textile mill production workers dropped to a seasonally adjusted level of 840,000 in September 1967, 23,000 below the number employed in August 1966. Synthetic fiber plants have been forced to institute widespread layoffs. Production worker employment declined by 8% in the past year (from 73,000 in August 1966 to 67,500 last August).

THE IMPACT OF IMPORTS

Imports have played a major part in causing the current textile decline. The vulnerability of the textile and apparel industry to the disruptive effects of imports from low-wage countries has long been recognized. As long ago as 1959 a Special Subcommittee of the Senate Committe on Interstate and Foreign Commerce found that this industry required special safeguards to prevent its destruction by imports. The following excerpts from the report of the Subcommittee set forth the characteristics of the industry which are still pertinent today.

"Historically, one of the first industries to be established in a country as it begins the process of industrialization is the textile industry. Hence throughout the world we have witnessed, especially during the past few years, a rapid development of textile capacity in many countries which formerly imported most or all of their textile products. . . .

". . . we urge the Government agencies administering this (foreign trade) policy recognize that the problem of declining employment in the domestic textile industry has been aggravated by rising imports and the loss of export markets. . . .

"Since the wages of textile workers in foreign countries range down to as much as one-tenth of the earnings of American textile workers, foreign mills have a pronounced competitive advantage over domestic mills and can dispose of their products in our markets at prices substantially below those which American mills must receive. . . .

"The wide spread in wage rates and hence costs between European and Far Eastern textile producers make it impossible to set a tariff duty which would be fair and equitable. Therefore, we recommend that quotas be established which will permit foreign producers of textile products to sell in our markets within limits which will not further endanger existing textile capacity. We also recommend that quotas be established by specific categories of textile products. (*Problems of the Domestic Textile Industry*, Report of Special Subcommittee, Committee on Interstate and Foreign Commerce, U.S. Senate, 1959, pp. 12, 24, 25)."

In recognition of the special problems of the textile industry, President Kennedy announced a seven-point program of assistance in May 1961. One of these points dealt with the need for international measures to control trade in textile products, as follows:

"I have directed the Department of State to arrange for calling an early conference of the principal textile exporting and importing countries. This conference will seek an international understanding which will provide a basis for trade that will avoid undue disruption of established industries."

As a result of the President's initiative, international arrangements were negotiated in Geneva during 1961 and 1962 which established a system of control for trade in cotton products. However, no such system has been developed with respect to wool or man-made fibers and products. Consequently, imports of these products have skyrocketed. Indeed, even in the cotton field, loose administration of the controls has resulted in tremendous increases in imports.

Between 1961 and 1966 imports of textile products more than tripled (from 926 million square yard equivalents to 2,796 million). The share of the domestic market accounted for by imports jumped from 6% to approximately 10%. In wool products, the ratio of imports of consumption rose from 13% to 22%. Imports of man-made staple fiber rose from 5% to over 10% of mill consumption during this period.

While the domestic industry was able to absorb the increasing volume of imports at a time when the demand for goods was expanding, the disruptive effects of these imports hit the industry hard when demand declined. Moreover, the rate of increase in imports has accelerated so drastically since 1964 that it has become impossible for the industry to cope with the growing influx of foreign goods.

Total imports of textile products increased by 85% between 1964 and 1966. Cotton products rose by 72%, wool by 34% and synthetics by 143%. Man-made staple fiber imports registered a jump of 31%.

THE IMPORTANCE OF WAGE DISPARITIES

The basic factor which makes such increases possible is the wide disparity in wages between the prevailing levels in the exporting countries and the U.S. level. While the average wage of American textile workers is approximately $2 an hour, the earnings of textile workers in the two countries which account for about half of our imports are $.38 an hour in Japan and $.25 in Hong Kong. Textile wages in the other Far Eastern exporting countries range from $.09 an hour (in South Korea) to $.18 an hour (in the Philippines).

With disparities in wages of these magnitudes, it is small wonder that the domestic industry is being engulfed by foreign imports. While our technology is modern and efficient, we cannot hope to offset the wage advantage of foreign producers through higher productivity. The fact is that modern textile technology is world-wide in its application. Indeed, the machinery and equipment installed in the expanding textile industries of the developing nations are of the latest design, frequently obtained with the assistance of our foreign aid funds and the know-how of American machinery manufacturers.

Since the textile industry is a labor-intensive industry, differences in labor costs assume critical importance in the competition between domestic and foreign textile products. Wages of production workers comprise 43% of the value added by manufacture in this industry compared to an average of 32% for all manufacturing industries.

EXPANSION OF TEXTILE CAPACITY ABROAD

The vast expansion which has taken place in the textile capacity of the low-wage, low-cost areas of the world poses a real threat to the survival of the American industry. The number of active looms in place in Japan, Hong Kong and the less developed countries increased by 25% between 1960 and 1965, while the number in the U.S. declined by 15%. As a result, the weaving capacity of these expanding areas rose from 41% of the world total to 49% at the end of 1965. Today, more than half of the active looms consuming cotton and synthetic fiber are located in the low-wage countries.

There is no question that the textile mills of Japan, Hong Kong, and the developing areas of the world have the capacity to flood the American market with cheap textile products. The question is whether it would be in the national interest to permit this to happen.

NEED FOR ACTION TO SAFEGUARD DOMESTIC JOBS

The textile and apparel industries employed a total of 2,360,300 persons in the United States in 1966. Man-made fiber producers employed an additional 104,000 persons, making a total of 2,464,300 employees engaged in the manufacture of textile products.

It is inconceivable that the United States Government would fail to take action to safeguard the jobs of the 2½ million Ameri-

cans whose livelihood is threatened by the massive influx of textile product imports.

The reductions in tariffs on fibers and textile products negotiated in the Kennedy Round will add to the distress of the textile workers and hasten the demise of this vital industry. These duty reductions will average 12½% for textile products, with cottons to be cut by an average of 21%, man-made fibers and products by 15%, and wools by 2%.

The Textile Workers Union of America, AFL–CIO, has embarked on a program to alert the nation to the dangers we face. In October 1966 our Executive Council adopted a resolution in which we urged the President and Congress "to take immediate steps to impose restraints on imports of wool and manmade textiles and textile products . . . (and) to insure that the administration of the Long Term Arrangement will be strengthened so as to prevent further disruption of our cotton textile markets and to forestall additional layoffs to textile workers."

On April 1, 1967 a conference of TWUA delegates from cotton, synthetic and wool local unions adopted a resolution calling attention to "the failure of the United States to achieve international regulation of trade in man-made fiber and wool products and the ineffectual administration of the international cotton textile arrangement."

We intend to utilize every resource at our command to impress the responsible officials of the Government with the urgent need for action. The time has passed for urging foreign governments to enter into voluntary arrangements to limit textile export. Efforts to accomplish this purpose have failed. It is time for the United State Government to take unilateral action to safeguard the jobs of America's fiber, textile and apparel workers.

THE SPECIAL CHARACTER OF THE TEXTILE LABOR FORCE

The nature of the textile work force makes it imperative that effective government action be taken to prevent the continued erosion of the industry by imports. The history of this industry clearly demonstrates the serious difficulties encountered by textile workers in finding reemployment after being displaced. The geographic location of the plants and the personal characteristics of the labor force strongly militate against an orderly transition to new jobs for displaced textile workers. The fact is that these workers face severe distress in the event of a major contraction of the industry. The impact of such a development on the social and economic condition of the communities which are dependent on the industry would be catastrophic.

GEOGRAPHIC DISTRIBUTION

The 2½ million employees engaged in the manufacture of manmade fiber, textiles and apparel are distributed among 33,000 establishments located in 45 states. The industry is so widely distributed that the injury caused by sharply rising imports cannot be gauged simply in local or regional terms. However, the concentration of employment in particular localities and regions make them especially vulnerable to the harmful effects of a decline in the industry.

The region which would be most seriously affected is the Appalachian Region. According to a study made by the Man-Made Fiber Producers Association, Inc., the manmade fiber, textile and apparel industry accounts for 452,957 of the total of 1,709,844 manufacturing employees in the 373 counties of Appalachia.[1] Inasmuch as others will testify on this subject we shall not enter into further discussion, except to note that a decline in the industry which accounts for more than a quarter of the industrial jobs in this depressed region would strike a devastating blow at the efforts being made to restore it to prosperity under the Appalachian Regional Development Act of 1965. It should also be noted that while this region employs more than 20% of the workers in the manmade fiber-textile-apparel complex, it accounts for approximately one-half of the jobs in the manmade fiber producing segment (50,300 out of 104,000).

The outstanding geographic characteristic of the textile mill products segment of the industry is the fact that a large majority of the plants are located in small towns or rural areas where they comprise the major source of industrial employment opportunities. This fact is vital to an appreciation of the importance of the industry to the areas in which they are located. It is also a key to understanding the difficulties faced by workers who lose their jobs as a result of mill curtailment or liquidation. In most cases they have nowhere to turn for alternative employment in the area.

The limitations of available statistics make it impossible for us to furnish the Commission with a comprehensive picture of the distribution of the industry's establishments by size of area. Regulations restricting the publication of employment statistics which might disclose information relating to an individual reporting unit preclude us from access to the necessary information. We trust that the Commission will not be inhibited by such restrictions and will institute investigations to ascertain the facts.

The following data clearly indicate the predominant location of the textile industry in small labor areas where the mills comprise the major source of employment.

1. Textiles and Major Labor Areas

The Bureau of Employment Security of the United States Department of Labor compiles monthly statistics on employment for 150 Major Labor Areas for purposes of analyzing the adequacy of their local labor supply. These areas are defined as follows:

"Major" labor areas usually have at least one central city with a population of 50,000 or more, according to the 1960 Census. In most instances, boundaries of major labor areas coincide with those of Standard Metropolitan Statistical Areas, as determined by a Federal interagency committee chaired by the Budget Bureau.[2]

These areas comprise the principal centers of industrial employment in the United States. In 1966 they accounted for 68% of the nation's manufacturing employees (13,035,000 out of 19,186,000). However, only 34% of the textile mill employment is located in the 150 major labor areas (326,000 out of 961,500). Almost two-thirds of the textile labor force is employed in areas outside of the major labor areas. (Table 1)

2. Textiles and Standard Metropolitan Statistical Areas

Another indication of the predominant location of textile employment in small areas is afforded by a statistical breakdown of production workers in the major subdivisions of the industry. These are available from wage surveys conducted by the Bureau of Labor Statistics of the United States Department of Labor in recent years. They show that 70.5% of the production workers in five divisions of the textile mill products industry were employed in establishments outside of Standard Metropolitan Statistical Areas.[3] (Table 2)

The proportions of workers located in nonmetropolitan areas vary from a low of 53.0% in Textile Dyeing and Finishing to a high of 78.6% in Children's Hosiery. These proportions are representative of the textile mill products industry as a whole. The production workers in these 5 divisions accounted for 71% of the industry's total in 1966.

3. Textiles in South Carolina

Because of the availability of detailed tabulations in the annual reports of the Department of Labor of the State of South Carolina, it is possible to analyze the distribution of textile employment data for this state in a more comprehensive manner than for the other states. Inasmuch as South Carolina is one of the leading textile states (accounting for 145,800 of the nation's 961,500 textile jobs in 1966) and its locational characteristics are representative of the industry as a whole, we have made a study of the distribution of the state's textile mills and employees to determine the importance of this industry to the industrial structure on a local area basis.

The basic unit for analyzing local labor areas outside of Standard Metropolitan Statistical Areas is the county. Consequently, our study is based on an analysis of the distribution of textile mills and employees among the counties in the state which contain textile establishments (Table 3). For counties whose textile employment is not disclosed by *County Business Patterns* (U.S. Department of Commerce), estimates of employment were made on the basis of nonsalaried employment reported by the South Carolina Department of Labor.

The counties with textile establishments were distributed by size of manufacturing employment (Table 4). The following locational characteristics of the textile industry are evident from these data:

a. More than half of the textile mills and employees are located in counties with less than 15,000 manufacturing employees (175 of the 345 mills and 72,749 of the 143,959 textile employees).

b. In counties with less than 15,000 manufacturing employees, textiles accounts for 43% of total manufacturing jobs. Clearly, the textile industry is the predominant industrial employer in the smaller counties in which textiles are located.

c. In the larger counties with textile employment (i.e., those with 15,000 or more manufacturing jobs) the predominance of the textile industry is even greater than in the smaller areas: textile employment comprises 57% of all manufacturing jobs in these counties.

d. A large majority of textile employment is located in counties in which textiles accounts for more than half of manufacturing jobs: 69% of the textile workers are employed in counties with a ratio of textile to total manufacturing employment of 50% or more.

Personal characteristics

The textile labor force is highly immobile. The age, sex, education and skill distribution of textile workers all conspire to prevent them from taking advantage of opportunities for reemployment in other industries and areas. Consequently, the theoretical means of adjusting to the dislocations caused by increased imports—retraining and relocation—are no solution to the problems confronted by textile workers in the event of a contraction in the industry.

It is obvious that women are handicapped by their sex and family status in utilizing relocation as a means of adjusting to the

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[1] *Impact of Imports on American Industry and Employment*, Hearings before the General Subcommittee on Labor, House Committee on Education and Labor, 90th Session, Part 2, 1967, p. 1042 ff.

[2] *Directory of Important Labor Areas*, Bureau of Employment Security, U.S. Department of Labor, July 1, 1965, p.i.

[3] Defined by the U.S. Bureau of the Budget as an area containing "at least one city of at least 50,000 inhabitants," and including "the county of such central city, and adjacent counties that are found to be metropolitan in character and economically and socially integrated with the county of the central city." (*Standard Metropolitan Statistical Areas*, 1967, pp. vii–viii.)

loss of employment. The ratio of women to total employment in textiles is exceptionally high (45% compared to an average of 27% for all manufacturing industries).

In appraising the geographic mobility of American workers, the United States Department of Labor has found that "older workers, the unskilled and the uneducated are those least likely to move and those who fare the worst when they do."[4] The particular difficulties faced by older workers are described as follows:

"Migrants 45 years old and over have a more severe unemployment problem after they move than men 25 to 44 years old. They have less education and face age discrimination. And since community and family ties are stronger among older persons, migration is probably a last resort for this greatly disadvantaged group."[5]

The textile labor force has a disproportionately high ratio of workers aged 45 and over. The latest available census shows that 40.1% of the males employed in the textile mill products industry were 45 years old and over compared with 35.9% for all manufacturing industries in 1960. Similarly, the proportion of female employees 45 years and older in textiles was 37.2% compared with 34.2% for all manufacturing.[6] These disparities have worsened since 1960 as a result of the greater increase in employment of young people by other manufacturing industries than by textiles since 1960.

The educational attainments of textile workers tend to be appreciably below the averages for all manufacturing industries and the civilian labor force as a whole (Table 5). The median years of school completed by textile workers run between 2% and 23% below the corresponding medians for workers in the same occupational groups in manufacturing and the civilian labor force, with the most numerous textile occupation (Weavers) falling 12% below the median for Operatives in the case of males and 9% below in the case of females. Moreover, the high proportions of textile workers employed in unskilled and semiskilled occupations reinforces the tendency of textile workers to suffer from educational handicaps to mobility.

The importance of education to labor mobility is evident from the following findings of the aforementioned Labor Department appraisal of the geographic mobility of American workers:

"In general, migrants have an above-average level of education. Of the 25- to 29-year-old men who migrated between 1955 and 1960, for example, 25 percent were college graduates, as compared with 9 percent of the nonmigrants. And a lower proportion of the migrants than of the nonmigrants in this age group had completed only 8 years or less of school (14 and 23 percent, respectively). To look at the figures a different way, 55 percent of all male college graduates 25 to 29 years old lived in a different county in 1960 than in 1955, compared with only 29 percent of the men who had completed but not gone beyond high school. It is apparent that geographic mobility drops off sharply with decreasing education."[7]

The proportions of textile workers employed in unskilled and semiskilled occupations are much higher than for manufacturing as a whole. In 1960, 66.6% of textile employees were in semiskilled occupations (Operatives and Kindred Workers) compared with 42.6% for all manufacturing employees (Table 6). The addition of unskilled occupations brings the total for semiskilled and unskilled groups to 72.4% of total employment for textiles compared with 50.1% for manufacturing as a whole.

The heavy concentration of textile workers in the unskilled and semiskilled occupations is a highly significant barrier to the mobility of textile workers. As noted in the aforementioned Labor Department study of geographic mobility, unskilled and semiskilled workers "have much lower rates of migration because they usually lack information about job opportunities, seldom have the resources for moving, and have limited employment opportunities in other areas, as well as locally. The barriers to migration of unskilled workers make it very difficult for them to move even from the worst depressed areas, where their competitive difficulties in finding jobs are compounded by the presence of jobless workers with higher qualifications."[8]

It is especially significant that the Labor Department found that Operative and Kindred Workers (the predominant occupational group in textiles) had the lowest rate of out-migration of all groups in the ten areas of high unemployment whose migration experience was studied. While 9.0% of all male employees in these areas migrated out of the areas in the period from 1955 to 1960, only 6.2% of the male Operatives and Kindred Workers did so.[9]

The distinctive character of the labor force which militates against the mobility of textile workers has long been recognized. Numerous studies over the years have confirmed the existence of this special problem.

Gladys L. Palmer conducted an intensive analysis of the experience of 862 weavers in three cities during the decade of 1926–35 for the purpose of ascertaining the transferrability of their skills to other industries.[10] The following findings are relevant:

1. The experience of the weavers in all three cities (Manchester, N.H., Paterson, N.J., and Philadelphia, Pa.) "was highly specialized in character. For most of the workers it was concentrated in one industry. For a significant proportion of the weavers in two of the cities, the work experience was confined to one plant."[11]

2. "Less than a third of the weavers in the three cities had changed occupation or industry in the ten years prior to 1936. Many of the changes which occurred represented movement into or out of the textile industries, or between various textile industries, only (i.e., not involving movement to other industries)."[12]

3. "The degree of industrial mobility reported by weavers was likewise small. Almost as many weavers in the three cities reported no changes in industry as had reported no changes in occupation in the years 1926 to 1935."[13]

4. "Weavers, and other textile workers, too, for that matter, are usually members of families where other workers are customarily employed in textile mills, frequently in the same mills . . . Studies made of the post-lay-off experience of textile workers, including weavers, from shut-down mills indicate that a high proportion of women workers drop out of the labor market after shut-down . . . Dropping out of the labor market, in this instance, is a reflection of a very high degree of immobility among married women weavers."[14]

5. "The relative immobility of weavers may be considered representative of that of most textile workers. Although some occupations are less specialized in character than weaving, others are more highly specialized from the point of view of possible transfer of skills to other kinds of work . . ."[15]

6. "Geographic mobility for weavers is a distinct function of industrial mobility within a region. There is no evidence that weavers have moved from one region to another, as, for example, from New England to the South, when New England mills were declining and southern mills expanding."[16]

7. "The social implications of what has been rightly called the 'stickiness of the job relationship' in the textile industry are far-reaching. Mute evidence abounds in the 'ghost' towns of old New England cotton centers, the economic chaos of such centers as Paterson, and the idle mills scattered throughout the country."[17]

In study after study these findings have been confirmed. The United States Department of Labor found in 1946 that "like the coal miners of Wales, who all through the deseperate 1920's and 1930's suffered, yet stayed amid the shut-down collieries, and like many miners in this country during the great depression, textile workers show a strong attachment to their trades and their communities . . . Workers' attachements have not only been solidified by family traditions, but also by the fact that community life has to a large extent centered on mill employment. In some towns the textile mill is the only source of jobs while in larger communities with greater diversification, such as Fall River, New Bedford and Lewiston, the mills exert a dominant influence. Since people are generally hesitant and reluctant to change homes, friends, and manner of life, the high degree of economic homogeneity of the community is a force directed toward retaining the status quo."[18]

It is noteworthy that the major New England textile centers which lost their preeminence in the twenties as the industry expanded in the South have still not recovered from the blow to their economies. Fall River, New Bedford and Lowell, Massachusetts, are still classified as areas of substantial unemployment, having suffered from exceptionally high unemployment rates continuously over the past decade and a half. In July 1967, when the average unemployment rate for the United States was 4.1%, these old textile centers had unemployment of 7.8% (Lowell) and 11.0% (Fall River and New Bedford). Unemployment in each of these areas exceeded 6% in 1966 when the national average was 3.8%.

The impact of mill closings on New England textile workers was the subject of intensive study by several investigators during the fifties. A study sponsored by the New England Textile Committee (appointed by the Governors of the New England states) is typical.[19] Six mills were selected for study as "representative cases under varying labor market conditions." The following findings are pertinent:

1. "Of the total group contacted (1,705 workers) . . . only 45% were at work at the time of our survey. (1 year to 2½ years after displacement.) Another 12 per cent had withdrawn from the labor force."[20]

2. "Men were more successful than women in finding new jobs. Fifty-eight per cent of the male workers in the sample were employed compared to 35 per cent of the women."[20]

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[4] *A Report on Manpower Requirements, Resources, Utilization and Training,* Transmitted to the Congress March 1965, p. 146.

[5] *Ibid.,* p. 149.

[6] Computed from *U.S. Census of Population: 1960,* Vol. I. Characteristics of the Population, Table 212.

[7] *Ibid.,* p. 147.

[8] *Ibid.,* p. 148.

[9] *Ibid.,* p. 152.

[10] "The Mobility of Weavers in Three Textile Centers," *The Quarterly Journal of Economics,* May 1941, pp. 460–487.

[11] *Ibid.,* p. 476.

[12] *Ibid.,* p. 476.

[13] *Ibid.,* p. 482.

[14] *Ibid.,* pp. 484–485.

[15] *Ibid.,* p. 485.

[16] *Ibid.,* p. 486.

[17] *Ibid.,* p. 487.

[18] "Work and Wage Experience of Skilled Cotton-Textile Workers," *Monthly Labor Review,* U.S. Department of Labor, July 1946, p. 13.

[19] William H. Miernyk, *Inter-Industry Labor Mobility,* Northeastern University, Boston, 1955.

[20] *Ibid.,* p. 16.

3. "More than half of the workers that found new jobs after their displacement were under 45 years of age. By way of contrast, only 29 per cent of the unemployed were 45 years of age or under." [21]

4. "In all but one of the labor market areas, textile employment was declining during the period covered by our survey. In spite of this, however, textile mills provided a larger number of jobs to both male and female workers than any other industry or occupation. Thirty-six per cent of all employed sample workers were once again at work in textile mills, more than five times the number who found jobs in any other manufacturing industry." [22]

5. "To some extent the relative immobility of textile workers in New England may be related to age. The average textile worker is older than the average industrial worker and often the textile worker has not had experience in other occupations. Having grown old in one kind of work he may have neither the inclination nor the ability to seek and find employment in another industry. One might expect textile workers to remain with their trade in times of stable or rising employment, but the most striking result of the present survey, and this is supported by earlier studies, is the continued attachment to the industry (whether voluntary or involuntary) during a period of declining employment." [23]

6. "We also attempted to discover the *willingness* of the displaced workers to move from the area if they knew of a job (or a better job) elsewhere . . . 58 percent of these (responses) replied that they would *not* be willing to leave the area. Many said they were too old to consider changing their place of residence, and others felt that they could not move because other relatives (usually parents) were dependent upon them. While we have some reservations about answers to hypothetical questions, they are at least consistent with the actual behavior of the sample workers. Women showed a greater unwillingness to leave the area than men, but even among the men almost half said they were unwilling to move." [24]

7. "It is evident that workers displaced by the liquidation of textile mills in New England are not being absorbed in large numbers by the industries which have been expanding in this area . . . the highly aggregative comparisons of recent employment trends in New England conceal the fact that industrial growth and decline do not always coincide in the same areas. And the displaced textile worker is unwilling, or sometimes unable, to relocate to other areas where there might be a better opportunity to find work. Perhaps the greatest barrier to inter-industry mobility is the advanced age of many of the displaced workers. Although not all of the younger workers had found jobs, those under 40 were relatively more successful than those past this age. Many of those between the ages of 40 and 65 felt they were being prematurely forced out of the labor market." [25]

8. "The protracted decline in textile employment and the relative immobility of the displaced workers have produced a considerable amount of persistent unemployment in many textile centers in New England. The problem is not being solved by the growth of new industry in the region, although obviously it would be much worse if employment had not increased in other industries. Aggregative comparisons which show that more jobs have been added than lost in the region, during a given time period, while accurate indicators of overall employment trends, conceal the short-run problems created by changes in the industrial structure of the regional economy. Nor can this unemployment be regarded as a temporary phenomenon if there is to be a further exodus of mills from New England. There is no reason to expect a larger proportion of displaced workers to be absorbed by other industries in the future than has been true in the past. Indeed, if total textile employment in New England continues its secular decline, the level of persistent unemployment may be expected to rise as opportunities for re-absorption by other mills through normal turnover are diminished." [26]

The difficulties of displaced textile workers in finding reemployment have continued in the sixties. The United States Department of Commerce sponsored a study, *Economic Effect of Textile Mill Closings, Selected Communities in Middle Atlantic States,* published in 1963. This study examined the experience of six communities resulting from textile mill liquidations and found the same basic story as earlier investigations: "Much evidence of hardship and suffering. Many older workers were unable to find new jobs; many younger men left their home communities to find employment elsewhere. Long periods of unemployment were common, and many displaced textile workers were forced to seek assistance from relatives or public relief agencies, or eventually to take lower paying jobs in other industries. Emigration and lower paying jobs for women had the effect of changing the character of the labor force in some communities, raising the average age of workers and increasing the proportion of women." [27]

The latest in the series of these studies was published by the United States Department of Labor in 1966. "The Post-Layoff Experience of Displaced Carpet-Mill Workers," by N. Arnold Tolles, examines the workers' experience following layoff from a carpet mill which halved its employment between mid-1960 and mid-1962.[28] The following excerpts from the Summary of the report are relevant:

"In April 1963, at the time of the case study of carpet-mill workers who were laid off when the mill halved its employment between mid-1960 and mid-1962, 1 of every 12 had ceased to look for work and 1 of 4 of those still in the labor force was unemployed. The unemployment rate among these workers was over 5 times the national rate at the time. It was 2½ times the rate prevailing even in the small, economically depressed northeastern community where the carpet mill was located.

"The unfavorable employment situation of the carpet-mill workers compared with other local workers, epitomizes problems confronting jobless workers in areas such as this. There were no other carpet mills within 150 miles of the community, and although manufacturing industries dominated its economy, few of them utilized skills of the kind these workers had acquired at the mill. Most of the workers were middle aged and older persons with comparatively little education or training that would equip them for other kinds of work. These characteristics were especially pronounced among the fairly small number of women in the group studied.

"Moreover, many of the carpet-mill workers had spent most of their lives in the community, to which they were tied by extensive homeownership and, frequently, the local employment of a husband or wife. More than three-fourths of them expressed unwillingness to accept a job beyond commuting distance of their homes, even if such a job should be offered." [29]

PRESERVATION OF TEXTILE INDUSTRY IS IN THE NATIONAL INTEREST

Measures to preserve the textile industry in the face of growing erosion by imports are clearly in the national interest. The importance of this industry to the nation goes beyond the fact that its 2½ million employees comprise 13% of the country's manufacturing workers. The essentiality of the industry to our national defense is so clear and pressing that it hardly needs elaboration. In addition to providing clothing for our armed forces the industry produces thousands of articles which are indispensable to the defense establishment. The highest priorities have been assigned to textile products during national emergencies. They are a prime necessity in wartime, both for military and for essential civilian uses.

The textile industry has a potential role of particular importance to play in helping to meet the critical manpower problems confronting the nation. The vast technological changes in American agriculture have displaced millions of farm workers. The migration to the cities of millions of people with relatively little education and no industrial skills has created the basis for the current urban crisis.

The Department of Agriculture has estimated that "average farm employment in 1980 will be about 3.6 million workers, a 36 per cent decrease from 1965 . . . Decreases in farm employment are expected to occur in all regions but will be greatest in the Northeast and the three southern regions, where declines from two-fifths to almost one-half are anticipated. Most of the declines will come from continuation of large reductions in farm operators and family labor in the southern areas." [30]

The geographic distribution and the types of jobs required by the textile industry make it especially suitable as a major source of employment for the workers who will be displaced from the farms. More than 95% of textile mill products employment is located in the regions which face the greatest reduction in farm employment. (Table 7.) In the textile-apparel-manmade fiber complex, the Northeast and South comprise 88% of the industry's total.

Because of its relatively low educational and skill requirements, this industry has historically served as a means of entry into the industrial labor force for people with little or no industrial experience. As noted by Professor Donald B. Osburn, "The textile mill industry may serve as a training ground for Negroes in the future as it has for whites in the past . . . employment in this industry teaches skills to workers who have previously engaged in unmechanized agricultural production, thus allowing them to participate in an industrial or at least non-agricultural society, and perhaps to move on to higher paying jobs as the opportunities present themselves." [31]

The rapid increase in employment of nonwhites in the textile mill products industry in recent years provides clear evidence of the great potential in this industry for helping to meet the need for expanded job opportunities for Negroes. The ratio of nonwhites to total employment in the industry increased from 4.6% in 1962 to 5.3% in 1964 and 8.0% in 1966. (Table 8.) Both males and females have participated in the sharp rise: males boosted their ratio from 6.4% in 1962 to 10.0% in 1966 while females rose from 2.5% to 5.3%. While statistics for 1967 are not yet available, our observations indicate that the ratio of nonwhites to total employment in the industry now exceeds 10%.

[21] *Ibid.*, p. 17.
[22] *Ibid.*, pp. 18–19.
[23] *Ibid.*, p. 20.
[24] *Ibid.*, p. 27.
[25] *Ibid.*, p. 144.
[26] *Ibid.*, p. 155.
[27] *Economic Effect of Textile Mill Closings, Selected Communities in Middle Atlantic States,* 1963, p. 2.
[28] *Weathering Layoffs in a Small Community, Case Studies of Displaced Pottery and Carpet-Mill Workers,* June 1966, pp. v–47.
[29] *Ibid.*, p. 1.
[30] *Report on Manpower Requirements, Resources, Utilization and Training,* U.S. Department of Labor, April 1967, p. 106.
[31] *Negro Employment in the Textile Industries of North and South Carolina,* Equal Employment Opportunity Commission, November 1966, pp. 49–51.

CONCLUSION

Import quotas on synthetic fibers and all textile products are needed to prevent the crisis confronting textile workers from causing the destruction of thousands of jobs and creating severe distress in many textile communities.

Imports have played a major part in causing the current textile decline. The Government has recognized the special vulnerability of the textile and apparel industry to disruption from imports from low-wage countries. A system for regulating imports of cotton products through international arrangements has been effectuated but no controls have been instituted for manmade fiber and wool products. Consequently, imports of these articles are threatening to engulf the domestic market. The tariff mechanism is inadequate to deal with this situation. Adoption of import quotas is essential to safeguard the jobs of 2½ million textile and apparel workers in the United States.

The special character of the textile work force makes government action imperative. The industry is predominantly located in small towns, where alternative employment opportunities are not available. The age, sex, educational and skill characteristics of the labor force all militate aaginst mobility. Consequently, the dislocation of textile workers would lead to persistent unemployment and human suffering.

Preservation of the textile industry is clearly in the national interest. The industry is essential to the national defense. Moreover, it has a major contribution to make in helping to meet the critical manpower problems confronting the nation. It should be encouraged to fulfill its historic role of serving as a means of entry into the industrial labor force for people with little or no industrial experience.

[From the Textile Workers Union of America, research department, New York, N.Y.]

TABLE 1.—*Distribution of employment in textile mill products industry by size of labor area, 1966*

Area:	Employment
United States	961,500
Areas outside of major labor areas [1]	635,500
Major labor areas [1]	326,000
Arkansas: Little Rock-North Little Rock	1,600
California:	
Los Angeles-Long Beach	5,800
San Francisco	800
Connecticut: Hartford	3,200
Delaware: Wilmington	1,400
Georgia:	
Atlanta	7,100
Augusta	10,100
Columbus	10,100
Macon	2,700
Illinois: Chicago	3,000
Maryland: Baltimore	1,800
Massachusetts:	
Boston	6,200
Fall River	3,300
Lawrence-Haverhill	3,300
Lowell	4,100
New Bedford	3,200
Springfield-Chicopee-Holyoke	3,300
Worcester	2,600
New Hampshire: Manchester	3,000
New Jersey:	
Jersey City	5,200
Newark	3,700
Paterson-Clifton-Passaic	13,500
Perth Amboy-New Brunswick	1,400
New York:	
Albany-Schenectady-Troy	4,100
New York City	41,000
Utica-Rome	1,300

TABLE 1.—*Distribution of employment in textile mill products industry by size of labor area, 1966*—Continued

Area:	Employment
North Carolina:	
Asheville	3,500
Charlotte	8,300
Greensboro-High Point	17,700
Winston-Salem	10,400
Durham	3,200
Ohio: Cleveland	5,600
Oregon: Portland	2,300
Pennsylvania:	
Allentown-Beth-Easton	6,600
Lancaster	2,100
Philadelphia	28,100
Reading	9,700
Scranton	2,700
Wilkes-Barre-Hazleton	3,400
York	3,800
Altoona	1,700
Rhode Island: Providence-Pawtucket	22,600
South Carolina: Greenville	24,200
Tennessee:	
Chattanooga	11,000
Knoxville	4,900
Nashville	2,900
Texas:	
Dallas	800
Houston	800
San Antonio	700
Wisconsin: Milwaukee	1,440
Puerto Rico: San Juan	800

[1] Major Labor Areas are designated by the Bureau of Employment Security for monthly classification according to the adequacy of their local labor supply.

Source: U.S. Department of Labor.

TABLE 2.—DISTRIBUTION OF TEXTILE PRODUCTION WORKERS BY TYPE OF AREA AND INDUSTRY DIVISION, 1964–66

Industry division	Date of survey	Number of workers		Total	Percent in nonmetropolitan areas
		Metropolitan areas [1]	Nonmetropolitan areas		
Cotton textiles	September 1965	50,888	168,589	219,477	76.8
Synthetic textiles	do	31,545	68,808	100,353	68.6
Wool textiles, yarn, and broadwoven fabric mills	September 1966	13,161	28,604	41,765	68.5
Hosiery:					
Women's	October 1964	14,872	29,453	44,325	66.4
Men's	do	7,479	13,774	21,223	64.9
Children's	do	3,721	13,643	17,364	78.6
Textile dyeing and finishing	Winter, 1965–66	25,761	29,013	54,774	53.0
Total of above		147,427	351,884	499,281	70.5

[1] Refers to standard metropolitan statistical areas as defined by the U.S. Bureau of the Budget.

Source: Bureau of Labor Statistics, U.S. Department of Labor.

TABLE 3.—COUNTIES IN SOUTH CAROLINA WITH TEXTILE ESTABLISHMENTS, MARCH 1966

County	Textile mill products		All manufacturing industries (employments)	Ratio of textile to manufacturing employment (percent)
	Number of establishments	Employment		
Abbeville	6	3,016	3,889	78
Aiken	14	6,088	15,867	38
Allendale	2	[1] 257	730	35
Anderson	35	13,754	19,898	69
Bamberg	1	[1] 200	1,219	16
Barnwell	1	[1] 400	1,452	28
Beaufort	1	[1] 400	903	44
Berkeley	3	862	1,637	53
Charleston	1	[1] 1,087	10,820	10
Cherokee	14	4,163	6,025	69
Chester	11	4,883	5,743	85
Chesterfield	14	1,863	3,560	52
Darlington	4	426	6,885	6
Dillon	3	[1] 1,272	2,253	56
Edgefield	2	[1] 462	1,600	29
Fairfield	1	[1] 1,500	2,604	58
Florence	4	[1] 1,422	8,303	17
Georgetown	2	[1] 462	3,542	13
Greenville	50	19,447	40,669	48
Greenwood	17	7,568	14,097	54
Kershaw	4	[1] 2,221	4,824	46
Lancaster	3	6,766	8,815	77
Laurens	10	4,640	8,414	55
Lee	1	[1] 200	541	37
Lexington	5	1,095	7,021	16
Marion	1	[1] 561	2,296	24
Marlboro	9	3,310	5,016	66
McCormick	1	[1] 750	857	88
Newberry	6	[1] 1,998	3,793	53
Oconee	7	5,245	8,976	58
Orangeburg	3	897	7,398	12
Pickens	19	4,612	11,957	38
Richland	4	[1] 3,199	10,219	31
Saluda	4	1,021	1,666	61
Spartanburg	47	21,328	32,225	66
Sumter	3	[1] 615	5,357	11
Union	9	5,176	5,700	91
Williamsburg	1	[1] 200	1,614	12
York	25	10,593	16,102	66

[1] Estimated from South Carolina Department of Labor data.

Source: Bureau of the Census, U.S. Department of Commerce, except where otherwise indicated

TABLE 4.—DISTRIBUTION OF TEXTILE EMPLOYMENT BY COUNTY, SIZE OF MANUFACTURING EMPLOYMENT, AND RATIO OF TEXTILE TO MANUFACTURING EMPLOYMENT, SOUTH CAROLINA, MARCH 1966

Manufacturing employment in county	Textile employment in counties with specified ratio of textile to manufacturing employment				Employment		Ratio of textile to manufacturing employment (percent)
	Less than 25 percent	25 to 49 percent	50 to 74 percent	75 percent and over	Textile	Manufacturing	
Less than 2,000	400	1,719	1,883	750	4,752	12,219	39
2,000 to 3,999	1,023	----	6,633	3,016	10,672	21,937	49
4,000 to 5,999	615	2,221	3,310	10,059	16,205	26,640	61
6,000 to 7,999	2,418	----	4,163	----	6,581	27,329	24
8,000 to 9,999	1,422	----	9,885	6,766	18,073	34,508	52
10,000 to 14,999	1,087	7,811	7,568	----	16,466	47,093	35
Subtotal	6,965	11,751	33,442	20,591	72,749	169,726	43

Footnotes at end of table.

TABLE 4.—DISTRIBUTION OF TEXTILE EMPLOYMENT BY COUNTY, SIZE OF MANUFACTURING EMPLOYMENT, AND RATIO OF TEXTILE TO MANUFACTURING EMPLOYMENT, SOUTH CAROLINA, MARCH 1966—Continued

Manufacturing employment in county	Textile employment in counties with specified ratio of textile to manufacturing employment				Employment		Ratio of textile to manufacturing employment (percent)
	Less than 25 percent	25 to 49 percent	50 to 74 percent	75 percent and over	Textile	Manufacturing	
15,000 to 19,999		6,088	24,347		30,435	51,867	59
20,000 and over		19,447	21,328		40,775	72,894	56
Subtotal		25,535	45,675		71,210	124,761	57
Grand total	6,965	37,286	79,117	20,591	143,959	294,487	49
Percentage distribution of textile employment	4.8	25.9	55	14.3	100		

Source: Bureau of the Census, U.S. Department of Commerce, and South Carolina Department of Labor.

TABLE 5.—EDUCATIONAL LEVELS OF TEXTILE MILL WORKERS AND PERSONS EMPLOYED IN ALL MANUFACTURING INDUSTRIES AND IN THE CIVILIAN LABOR FORCE BY OCCUPATIONAL GROUP, 1960

Occupational group	Median years of school completed			Ratio of textiles to all manufacturing or civilian labor force (percent)
	Textile mill products industry	All manufacturing industries	Civilian labor force	
Craftsmen, foremen and kindred workers:				
Male	[1] 8.1		10.5	77
Operatives and kindred workers:				
Male			9.6	
Dyers	8.7			91
Knitters, loopers, and toppers	9.0			94
Spinners	8.1			84
Weavers	8.4			88
Female			9.4	
Knitters, loopers, and toppers	9.2			98
Spinners	7.7			82
Weavers	8.6			91
Operatives and kindred workers: [2]				
Male	8.2	9.4		87
Female	8.8	9.3		95
Laborers: [2]				
Male	8.0	8.7		92
Female	8.4	9.3		97

[1] Loomfixers.
[2] Not elsewhere classified.

Source: U.S. Census of Population, 1960, vol. PC (2) 7A, "Occupational Characteristics," table 9.

TABLE 6.—PERCENTAGE DISTRIBUTION OF EMPLOYED PERSONS BY OCCUPATION, MANUFACTURING AND TEXTILE MILL PRODUCTS INDUSTRY, 1960

Occupation	Manufacturing	Textile mill products
Professional, technical, and kindred workers	7.6	1.8
Managers, officials, and proprietors	5.1	2.8
Clerical and kindred workers	12.0	7.6
Sales workers	3.8	1.2
Craftsmen, foremen, and kindred workers	19.6	11.9
Operatives and kindred workers	42.6	66.6
Service workers	1.6	1.8
Laborers	5.9	4.0
Occupation not reported	1.8	2.2
Total	100.0	100.0

Source: Computed from U.S. Census of Population, 1960, vol. I, Characteristics of the Population, table 209.

TABLE 7.—REGIONAL DISTRIBUTION OF TEXTILE EMPLOYMENT, MARCH 1966

	Textile mill products		Textile, apparel and manmade fibers	
	Employment	Percent	Employment	Percent
United States	927,432	100.0	2,389,761	100.0
Northeast	251,915	27.2	914,754	38.3
New England	96,300	10.4	180,878	76
Maine	12,140		15,967	
New Hampshire	10,633		12,723	
Vermont	705		2,286	
Massachusetts	37,746		[1] 94,648	
Rhode Island	21,848		[1] 25,875	
Connecticut	13,228		[1] 29,379	
Mid-Atlantic	155,675	16.8	733,876	30.7
New York	58,772		[1] 375,453	
New Jersey	27,933		106,795	
Pennsylvania	68,910		[1] 251,628	
South	630,336	68.0	1,189,090	49.8
Delaware	1,639		[1] 6,605	
Maryland	2,773		[1] 29,220	
Virginia	40,072		[1] 91,180	
West Virginia	1,537		[1] 9,356	
North Carolina	246,000		[1] 316,542	
South Carolina	141,199		[1] 190,469	
Georgia	104,988		[1] 168,573	
Florida	1,932		[1] 24,423	
Kentucky	2,793		28,364	
Tennessee	30,832		117,201	
Alabama	38,875		[1] 80,837	
Mississippi	6,464		39,180	
Arkansas	3,360		16,278	
Louisiana	306		[1] 6,901	
Oklahoma	595		6,913	
Texas	6,971		57,048	
Other	[1] 45,181	4.9	[1] 285,917	12.0

[1] Partially estimated.

Source: Bureau of the Census, U.S. Department of Commerce, except where otherwise indicated.

TABLE 8.—RATIOS OF NONWHITE EMPLOYEES TO TOTAL EMPLOYMENT, TEXTILE MILL PRODUCTS INDUSTRY, 1962–66

[In percent]

	1962	1964	1966
Males	6.4	6.8	10.0
Females	2.5	3.6	5.3
Total	4.6	5.3	8.0

Source: Bureau of Labor Statistics, U.S. Department of Labor.

Mr. HOLLINGS. Mr. Perkel's statement shows that the industry is predominantly located in small towns, where alternative employment opportunities are not available. The age, sex, education, and skill characteristics of the labor force all militate against mobility. Consequently, the dislocation of textile workers would lead to persistent unemployment and human suffering.

At this time, Mr. President, I yield 10 minutes to my distinguished colleague from South Carolina, Senator THURMOND.

Mr. THURMOND. Mr. President, I rise in support of the amendment by the distinguished junior Senator from South Carolina, and I hope that it will be adopted. I was pleased to join as a cosponsor.

The textile industry is of utmost importance to the United States, and particularly to the State of South Carolina, which I have the pleasure to represent in the Senate. In South Carolina, the textile and related industry is the largest single employer, providing more than 180,000 jobs. This is in excess of two-thirds of the labor force employed in industry in the State of South Carolina. While an unrestrained flow of textile imports into the United States has a marked effect upon our economy, the balance-of-payments situation, and employment on a nationwide basis, it naturally has a more concentrated effect in the State of South Carolina. The sharply rising volume of textile imports poses a real and present danger to the future growth of the textile industry and places in jeopardy the gains which were made in the years that the long-term textile arrangement proved effective.

In the past 4 years, imports of manmade staple fibers, filaments, and yarn have increased by 144 percent on a quantity basis and by 133 percent on a dollar basis. Exports increased only 16 percent on a quantity basis and 3 percent on a dollar basis during this same period. As a result, the manmade fiber industry lost a healthy piece of its domestic market to imports and at the same time lost a sizable part of the export outlet for its production. Our Nation lost $42 million of its hitherto favorable balance of trade in manmade fibers alone.

The picture is even more extreme in manmade fiber textile mill products and apparel. On a quantity basis, imports have shot up by 274 percent during the past 4 years, while exports have virtually stood still. On a dollar basis, imports of manmade fiber textile manufactures and

apparel rose by 248 percent during the past 4 years, while exports increased only 21 percent in value during this period. As a result, our balance of trade in these products deteriorated by $139 million, and the Nation wound up 1966 with an absolute trade deficit of $44 million in manmade fiber textile mill products and apparel.

When manmade staple fiber and filament yarns are put together with manmade fiber textile mill products and apparel, our trade balance has shrunk from a favorable figure of $224 million in 1962 to only $43 million in 1966. In combination, imports of these products shot up by 210 percent since 1962, with exports rising only 12 percent.

By mid-1966, this great flood of manmade fiber and manmade fiber textile mill products and apparel was too much for the domestic market to absorb. The total domestic and import supply so saturated the market that it softened to such an extent that texile mills cut back the number of shifts worked, reduced the number of hours of employment, and even furloughed employees.

The manmade fiber producers were also severely affected both by the direct effect of imports of these products and by the loss of sales of fiber to their textile mill customers whose markets were disrupted by the tide of fabric and apparel imports. From mid-1966 to the end of the year, a loss of 39,000 jobs occurred in the manmade fiber textile-apparel industry group, and such major fiber producers as Du Pont and Monsanto announced a sharp loss of earnings for the year.

The problem here is the virtually unimpeded access which foreign-produced manmade fibers and textiles have to the U.S. market. What is obviously needed—and needed urgently—is some effective control over the rate of increase. It must be kept within bounds so that the market can absorb both domestic output—increasingly shut out of foreign markets—and a reasonable share of imports.

The situation in the manmade fibers portion of the industry is used merely to illustrate the breadth of the problem which import legislation covering the whole broad range would remedy. Tariff cuts in all areas of textile products have been negotiated and will become effective in graduated steps over the next few years. The effect of these tariff cuts will be felt all across the industry.

I mentioned previously that in excess of two-thirds of the industrial employment in the State of South Carolina is in the textile and related industries. South Carolina produces on an annual basis 25 percent of the cotton, synthetic, and silk fabrics in the Nation. The State also produces 42 percent of all the cotton cloth in the Nation on an average annual basis.

The problems in the textile industry will be felt nationwide. They will be felt with particular severity in the State of South Carolina and in the other textile producing States. This is a matter of preserving present job capacity and creating new job capacity for the expanding work force. An increase in imports of textile products means an export of textile employment from the United States to the country where the imports originate.

I am concerned that, when we speak of this problem in terms of cold statistics, we may lose sight of the fact that it is ultimately human lives with which we are dealing. Every additional yard of textile fabric, or every additional item of textile apparel entering the U.S. market from abroad, reduces the job opportunities for workers in the United States.

In conclusion, Mr. President, I wish to say that a policy that permits jobs to be exported overseas does not make sense to the average man on the street, to the average person working in the mills, or to the average person holding a job in the United States. It does not make sense to me, and I do not believe it makes sense to the American people in general.

It is my firm conviction that we are making a great mistake in allowing textile imports to come into this country on such a large scale as at present, and to deprive Americans of jobs to which they are entitled.

The PRESIDING OFFICER. (Mr. PROXMIRE in the chair). Who yields time?

Mr. TALMADGE. Mr. President, will the Senator yield?

Mr. HOLLINGS. I yield 2 minutes to the distinguished Senator from Georgia, or such time as he may desire.

Mr. TALMADGE. Mr. President, I associate myself with the remarks of my colleagues in behalf of the Hollings amendment. I am proud to be a cosponsor of the amendment.

Textile imports contribute three-quarters of a billion dollars in the balance-of-payments deficit in the United States.

Mr. President, it has been more than 9 months since our Government and the leading trading nations of the free world concluded the Kennedy round of tariff negotiations under the Trade Expansion Act.

As many Senators know, I have had a deep and continuing interest in these negotiations over the years. From the time they started in 1962, I served as a member of the congressional team assigned to these negotiations. I traveled to Geneva several times to observe the negotiations firsthand. During the final days, I met on several occasions with our chief negotiator, William M. Roth, in Washington.

Among other things, I attempted to impress upon him the alarming level and trend which textile imports have reached during recent years. I emphasized that textile imports have become an all-fiber problem and that something must be done to bring woolen and manmade fiber imports under some kind of system of controls. Without such action, the program applying to cotton was becoming increasingly less effective.

We all know what happened. No agreement was reached on meaningful restraints for woolens, manmade fibers, or products containing manmade fibers. Moreover, substantial cuts were made in our tariffs on most textile and apparel products.

In the months following approval of the new tariffs, I have been attempting to assess the impact of these lower tariff schedules on our domestic industries and our farmers.

This is no simple task. With all of the variables involved, such as market and product changes and international political considerations, it is not possible to predict with any degree of accuracy what our overall trade picture will be in the future.

However, in the case of one industry—textiles—the picture has become very clear. At the time the new agreements were signed, our textile trade had reached the point where imports were taking a disproportionate share of our market. They were contributing significantly to unemployment and curtailed workweeks throughout the industry.

I protested at the time that measures must be taken to reverse the steady upward trend in textile imports of all fibers. In March of last year, I pointed out on the floor of the Senate that our cotton textile imports program was not working. Rather than holding imports down to an increase of 5 percent per year as originally contemplated, the GATT arrangement of cotton textiles has seen an increase of more than 10 percent annually in cotton textile imports. The trend is even more alarming with regard to wool and manmade fiber imports.

It is all too clear that if left unchecked the import problem can only get worse under the new tariff agreements. The long-term arrangement for cotton textiles was extended for only 3 years instead of the 5 years we had hoped for. Furthermore, its history as a method for attaining orderly trade in cotton textiles leaves much to be desired.

Nothing was done to eliminate any of the nontariff barriers which keep our exports out of other countries. Other nations have not agreed to take imports from developing countries in a volume which would significantly help in removing some of the pressure from the American market. Moreover, the lower tariff schedules can only tend to make our textile market more attractive to exporting nations.

Let me cite just one example of how some of these exporting countries go to extremes to get around existing import controls to capture a larger share of our market. The United States and Hong Kong have a bilateral agreement under which imports of cotton textiles are supposed to be controlled.

Manufacturers in Hong Kong attempted to get around the cotton quota by increasing the polynosic content of their fabric by 2 percent so it would be chief value manmade fiber rather than cotton. This 2-percent change in the makeup of the fabric does not alter its physical properties measurably. The change was made simply to get the fabric out from under the cotton quota.

While this situation was corrected in negotiations between our Government and Hong Kong, this is a good example of why we need a well-defined and carefully administered all-fiber control program.

Existing tariffs and controls obviously are not the solution to the growing textile import problem. Because of this, I joined 67 of my colleagues in sponsoring legisla-

tion which will help reverse the alarming trend in textile imports.

This legislation is a reasonable, workable solution to a serious and pressing problem. It is a problem which concerns not only the 2.4 million Americans making textiles and apparel, but also hundreds of thousands of others indirectly dependent upon a growing textile industry.

When we speak of the textile manufacturing industry today, we no longer can think in terms only of the people who spin yarn and weave cloth. The textile industry has become a vast industrial complex which reaches into every vein of our national economic bloodstream.

It has been estimated that some 15 million Americans depend upon the textile industry to some extent for a livelihood.

In my own State of Georgia, the textile industry employs well over 100,000 people with an annual payroll of almost $500 million, or over $9 million a week. The apparel industry provides another 65,000 jobs with a payroll in excess of $250 million. In addition, Georgia textile mills consume better than 1 million bales of cotton annually. In 1966, cotton added $47 million to the income of Georgia farmers.

Textiles are the largest mannfacturing payroll in my State. The industry has traditionally consumed three to four times the production of Georgia cotton farmers. And we have a large dynamic manmade fiber industry, which has moved into my State to be near the textile mills.

While these basic payrolls are important to the people employed in the textile industry, we must never lose sight of the fact that they are equally important to our grocers, druggists, department store owners, and to our schools and other public facilities, which depend upon the taxes paid by our workers.

According to the Department of Labor, the average U.S. textile worker would spend from his annual income, $1,204 for food and related products, $1,440 for housing, $461 for clothing and upkeep, $599 for transportation, and $669 for medical care, recreation, personal care, and other expenses. He also pays an average of $400 in Federal, State, and local taxes.

If we relate these local expenditures to the amount of imports currently entering this country, we get a clear picture of why the textile import situation has reached critical proportions and why action must be taken now to reverse the upward trend.

It has been estimated that textile imports—2.6 billion square yards in 1967—are displacing the equivalent of almost 200,000 textile and apparel jobs, with a payroll of about $1 billion. January 1968, set a record in imports for any previous month. Because Georgia has an estimated 7 percent of the national employment in these industries—11.4 percent in textiles and 4.8 percent in apparel—current imports are displacing the equivalent of 14,000 potential Georgia jobs. This means that more than $60 million is being siphoned off of the economy of my State.

Mr. President, the textile industry is at the crossroads. If it is forced to suffer the impact of a huge volume of low-wage imports, it will be the importers, not our domestic producers, who will determine the future size and composition of our textile industry.

Imports have contributed to depressed conditions in our domestic industry. Textile and apparel employment during 1967 averaged some 19,000 below 1966. Textile industry profits after taxes, in 1967 were at an annual rate of 27 percent, the lowest since 1964.

Moreover, according to information recently received from the U.S. Department of Labor, employment in the Southeastern textile mills declined by .5 percent from December 1967 to January 1968, for a net loss of 3,300 workers.

During this month, employment in my State of Georgia was off 800.

I might add that in spite of a severe cost-price squeeze, the industry recently announced a 6.5-percent wage increase. This is the fifth industrywide raise in the past 5 years, and represents nearly a 30-percent overall pay increase during that period.

We cannot expect the textile industry and its stockholders to risk their money in new plants and some of the dramatic new processes we have seen in recent years when their efforts are going to be continually undercut by low-wage imports.

It is most discouraging for a company to develop a new product, build a modern plant to make the product, train its employees in new techniques, and then find it must compete with goods which are identical except for one thing. They sell for a few cents less because they were made by people earning 37 cents or less an hour, rather than the $2 an hour the American textile industry pays.

This is why two-thirds of the Members of the Senate have sponsored textile quota legislation. This is why Congress must act now to give the President additional authority and incentive to negotiate reasonable international agreements on textile imports.

We do not want to cut off all international trade in textiles. Everyone realizes we must have world trade, especially with the developing nations. But Japan, with the fourth largest gross national product in the world, can hardly be considered a developing nation. Yet she has captured and held for several years more than 30 percent of our textile imports.

We want to be fair, but a certain amount of charity must begin at home. We are willing to share our market, even the future growth of our market, with the trading nations of the world.

But the time has come to swing the pendulum in the other direction. We have permitted textile imports to grow too large. We must think now of our own people, the 15 million cotton farmers, textile employees, manmade fiber producers, truckers, apparel workers, and others who depend upon a healthy American textile industry for a livelihood.

The passage of the amendment will be a major step in this direction.

Mr. PERCY. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from Illinois has 22 minutes remaining, and the Senator from South Carolina has 16 minutes remaining.

Mr. PERCY. I yield 4 minutes to the distinguished Senator from Michigan.

Mr. GRIFFIN. Mr. President, the amendment now before the Senate raises very grave questions concerning the future of our Nation's foreign trade policy.

It is true that this particular amendment is intended to restrict only the importation of a single commodity.

But there is good reason to fear that, if it should be enacted, this proposal will prove to have drastic and far-reaching repercussions.

It should be recognized that the unilateral imposition of such a quota will operate to contradict the whole forward thrust of our foreign economic policy since its inauguration following the onset of the great depression. Of course, the Kennedy round of tariff negotiations represents only the most recent phase of a longstanding American effort to reduce trade barriers and to expand world trade.

The pending amendment could trigger the reversal of a policy of trade liberalization from which many nations, including the United States, have derived hard-won gains.

By its very nature, an import quota is a rigid barrier of protection which distorts the free market mechanism. Quotas operate as an inflexible shield against the hard discipline of competition. Generally, they seal off an industry from technological innovation—which is the very hallmark of American enterprise.

Of course, quota restrictions tend to increase the price of protected goods. And a big loser is the consumer in the domestic market.

As surely as the night follows day, we know that the imposition of a quota on textiles today will lead immediately to demands for the imposition of quotas on other products. There is a real and present danger that, by approving this amendment, the Senate will encourage a wholesale retreat to a policy of extreme protectionism. Such a course could prove disastrous, not only to the United States, but to our allies and our trading partners as well.

Inevitably, the imposition of new American quotas at this time will invite retaliation against the products we are selling abroad. The Common Market countries and other key industrial nations have already indicated, through diplomatic channels and otherwise, that such retaliation can be expected.

If this is the result, all of the progress and achievement represented by the Kennedy round, which involved 5 years of tough bargaining, will be unceremoniously flushed down the drain.

Mr. President, only 2 days ago, member nations of the Common Market agreed to consider an acceleration of the Kennedy round tariff reductions as a means of helping to ease our balance-of-payments problem. But in return, of

course, the Common Market members expect that the United States will refrain from erecting new and higher trade barriers.

Obviously, enactment of the pending amendment will have the effect of sabotaging the effort to obtain much-needed cooperation on the part of other nations. No one can doubt that, in view of our international payments deficit, the gold crisis and the threat now posed to the dollar, we need all of the help and cooperation from other nations that we can get.

Mr. President, this is no time to take refuge behind trade barriers which stifle international trade.

American business has proved that it can best solve its problems in a climate of competition. Whenever the long arm of government protection is thrown around an industry, that is the day when such an industry begins to stagnate.

Mr. President, I am convinced that adoption of the pending amendment can only lead to self-deception—at a time when our critical financial situation cries out for realism and self-discipline.

I urge the Senate to defeat the amendment.

Mr. President, I ask unanimous consent that several pertinent articles and editorials be inserted at this point in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, Oct. 5, 1967]

THE PAINS OF PROTECTIONISM

Economists can, and frequently do, muster all sorts of arguments against import curbs. Though their case is convincing, the matter isn't entirely one-sided.

To begin with, no academic reasoning will ease the pain of businessman who believes he is being undone by imports. At the moment such major industries as textiles, meat, steel and oil say they are in that situation, or close to it, and are pressing Congress for new or increased protection.

They contend, quite correctly, that their economic health is important not only to them but to the nation. They also stress the difficulty of competing with foreign firms whose wage costs are lower.

When it comes to proposed relief, the import-troubled industries emphasize their eagerness to be reasonable. For the most part they do not want to shut out all foreign competition; instead, they would merely limit it to a "fair" share of the domestic market. Even that might not be necessary, some spokesmen say, if other nations would only allow the U.S. freer access to their own markets.

Before Congress comes to any decision, however, it should ponder this question's other sides. If the U.S. moves toward protectionism, for instance, what happens to the nation's export trade? As an international merchant, after all, this country still leads the world by a wide margin.

The answer is partly a matter of simple economics. If Country A can no longer sell quite as many textiles to the U.S., it won't earn as many dollars to buy American business machines. Thus the effect would be to limit U.S. exports, even if the only change in the situation was a higher U.S. tariff or lower import quota.

But that's not likely to be the only change. Among nations, as among little boys, there's a tendency to strike back when someone hits you. If history is any guide, then, new U.S. import curbs would quickly bring retaliation abroad, further crimping America's foreign sales.

Turning the question around another way, Congress might consider it from the point of view of consumers. What happens to them if the nation raises new barriers against imports?

For one thing, consumers would often be paying higher prices. Some people may like the snob appeal of a foreign label, but most Americans buy imports mainly when they believe they're getting more for their money. Trade restrictions, furthermore, obviously limit consumers' freedom of choice.

That brings us back to the economists, who focus most of their attention on a still broader aspect of import curbs: Their effect on the general well-being of the economy. As is their wont, the academicians take a fairly long-run view of things; they find little comfort in the economy's current health if it seems due to degenerate before long.

One prime worry is protectionism's upward pressure on prices. Inflation is already very much with us, even without fresh trade restraints to accentuate it.

Economists also fret about the effects of import curbs on the vitality of domestic industries. If foreign competition is curtailed, domestic producers will have less incentive to increase efficiency and develop new and better products.

Through the past three decades, the domestic economy has expanded enormously while U.S. protectionism has shrunk to a shadow of its former self. While there are numerous reasons for this happy development, not the least of them is stiff competition, some of it furnished by foreigners.

Trade restrictions, in sum, provide benefits for U.S. firms in the domestic market, though these gains may be only temporary. On the other hand, import curbs endanger the nation's exports, impose penalties on consumers and tend to weaken the vigor of the country's economy. Looked at from all sides, the package hardly seems appealing.

If a company is genuinely damaged by imports, machinery already exists to provide job-retaining, technical assistance and the like. If Congress decides that more help is needed, it would be better to pay direct Federal subsidies than to opt for the even more debilitating devices of trade restraint.

For some businessmen, import competition can prove quite painful. From the standpoint of the rest of the nation, however, the agonies of protectionism could be a good deal worse.

[From the Washington (D.C.) Post, Nov. 1, 1967]

TEN BRAVE SENATORS

At a time when a powerful protectionist lobby would bring the growth of world trade to a standstill by imposing import quotas on everything from steel to strawberries, it takes courage to swim against the retrogressive tide. Only 10 of the 100 members of the Senate are not now sponsoring or co-sponsoring import quotas or amendments to the anti-dumping bill that would also hobble international trade. As we went to press they were:

Democrats: Byrd, Va., Gore, Tenn., Russell, Ga., Tydings, Md., Williams, N.J.

Republicans: Fong, Hawaii, Griffin, Mich., Javits, N.Y., Percy, Ill., Williams, Del.

The roll would doubtless be longer if other sincere proponents of freer world trade—Senator Smathers, who is now leading the good fight in the Finance Committee, is an outstanding example—had not permitted their names to be attached to minor protectionist measures. But the significant expansion of the slim honor roll will come when logic and the hard facts of international economic life break the spell that was cast by the siren song of protection. This country is the world's leading exporter, and it also has the world's largest export surplus. Denying other countries access to this market will only cause them to close their markets to our exports. It is a game which everyone loses as the shrinkage of world trade causes a contraction of income and employment.

[From the New York Times, Oct. 6, 1967]

PROTECTIONIST OFFENSIVE

The big and effective protectionist lobby in Washington is mustering all its forces for an attack on the liberalizing measures made in the Kennedy Round of trade negotiations.

The attack is being spearheaded by textile, oil and meat interests, which are asking Congress for relief against rising levels of imports. They have the support of the dairy industry, which has already gained concessions and is pressing for more, as well as that of metal producers, the steel industry and other manufacturers. Their combined contention that they are being hurt by foreign competition may well convince susceptible Congressmen that protectionism is necessary to maintain domestic jobs and profits.

Undeniably, American consumers are buying more foreign products. But American producers are also selling more abroad. If Congress gives in to the protectionist lobby by restricting foreign access to the domestic market, it will also be restricting American access to much bigger—and constantly expanding—foreign markets.

This damage to overseas sales would come about partly because of political retaliation, which is sure to take place if Congress discriminates against foreign imports; but it would also come about because the demand for goods would decline if foreigners could not earn the funds to pay for them.

Thus, the erection of new protectionist barriers in the form of quotas or other non-tariff curbs on trade is bound to dampen the over-all growth of the American economy. It would also give fresh impetus to already dangerous inflationary pressures because domestic producers would have greater freedom to raise prices in the absence or curtailment of foreign competition. So resort to protectionism would mean a reduction in productive employment and a further escalation in prices.

The Administration, flushed with its victory in the Kennedy Round, does not appear to appreciate the seriousness of the protectionist threat. It has done little to point up the economic dangers in protectionism or to rally the forces of free trade. The protectionists have shown their strength in the Byrnes amendment barring Britain from bidding on ships for the Navy and in the Dent bill designed to bypass the existing machinery for granting relief. Clearly, the protectionists are out to undermine the Kennedy Round and it will take a broad coalition, led by the President, to thwart them.

[From Business Week, Oct. 14, 1967]

FIGHTING TO KEEP TRADE WALLS: STEEL, OTHER INDUSTRIES WILL RAISE PROTECTIONIST BANNERS NEXT WEEK AT CONGRESSIONAL HEARING

The fiercest battle in a generation over international trade policy may be shaping up in Congress.

Some of the nation's biggest industries—steel, chemicals, textiles, dairy products, and others—are rolling out the guns for a massive attack on the Administration's efforts to liberalize trade.

Partly, the protectionist wave is a reaction against the Kennedy Round of tariff-cutting negotiations. After four years of bargaining, major industrial nations last June agreed to cut tariffs by as much as 50% on some $40-billion worth of annual trade.

ON THE ALERT

Now, N.S. producers who fear that they will be hurt by rising imports are joining forces with other protectionist groups that sense that the time is ripe for a counter-attack against liberal trade.

Beyond that, the spreading protectionist mood is part of a more general sense of weariness and frustration in Congress and in the country over worldwide commitments at a time when domestic problems are becoming increasingly urgent. This "neo-isolationist"

feeling, exacerbated by the war in Vietnam, has led Congress to turn against foreign aid, NATO military commitments, efforts to increase East-West trade, and other elements of U.S. foreign policy.

The opening engagement in the big trade battle will come next week, when the Senate Finance Committee holds three days of hearings on a clutch of bills calling for import quotas on nearly a dozen products. The protectionist strategy centers on such quotas, which are much more effective than tariffs in keeping out foreign goods.

Among the legislative proposals:

Senator Russell Long (D-La.), Finance Committee chairman, backs a bill that would end the Administration's power to vary oil imports and would establish fixed, mandatory quotas instead.

Senate Minority Leader Everett Dirksen (R-Ill.) is a sponsor of a tough steel import quota bill.

Representative Wilbur Mills (D-Ark.), chairman of the House Ways & Means Committee, has introduced bills to impose import quotas on textiles and meat, and to restore "escape clause" duties on watches that were removed by the Administration earlier this year.

An even more sweeping bill, backed by 25 Senators, would impose quotas on imports of all foreign products that capture more than a certain percentage of the U.S. market. Still another bill, introduced by Representative John Dent (D-Pa.) whipped through the House by a lopsided 340-to-29 vote. It empowers the President to curb imports from any foreign "low wage area" if competition from the imports hurts an American community.

The welter of new quota proposals may be combined by Long into an omnibus quota bill and attached as a rider to social security legislation that has already passed the House.

TIT FOR TAT

Inevitably, such U.S. moves would provoke retaliation by other countries against American exports. Japan is warning Washington that it will retaliate massively if the U.S. raises new barriers against Japanese textiles.

All six Common Market governments are readying stiff protests against American protectionist threats.

Such a round of tit-for-tat protectionism, warns William M. Roth, U.S. special representative for trade negotiations, could send tariffs soaring back to the towering levels of the Smoot-Hawley Tariff Act of 1930. And a new tariff war would involve wide segments of U.S. industry and agriculture. It would also damage the $55-billion U.S. private investment stake overseas.

Said Roth in a speech to Detroit businessmen this week: "If the United States shuts out imports of European textiles, or glass, or steel, don't assume that it will be the American textile or glass or steel exporters who will necessarily pay. It may be you—or one of your best customers."

The Common Market, for example, already is considering new regulations that would curb imports of U.S. tobacco, now running around $120-million a year, and U.S. feed grains, worth $250-million annually.

BIND

Despite Administration fears of such a chain reaction, President Johnson may have to give some ground to the protectionists. Johnson is on the defensive on Vietnam, and he has little political ammunition to spare for defense of liberal trade policies. At best, he will be lucky to get a stalemate in which he would pigeonhole trade legislation of his own as the price for beating back the protectionist assault.

The Administration had been planning to offer a three-part trade bill which would give the President "housekeeping" authority to negotiate minor tariff cuts even after the Kennedy Round, and provide more government aid to U.S. companies and workers whose products suffered from import competition.

The bill also would repeal the American Selling Price (ASP) system of levying stiff duties on imports of benzenoid chemicals. If Congress does not abolish ASP, European countries and Japan will not make additional tariff cuts on imports of U.S. chemicals that were negotiated as a separate part of the Kennedy Round bargain. But now it looks as though the Administration would be rash to send the bill to Congress.

STAKES

Spokesmen for the industries that are demanding protection—ranging from mink raisers to lead and zinc producers—see jobs and profits at stake.

For example, James D. Mahoney, president of the Synthetic Organic Chemical Manufacturers Assn., warned this week that abolition of ASP would force U.S. chemical makers to set up plants to manufacture benzenoid chemicals overseas, where labor costs are lower.

To press such arguments, protectionists are forming broad alliances between industries—notably linking chemicals, textiles, and independent oil producers. This week, former Secretary of Commerce John T. Connor, now president of Allied Chemical Corp., called for across-the-board textile quotas.

DAMAGE

On the other side, a broad spectrum of key industries stands to lose expanded overseas sales if the results of the Kennedy Round are undone.

Among industries that were awarded tariff cuts of about 50% in major foreign markets for many products were processed foods, machinery of all kinds, paper products, electrical and transportation equipment, scientific instruments, rubber manufacturers, and communications equipment. The Administration argues that even the chemical industry got the best of the bargain—though there are no hard figures to prove either side's contentions.

Roth did estimate that if only the quotas proposed for specific products were passed, $3.6-billion annually of U.S. imports would be cut out or drastically reduced. That is nearly twice the total of U.S. imports from the Common Market of all goods that were awarded tariff cuts in the Kennedy Round.

[From the Washington (D.C.) Daily News, Oct. 16, 1967]

KEEP TRADE FREE

The dangers, the disadvantages, the nonsense involved in building a system of national trade barriers and quota systems are evident from history: Tariff retaliation by other countries, a choking off of world commerce, international antagonism, a decline in jobs.

Yet the foolish cry for protection continues, as events in Washington show today.

A number of congressmen, moved by industry wailing, are talking about higher trade barriers. Sen. Everett Dirksen of Illinois, the Republican leader, would have the Finance Committee approve import quota systems for a variety of items—oil, lead, zinc, dairy products, beef, steel, perhaps even electronics. Sen. Russell Long of Louisiana, the committee chairman, thinks the U.S. oil industry needs more trade protection. Sen. Vance Hartke of Indiana joins Dirksen in advocating protection for steel.

These men, and the industries involved, take short-sighted, ill-advised positions. As William M. Roth, President Johnson's special trade representative, put it so well:

"If anything is done by Congress on this scale, there will be massive retaliation by other countries against" many major U.S. exports. Mr. Roth rightly adds that the scope of the planned Senate committee action "is so tremendous it would completely destroy our trade policy."

Mr. Roth hardly had uttered his statements before his fears were confirmed by more than a dozen of our best customers:

The six nations in the European Common Market sent a joint letter to the State Department broadly hinting at the retaliation Mr. Roth warned about. Latin-American ambassadors in Washington got together on a similar warning. Such retaliation by these countries would be a devastating blow to American business.

The White House has indicated it supports Mr. Roth's views and opposes the pending protectionist proposals. But in view of the growing campaign, the President himself would do well to speak in outright and complete opposition. He could echo Mr. Roth's arguments and add that better responses to foreign competition are more vigorous marketing policies by U.S. corporations, better management and more rapid modernization.

In one sense, the nation's "free trade" approach dates to Cordell Hull and Franklin Roosevelt. But in a broader sense such a policy is more deeply ingrained in our society. For it was Thomas Jefferson who proclaimed 168 years ago: "I am for free commerce for all nations."

[From the Journal of Commerce, Oct. 16, 1967]

PASTURES FOR THE SACRED COWS

It is astonishing to find how many people—including many of those presumably dedicated to the concept of free enterprise—are bemused these days with such phrases as "status quo" and "fixed share of the market."

American law, as it applies to American enterprise, finds both phrases abhorrent. They have been long regarded in this country as the slogans of the wickeder European cartels of old. And perhaps for a reason. Whenever two or more competitors agree to freeze their prime markets and minimize future competition between them, interlopers with new ideas are kept out, prices are kept up, technological progress sags and the general economy is made to suffer in the interests of greater comfort for the business giants.

But if the status quo is adjudged to be a dangerous kind of sacred cow for business to let out of the barn, what kind of cow does it become when brought forth by governments? And in particular by the United States government?

An alarming number of these cows are now loose on the landscape, all demanding their "fixed share" of the pasture.

They crop up in commodity stabilization agreements, in Brazilian efforts to freeze the carriage of coffee to North American markets and in a seemingly ever-widening range of quotas on imports—all of them dedicated to the proposition that everyone should keep what he has now and that all others are out of luck—a proposition that also has an almost hypnotic appeal to the major labor unions.

The biggest drive in this direction in recent history is now being mounted in Washington, where it is being openly said that import quotas on crude oil, and on cotton, wool and synthetic fibers are not enough.

The next candidates for the near freeze are cited as iron and steel products, glass, footwear, lead and zinc, electronic parts and such. Not since the political logrolling that produced the Hawley-Smoot Tariff of 1930 has such a concerted protectionist drive been organized. And to make it all the more intriguing—there are signs that the individual quotas will be slipped into the Social Security Bill as riders, the theory being that while President Johnson would probably veto them all if given the chance, he would think twice about blocking the Social Security changes he has wanted so much.

Now it can be argued, of course, that the quotas would not in all cases have to be inflexible, that some provision can be (and in practice, has been) made for new faces

in a particular market, and that it would be simply too embarrassing all around to try raising tariffs now (in lieu of quotas) before the ink on the Kennedy Round is dry.

Perhaps so, but no matter how the cloth is cut, the objective of all these maneuvers, including those embedded in the commodity stabilization agreements, is maintenance of a rough sort of status quo or "fixed share of the market" system—the very system that the courts consider anathema when organized within the United States by private business.

Nor does it make much difference that the system now in vogue does not involve cartels in the old sense of the word, but division of a market by groups of national industries or—to put it another way, that even under a quota system American steel industries would still have to battle each other for the U.S. market and foreign steel producers would have to do likewise.

But the purpose of the import quota system is, after all, to dull the edge of competition by more or less fixing the share of a particular market as between domestic and foreign sellers. If this is considered a "bad practice" when organized by a group of companies on their own, by what sort of medieval alchemy does it suddenly become a "good practice" when given the blessings of a benevolent government?

As between what Congress has already sanctioned in the way of share-of-the-market import quotas and what business is specifically forbidden to do—is there really such a difference? Neither approach is going to increase anyone's efficiency, further technological progress or cut production costs. And a government-imposed quota offers no more hope of lower prices than an industrial cartel. Quite the contrary, as demonstrated by the workings of the crude oil quotas, a prime objective of these devices is to raise prices in the markets of the countries adopting them.

We don't say that the United States is the only bad actor in this particular picture. Far from it: herds of sacred cows are grazing in many foreign grasslands. We do regret that the one nation which more than any other has shown the world what free competition can produce in the way of economic progress now seems in danger of turning its head in a more desolate direction.

[From the Evening Star, Washington, D.C., Oct. 17, 1967]

TORPEDOING THE KENNEDY ROUND

Less than four months after successful conclusion of the historic Kennedy Round, the forces of protectionism are on the prowl again. Unless they are checked, the whole movement toward lower tariffs and increased trade around the world will be undermined.

The House has passed a bill requiring the administration to investigate imports produced by "low wage" foreign labor. It would authorize the President to limit such imports via high tariffs and quotas, powers that the President already has. The administration does not want or need the bill.

Now Senators Dirksen and Hartke have drawn up legislation that would do even more mischief. They would impose mandatory steel import quotas. And there are similar bills pending that would widen the list to oil, textiles, watches, and a host of other products. All would be included in a widely irrelevant rider to a Social Security measure.

William M. Roth, President Johnson's chief trade negotiator in the landmark Kennedy Round tariff-cutting agreement, has warned that such protectionist forces could drive the nation back to the sterile Smoot-Hawley era of the 1930s. He hardly overstates the peril. Reciprocal tariff walls are an automatic reaction by other nations once the protective process is begun. It is a form of escalation exceedingly difficult to halt. Common Market nations, in fact, have already hinted that they may retaliate if we impose new import curbs.

America has grown great by her trade. It is our trade surplus, in fact, that keeps our present balance of payments deficit from widening into a ruinously huge drain on our gold reserves. Congress should not bow now to special interests and turn its back on the trade liberalization movement that the United States has advocated so skillfully in the 1960s.

Protectionism will penalize American consumers through higher prices. It will in effect subsidize uncompetitive domestic industry, rewarding it for inefficiency. It will shield inferior goods from the corrective discipline of free markets.

This is no time and these are not reasons for American industry to go into hiding behind tariff walls.

[From Barron's]

PROTECTION RACKET: IMPORT QUOTAS WILL COMPOUND THE EVILS OF INFLATION

"Many of us would agree that in an ideal world people would be far better off if all the nations could trade across frontiers without regard to tariff or non-tariff barriers of any kind. Where, ideally, one nation could exploit to the fullest its own geographical and geophysical resources, its skills and techniques, its artistic and technological excellence. And exchange them for the complementary goods and services of a neighboring or distant people. Where everything one people had to sell could find a market, at home or abroad. But the facts of today's world and of the tomorrow we see on the horizon do not make that possible. We do not, alas, live in a utopian world community. We live on this so familiar earth. Where some nations are agricultural, some industrialized, some highly advanced, some undeveloped. Where living standards and traditions differ, where wages and costs vary enormously, where each nation has its own sharply delineated views of economic self protection, and rigorously applies them. . . . Where political objectives differ widely from nation to nation and bloc to bloc."

The remarks cited above strike us as noteworthy. For one thing, they come from a speech given 10 days ago by John T. Connor, recently appointed head of Allied Chemical Corp., who, while Secretary of Commerce, rarely expressed himself with such eloquence and never took a public position in conflict with the Democratic party line. More to the point, Mr. Connor's unexpected stand reflects a bold new thrust against free trade, which, with a virulence and sweep undreamed-of since the bad old days of Hawley-Smoot, has made alarming headway lately. Since the turn of the year, urgent pleas for U.S. protection have been voiced not only by the long-pampered manufacturers of cotton textiles, but also by once-rugged individualists in steel. Early this month the House of Representatives, by a lopsided majority, passed the Dent Bill, which authorizes the President to bar imports from so-called low-wage countries. Next week the Senate Finance Committee will debate, and doubtless approve, a measure—aptly dubbed the "Christmas Tree Amendment"—which, through an elaborate system of quotas, would curtail foreign shipments of textiles, steel, footwear, beef, dairy products, petroleum, lead and zinc, and electronics.

Though more determined and sophisticated than ever—the quota legislation is officially known as "The Orderly Trade Act of 1967," while Mr. Connor has blandly usurped the name "conservationist"—the campaign is as old and discredible as mercantilism or the Corn Laws. To the degree it succeeds, if the past be any guide, it will subsidize the unproductive, penalize consumers, trigger retaliation against American exports and generally hamper the free flow of trade. Win, lose or draw, the drive is an open admission of economic failure, private and public alike. Perennially rising costs and prices have robbed U.S. industry of its competitive edge. Years of inflationary excess have finally passed the point of no return.

Unlike previous protectionist noise, the current racket happens to be both broad-based and bipartisan. The Dent Bill, to illustrate, sailed through the House of Representatives by a staggering 340 to 29. By the same token, the Christmas Tree Amendment enjoys the prestigious sponsorship of both Senators Vance Hartke (D., Ind.) and Everett Dirksen (R., Ill.). As to its scope, the move encompasses far more than textiles, lead and zinc, petroleum and other traditional cry-babies. The steel industry, which is pushing a quota bill of its own, has become a powerful convert to the cause. The "Orderly Trade Act of 1967" covers a vast range of manufacturers, estimated by U.S. officials at $5 billion worth of imports yearly, and ranging from handicrafts and other labor-intensive products, to such areas of U.S. competitive supremacy as electric shavers, typewriters, dictation machines, radios, phonographs and transistors. The measure, by the way, is designed to become a veto-proof rider to pending Social Security legislation.

The White House thus finds itself politically embarrassed, and well it might. Apart from harboring in the Cabinet an avowed protectionist, the Johnson Administration (like its predecessor) for years has backed and filled on foreign trade policy. On the one hand, it persisted in its efforts to negotiate the difficult Kennedy Round of tariff cuts; on the other, it never stopped seeking exceptions and loopholes. The lack of principle showed up clearly last month, when, to the dismay of the Japanese government, the President ordered the U.S. Tariff Commission to make a detailed study of the effect of mounting imports on domestic producers of textiles and apparel. Last Friday Mr. Johnson ended a restrictive quota on imports of stainless steel flatware. At the same time, however, he extended for another 26 months, albeit "reluctantly," a "temporary" higher tariff on foreign carpets and window glass.

While the Administration occasionally has faltered in it advocacy of free trade, the opposition hasn't budged from its ruinous course. One early victim is apt to be the goodwill of erstwhile friendly foreigners. After the recent semiannual meeting of the Japan-U.S. Committee on Trade and Economic Affairs, the customary carefully worded communique stressed the value of "the close relationship between the two countries which enables both governments to deal constructively with potential problems of trade barriers in a friendly atmosphere." It also pointedly underscored the importance of joint, rather than unilateral, action in this realm. The new wave of protectionism also has elicited warnings, and hints of reprisal, from the six members of the European Economic Community. "If the U.S. shuts out imports of European textiles or glass or steel," observed William M. Roth, Special Representative for Trade Negotiations, "it can be any American business that exports—or whose customers export—who will foot the bill."

They'll have plenty of company. For imports in recent years have served to keep relentless pressure on a good many U.S. costs and prices, notably steel. Freed of foreign competition, the industry might be far more inclined than otherwise to sign an excessively generous wage pact next year, when the present one expires. Quotas also would help perpetuate misguided public policy, as in cotton, where the price support program has yielded a severe shortage of

spinnable fiber, or in dairy products, consumption of which has been throttled. Finally, to judge by the nation's experience with oil import quotas, which cost users an estimated two billion dollars per year, protectionism constitutes a major threat to the consumer's pocketbook (Betty Furness, where are you?). All the foregoing would be bad enough in the best of times. Today, when inflation has escalated from a threat to an ugly reality, it's a folly the U.S. can scarcely afford.

It's not the only one. While the protectionists are wrong in trying to impose barriers of their own to global commerce, they are right in decrying those that their counterparts have succeeded in raising abroad. Their complaints, above all, point up the sorry truth that in one line of work after another, including some of the most technologically advanced, the U.S. has priced itself out of the market. In order to buy, one must be able to sell, an ability which monetary and fiscal mismanagement has steadily eroded. Lip service to free trade is all well and good; if Washington really means business; however, it must change its inflationary ways.

Mr. PERCY. Mr. President, I wish to commend the distinguished Senator from Michigan for his remarks, which are deeply appreciated. Certainly he speaks from the standpoint of a State with many diverse interests.

Mr. President, I yield 5 minutes to the Senator from Oklahoma.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. HARRIS. Mr. President, I dislike very much having to disagree with the distinguished Senator from South Carolina [Mr. HOLLINGS], who is the principal sponsor of the pending amendment. I think that no other Member of this body has exceeded his dedication and zeal in the representation of his State and its people.

However, as a member of the Committee on Finance, I must rise in opposition to the amendment for four basic reasons. First, the entire question of trade policy is a very complex and serious one for this body, and, more importantly, for the future economic health of this country. I was not satisfied with my own education and knowledge on this issue following the rather good and lengthy hearings we held in the Committee on Finance. Therefore, I commenced a series of educational sessions of my own with experts in and out of the Government on this entire issue of trade policy, and not only with regard to tariffs, but also legislation which is required to follow up the Kennedy round, and the whole subject of border taxes, and others.

Mr. President, the issue is far too complex to handle on the floor of the Senate in this manner, which is not an orderly and regular way to proceed. The orderly and regular way is for the Senate to wait for action of its committee which has jurisdiction, the Committee on Finance, which now has before it a great many pending measures, some of which I am interested in. I do not think we should handle the matter individually by amendment to other measures on the floor of the Senate.

Second, I am very concerned about the retaliation which even passage by the Senate alone would almost certainly threaten and might bring. For example, I did not agree to cosponsor the omnibus approach to this whole question of tariffs and quotas because, while it is a proper goal to improve our balance of trade in any way we can, we have to face the very real spectre that the attempt to cut down on imports would not have that effect, but rather, if we approached the matter in that omnibus way, would have the reverse effect of what was intended in connection with our balance of trade and balance of payments because of the retaliation the passage of such legislation would almost certainly bring.

I am particularly concerned about retaliation with regard to agricultural products even if this measure passes the Senate alone, and certainly that concern would be increased if it were to be enacted into law.

I have before me a telegram I received, as did many other Senators. The telegram states in part:

> We understand that Senator Hollings will offer textile quota amendment to excise tax bill later today or tomorrow. We believe this action should be avoided and urge you to oppose Hollings amendment.

Then, the telegram goes into some detail as to why that should be done. The telegram is signed by a great many organizations connected with agriculture, and in particular the Great Plains Wheat Association, the National Association of Wheat Growers, the National Farmers Union, and others.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point the telegram to which I have referred.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

WASHINGTON, D.C.

Senator FRED R. HARRIS,
Washington, D.C.

We understand that Senator Hollings will offer textile quota amendment to excise tax bill later today or tomorrow we believe this action should be avoided and urge you to oppose Hollings amendment. U.S. Tariff Commission in recent report in effect found textile imports were not injurying the domestic industry. Additional import restrictions could seriously impair our ability to export farm commodities and undoubtedly would lead to the retaliatory action by major importing nations. In view of these facts we strongly urge committee consideration of this most important matter before any decision made on floor action.

Mearl Gifford, Great Plains Wheat, Inc.; Cole Carpenter, Mid-Continent Farmers Association; Glen Hofer, National Association of Wheat Growers; Kenneth Naden, National Council of Farmer Cooperatives; Oren Lee Staley, National Farmers Organization; Tony Dechant, National Farmers Union; Herschel Newsom, National Grange; Glen Pogeler, Soybeans Council of America; A. F. Troyer, Soybean Growers of America; John Palmer, Tobacco Association, Inc.; Clarence Palmby, U.S. Feed Grains Council.

Mr. HARRIS. Mr. President, as Senators know, Japan is one of our best trading partners in the entire agricultural field, and particularly with respect to wheat. I believe that enactment of this amendment would have a detrimental effect on that relationship and thereby worsen our balance of payments and balance of trade.

Mr. President, I ask unanimous consent to have printed in the RECORD a telegram I have received from the Director of the United States-Japan Trade Council.

There being no objection, the telegram was ordered to be printed in the RECORD, as follows:

WASHINGTON, D.C.
March 27, 1968.

Senator FRED R. HARRIS,
U.S. Senate,
Washington, D.C.:

700 members of U.S.-Japan Trade Council urge you to vote nay on Hollings' rider to H.R. 15414, Tax Adjustment Act 1968.

1. U.S. Tariff Commission report in January 1968 emphasized basic health and expected continued strength of U.S. domestic textile industry, including woolens and synthetics. Therefore rider too broad for alleged injuries.

2. Textile and the parallel industry need woolen and synthetic imports since demand not being met by domestic producers.

3. If rider becomes law, will require inflexible costly bureaucratic structure to administer quota.

4. Such restrictive action can only lead to retaliation from abroad on wide variety of U.S. exports essential to improving U.S. balance of payments.

NELSON A. STITT,
Director,
United States-Japan Trade Council.

Mr. HARRIS. Mr. President, third, I think approval by the Senate of this amendment would be very damaging at this time. We are now engaged this very week in two important multilateral efforts which will have a great effect on our trade policy. Other major countries of the world are considering the acceleration of tariff reductions they agreed to in the Kennedy round. Instead of being effective on January 1, 1972, the effective date would be advanced to January 1, 1969, which would be very important to this country.

The European Economic Community is the one reluctant party, basically because the French are cool to the idea. However, there is a good chance that with the pressure from other countries the EEC may yield.

Mr. President, in connection with monetary affairs, a meeting is to be held this week in Stockholm among the major countries of the free world. This meeting will be critical in our attempt to establish a new and permanent international monetary reserve system. The full cooperation of other countries is vitally needed if we are to better the gold situation and avoid another gold rush.

This cooperation, I think, would be badly damaged, if not destroyed, if the Senate approved the pending amendment to the bill. In the eyes of the other countries of the world this would mean the beginning of what they feared last year, a full-fledged return by the United States to the 1930 style of protectionism by this country.

Mr. President, last, I oppose the amendment because it would be bad as an amendment to the excise tax bill now pending at a time when we need desperately to demonstrate fiscal responsibility to the rest of the world.

We would appear to be repudiating the Kennedy round and progressive trade policies.

Mr. President, I hope the amendment is not agreed to.

Mr. HOLLINGS. Mr. President, I yield 2 minutes to the Senator from Idaho.

IDAHO WOOL PRODUCERS NEED HELP

Mr. CHURCH. Mr. President, the wool producers of Idaho are in trouble. Like other agricultural producers, they are caught in an ever-tightening vise between prices and costs. Last year, while their costs grew, their prices took a 20-cent drop.

In my travels around the State, I have myself seen the declining condition of this industry. Many producers do not think they can hold out much longer against mounting costs and taxes.

I am sure the producers do not view a textile-import cutback as a panacea. Obviously, their situation is closely related to that of all American agriculture. But they do think import control legislation will help, and I agree with them.

I ask unanimous consent to have printed in the RECORD some recent letters from Idaho wool pools. They express our situation very well.

There being no objection, the letters were ordered to be printed in the RECORD, as follows:

LEMHI LIVESTOCK & WOOL MARKETING ASSOCIATION, INC.,
Box A, Salmon, Idaho, March 8, 1968.

Hon. FRANK CHURCH,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CHURCH: The Lemhi County Wool and Livestock Marketing Association is writing you on behalf of the current bills in the legislature concerning tariffs and quantities of import wool. The Lemhi County Wool and Livestock Marketing Association Board of Directors and members are in agreement that our congressmen should strive for limited import of foreign wools.

Wool producers are not receiving an adequate income from the wool they produce to cover the expenses of wool production. The Board feels that this is directly related to the current world market trend, due to the consumption of wool in this country by the influence of foreign import markets. This can be supported by the price drop received on wool for the past 10 years. In 1957, the price received for wool was 55¢ per pound of wool. In 1967, with a marked increase in labor and material costs, wool received 46.32¢ per pound. The price squeeze is forcing our wool producers out of business. The wool producers feel that the foreign imports are demoralizing our national production of wool and it is indicated by the number of 1967 wool producers in Lemhi County. In 1967, 65 farmers and ranchers produced 5,453 fleeces with an average of 84 fleeces per producer. In 1957, the Lemhi Wool Pool had 137 producers with 13,252 fleeces averaging 97 fleeces per producer. The 1968 program now estimates 50 producers for the wool market.

Lemhi County is adequate for only one type of livelihood. If people are to exist in this county, they are forced to be in a livestock operation of one type or another. The price squeezes in general are forcing smaller units out of business and forcing individuals into larger cow and lamb units. The more successful ranchers in the area indicate that on a good year they have less than ½ of a per cent returned on their investment. This indicates that a farmer cannot afford to go into debt or to borrow money because less than ½ of a per cent of the investment does not leave adequate income to pay interest on borrowed money, to finance improvements that modern technology is demanding on operation of ranches, or provide an adequate income for an existence. Due to our characteristics of the area, the general living and working economy has suffered and will continue to do so unless we are able to bring an increase to the number of lamb producers in the county. With current price trends it is not feasible to encourage operators to continue, expand, or start into business. The Lemhi Wool and Livestock Marketing Association is not shooting for ridiculously high tariffs, or absolute import restrictions. However, we feel that we have the right to request and expect our government to provide adequate protection so as to insure a national market that is equitable with the costs of production.

Respectfully submitted.

EVAN JENSON,
President, Board of Directors.
AMOS STRUPP,
GEORGE SANTEE,
LAMAR COCKRELL,
PETE MAHAFFEY,
LLOYD CLARK,
ARCHIE MCFARLAND,
Board of Directors.
CHARLES DUNHAM,
Secretary, Board of Directors.

JEFFERSON COUNTY SHEEP AND WOOLGROWERS ASSOCIATION,
Rigby, Idaho, February 26, 1968.

Hon. FRANK CHURCH,
U.S. Senator, Washington, D.C.

DEAR SENATOR CHURCH: We appreciate the interest you have shown in the sheep industry in Idaho.

We thank you for the past legislation that provided protection and incentives for this industry that is vital to Idaho and Jefferson County.

In our county the annual income from lambs and wool amounts to over 1 and ⅓ million dollars. This is about 6% of our agricultural income.

We, the directors of the Jefferson County Sheep and Woolgrowers Assn., with a membership of 40, ask for your continued support of legislation that will protect our industry against wool and blended wool imports from foreign countries.

We are endeavoring to apply the latest technology available to our production, management and marketing, but our industry is declining. Both range herd and farm flock operators find the cost price squeeze a challenge we cannot meet indefinitely.

We understand the Mills-Hollings Bill will be helpful in restricting the imports of foreign wools and fabrics blended with wool. We ask that you support this bill which is scheduled to be brought before Congress in April.

Respectfully,

IRVIN F. HANSON,
President.
WM. H. KREMER,
Vice President.
GEORGE NICK,
WELDON WAITE,
Directors.

PARMA WOOL POOL,
Parma, Idaho, March 9, 1968.

Senator FRANK CHURCH,
Senate Office Building,
Washington, D.C.

DEAR SENATOR CHURCH: The Parma Wool Pool Association objects to extensive wool imports into the U.S.A. in competition with domestic grades of wool. We, the undersigned directors of the Parma Wool Pool, believe that the economic situation for domestic wool producers is growing more serious each year, with a good part of the reason being the relatively unrestricted U.S. wool imports allowed each year. As duly-elected directors, we speak on behalf of approximately 250 grower members of our cooperative wool pool association located in southwestern Idaho and eastern Oregon.

Our members are more and more feeling the financial pinch as wool producers, and many of them are being forced out of the wool and lamb business each year, as others have been forced out in the last few years.

We appeal to you to enlist your support in further restricting wool imports into our country and in setting up higher tariffs as a further protection for our domestic wool producers. Also, quite frankly, the lamb industry is sick. We need tariff protection on the lamb market to protect our U.S. lamb producers, who are pretty much the same tightly-pinched people as the wool producers.

J. A. RIDDLE,
President.
MARK B. CALMAN.
ROGER W. STARK.
H. E. KNAPP.
LEWIS GAY,
J. A. WILCOX.

IDAHO FALLS, IDAHO,
March 11, 1968.

Hon. FRANK CHURCH,
U.S. Senate,
Washington, D.C.

DEAR SENATOR CHURCH: The inactivity in the present wool market and depressed price is due in large part to a continued increase in both manufactured and raw wool imports.

Realizing we are also an exporting nation we do not ask for the elimination of all wool imports, but a reduction would help boost domestic prices.

Our state wool association's bulletin has not reported any sales to date and some of the 44 wool pools in this state may be without a single buyer this year. We feel this would indicate the necessity of import reductions as soon as possible.

Sincerely yours,

BONNEVILLE COUNTY WOOLGROWERS ASSN., INC.,

LAVOL OLSEN,
President.
REID ELKINGTON,
Vice President.
DALE ROCKWOOD,
CHARLES B. CLARK,
MONTIE P. CARKOU,
LOWELL C. JENSON,
JEAN TRACY,
Directors.

CUSTER COUNTY LIVESTOCK MARKETING ASSOCIATION.

Senator FRANK CHURCH,
Senate Office Building,
Washington, D.C.

DEAR SIR: We of the Custer County Wool Pool are writing you concerning our wool market. You are probably aware of the fact that last year saw a 20¢ per pound reduction in price of our product. This is a reduction of ⅓ in one year, yet costs of production keep rising. This association represents 55 members, all of whom are concerned at this trend.

We realize that imports are necessary, however, the tariffs and import quotas should be made flexible enough so that domestic producers do not lose their market.

We need something to stimulate the mills in this country so that we have more competitive bidding for our products and we need our prices back at 60¢ plus, level for wool.

We have attempted to make this request heard from all wool pools from the several western states and there should be congress-

men from other states interested in this and willing to work with you.

Yours respectfully,

FRED L. EDMISTON,
Secretary.
LYNN JOHNSON.
VERNON E. WARNER.
BILL HAMMOND.
J. THARMACK.
DAN GHSALLEY.
CALVERT BITTON.
DARRELL LEAVITT.

(NOTE.—The following members of the Custer Lamb and Wool Pool sent in the same letter: Lenard Bradshaw, Dick Baker, Edward H. Williams, Dee Polson, Orlin D. Baker, Terry Sanderson, George J. Gilbert, George Keyes, Rex Sayer, Vernon E. Warner, Gary M. Chamberlain, Lloyd Reed.)

FRANK CHURCH,
U.S. Senator,
Senate Office Building,
Washington, D.C.

DEAR SIR: I am writing to you about wool prices. Last year the wool market took a 20¢ drop. The cost of production and taxes sure didn't drop. This represents a drop of approximately ⅓ in one year.

The government says they are subsidizing agriculture, but in reality, all they are doing is penalizing agriculture and subsidizing the consumer.

I know that the President is against import quotas and tariff restriction. However, these need to be flexible enough to provide a stable price for American Agriculture.

We need to keep the woolen mills in operation so that we have strong competitive bidders for our wool and we need our prices back at the 60¢ plus level, like they were prior to 1967.

I am a member of the Custer Lamb and Wool Pool.

Sincerely,

JOHN MCAFFEE.

Mr. CHURCH. Mr. President, I shall support the Hollings amendment to the bill.

Mr. HOLLINGS. Mr. President, I yield 1 minute to the Senator from North Carolina.

The PRESIDING OFFICER. The Senator from North Carolina is recognized for 1 minute.

Mr. ERVIN. Mr. President, one of the best ways to improve our balance-of-payments situation is to adopt the Hollings amendment. A very substantial amount of the deficit in the balance of payments, three-quarters of a billion dollars, is a result of the import of material made by cheap labor in foreign countries, thereby setting out of balance our balance of payments.

One of the best ways we can do something substantially to help that situation is to adopt the Hollings amendment, which would bring some sanity into our trade policies.

Mr. PERCY. Mr. President, I yield 1 minute to the Senator from Kentucky.

The PRESIDING OFFICER. The Senator from Kentucky is recognized for 1 minute.

Mr. COOPER. Mr. President, in opposing the amendment, I do not direct my remarks particularly to the situation in the textile industry.

What is important is that we should keep in mind the essential object of the bill now before the Senate; that is, to provide tax revenues and impose limitations upon expenditures, to help pay for the cost of the war in Vietnam, to reduce the inflationary pressures on the economy, and to establish confidence in America and abroad which we believe will reduce the drain on our gold supply and strengthen the dollar.

We cannot allow ourselves to be diverted by amendments which will dilute, and weaken, the objectives of the bill before us.

This is not a tariff measure for the benefit of the textile industry.

I make my argument to the point that the essential purpose of the bill now pending, is to apply the disciplinary measures toward taxes and expenditures necessary to correct our fiscal and monetary policies and put our house in order.

Mr. PERCY. I thank my colleague from Kentucky.

Now, Mr. President, I yield 2 minutes to the Senator from Maryland.

The PRESIDING OFFICER. The Senator from Maryland is recognized for 2 minutes.

Mr. TYDINGS. Mr. President, I hope that the amendment will be tabled. The timing could not be more dangerous in view of the world monetary and fiscal structure, particularly when we think that next week, in Stockholm, the western nations will meet and work together to try to develop ways in which to slow down the run on the dollar.

If we follow the policy which the United States and Great Britain followed in the 1930's, particularly in 1931 when Great Britain had its problems with the pound and raised tariffs and walls of protection and quotas—call them what we will—I think we invite retaliation and real fiscal problems; particularly in view of the fact that there have been hearings on this legislation and that it is to support an industry which has been remarkably affluent and successful during the past 10 years.

As I say, we will only be inviting real problems upon ourselves.

Now I sympathize with the sponsor of the amendment. Perhaps, if I were in his shoes, representing the people of South Carolina, I would propose the same amendment. But, we cannot jeopardize the entire trade structure of the United States for one industry.

We are the greatest trading Nation in the world. We have the most to lose.

My father stood on the floor of this Senate in 1929, 1930, 1931, 1932, and 1933, warning time and again that we cannot raise walls of protection and believe that other countries will not retaliate against us. He was speaking at that time against the Smoot-Hawley tariff bill and other moves in that direction.

This is the beginning. It is a very unfortunate beginning.

I urge defeat of the Hollings amendment.

Mr. HOLLINGS. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from South Carolina is recognized for 3 minutes.

Mr. HOLLINGS. Mr. President, as to the timing of this particular amendment, I believe that any good measure is timely. Article I, section 8 of the Constitution deals with regulating commerce with foreign nations. Article II of the Constitution deals with treaties. It is a spurious ruling on the other side, that they take it as a revenue affecting measure, that we have not had hearings before the Finance Committee on it, and about raising tariff walls, to which the distinguished Senator from Maryland referred. He has not read the measure. It is completely permissive in the thrust of the entire matter and goes to the heart of agreements.

Thirty-one nations have already agreed on one commodity, cotton.

Mr. TYDINGS. Mr. President, will the Senator from South Carolina yield?

Mr. HOLLINGS. On the Senator's time?

Mr. TYDINGS. On the Senator's time.

Mr. HOLLINGS. I do not yield.

On the matter of woolens and man-made fibers, we are trying to get all fiber agreements with the some 31 other nations which found it very fine and good and even advantageous to the consumer in the field of cotton. We have had quotas and we are trying to keep them—as the distinguished Senator from Georgia stated, to dam half the river or to dam the entire river with a provision for the President and the executive to negotiate agreements. There is nothing written into the particular measure that freezes the level at anything or in any way. But, rather, it provides at the end of the bill that the President, notwithstanding the provisions, can go ahead and negotiate agreements with the other countries.

The Senator from Illinois talks about free trade, and we talk about free trade. The trouble is that he is talking about free trade of productive capacity whereas we are talking about free trade of products.

With the gross national product in a producing nation dependent upon foreign trade, we do not want to solve the problem by exporting overseas the productive capacity of the United States. That is exactly what has occurred.

In 1951, for example, the U.S. Government invited bids on 9 million yards of woolen worsted material. At that particular time there were 54 producers.

Of the 54 producers bidding on that particular contract, today 39 have gone out of business in the United States and are producing elsewhere.

Last year, a contract was bid from the Pentagon on 3 million yards of woolen worsted and instead of having 54 producers, there were only two bidders.

In the New York Times section of April of last year, there was published a pertinent article calling attention to the fact that the green berets made for our Special Forces overseas in Vietnam were being produced in Canada, at one end of the building there, and draft dodgers from the United States were being signed up for free sanctuary in Canada, as a retreat, so to speak, at the other end of the building.

The day before yesterday, on Monday of this week, rather than trying to create jobs, we dedicated a warehouse in ground-breaking ceremonies, which will be used to bring in textile products from Japan and Hong Kong.

At this particular time, Manhattan Shirt, Van Heusen Shirt are all looking at negotiations overseas for foreign production. Sears, Roebuck & Co. and Penney's have indicated that their $4 retail shirt fabric will be made offshore.

We cut back on jobs at hourly wages. What we are trying to do here is to level off and get an orderly trade for our workmen so that we can pay them wages at the highest level, which we can do under my amendment, and give them a share in the economic growth of this country.

But when we come down to it, woolens have 28.7 percent of domestic consumption represented in imports. In fact, 55 percent of American suiting is in foreign imports.

If Senators coming into this Chamber were checked at the door and not permitted to enter unless they wore suits made of American-produced worsted, most of us would be nude. So many of us wear suits made of foreign imports.

Mr. PERCY. Mr. President, I think there is no one more qualified to answer the question as to whether the pending amendment is the vehicle or the place to have the distinguished Senator's amendment enacted into law than my distinguished colleague from Illinois [Mr. DIRKSEN]. I yield 2 minutes to my colleague.

The PRESIDING OFFICER. The Senator from Illinois [Mr. DIRKSEN] is recognized for 2 minutes.

Mr. DIRKSEN. Mr. President, I talked with the distinguished principal sponsor of this proposal yesterday, and I said to him that I thought this was an unfortunate juncture at which to offer the proposal, because I think I know what is going to happen. I am, indeed, advised that if this amendment succeeds, a similar amendment dealing with beef will be offered. It is entirely possible that another will be offered dealing with steel. Then we will be in an impossible situation. I think it bears overriding consideration that the staff of the Senate Finance Committee and the staff of the House Ways and Means Committee have been, and are at this moment, trying to draft legislation to deal with this overall problem, so that we will not be dealing only with one industry or another.

I know what the textile picture is. I went to the institute for the industry in Florida and talked with the people there about it. I take account of the President's state of the Union message, in which he indicates how these other countries have taken advantage of us under GATT and insisted that income rebates and individual preferences for exporters are no violation of GATT, including, of course, frontier taxes that are imposed on our exports to other countries. This is truly a tragic situation, and, sooner or later, we are going to have to face up to it.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. PERCY. Mr. President, I yield my colleague 1 additional minute.

Mr. DIRKSEN. But we have a deadline here, because of the excise taxes involved, and we have the even greater problem which involves, in fact, what is going to happen to the dollar. The dollar is in jeopardy today—let nobody kid himself about it. That is the principal business here before the Senate at the moment.

I had very much hoped that my distinguished friend would not offer the amendment at this time, and that we could wait and see what we could do in the Finance Committee. As a member of the Finance Committee, I shall be as helpful as I possibly can, notwithstanding all the rebuffs he has experienced over a period of time.

I said to him yesterday this was not the time and this was not the place. Frankly, I am deeply distressed about it, because of the sympathy I have for the burden that the textile industry is carrying today under the heavy importations from Japan and elsewhere.

Mr. PERCY. I thank my distinguished colleague. Certainly, I can think of no one who has given more time and effort looking into the problems of some of these industries than my colleague has. I thoroughly agree with him that this is not the time or place to undertake this study.

I yield now 2 minutes to my distinguished colleague from Ohio [Mr. LAUSCHE].

The PRESIDING OFFICER. The Senator from Ohio is recognized for 2 minutes.

Mr. LAUSCHE. Mr. President, I contemplate voting for the motion to table, if one is made. I shall do so because I feel that the subject of restricting imports of textiles should not be taken up as a separate item, but must be considered in connection with the problems which many of the producers and manufacturers of the United States complain they have.

If we deal with the textile issue, is it not likely that those in the steel business who are suggesting restricting imports may come before this body, in relation to a particular bill, asking for relief?

The oil industry is asking for restricted imports. Is it not likely that someone from it may come before the Senate and say, "Since you have imposed the right to restrict imports of textiles, give us a similar right in connection with oil"? Many other manufacturers are similarly situated. In my judgment, if we open this door, we are going to open a Pandora's box and be afflicted with a deluge of other petitions of a similar nature.

There is a further aspect of this problem. We are the largest exporter in the world. We export $30 billion worth of goods. If retaliation begins, are we not the ones most vulnerably in a position to be attacked?

The argument was made a moment ago by the Senator from Oklahoma that the signatories to the Kennedy round have agreed to advance the tariff reduction to the date of January 1, 1969, which of course will be most helpful to the United States.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LAUSCHE. Mr. President, may I have 1 additional minute?

Mr. PERCY. I yield 1 minute to the Senator from Ohio.

Mr. LAUSCHE. Our country is in trouble with respect to the dollar. It is not generally recognized, but, unless we do something about it, there will be calamitous consequences. If we do not get the cooperation of other nations with regard to our dollar and the balance of payments, trouble lies ahead. Retaliation and not cooperation will be our lot if we now begin imposing quotas; especially in face of the fact that the many nations attending the recent Kennedy round on tariffs only a short while ago dealt with the subject.

Mr. PERCY. I thank my colleague from Ohio.

Mr. HOLLINGS. Mr. President, I yield 2 minutes to the distinguished Senator from Tennessee [Mr. BAKER].

Mr. BAKER. Mr. President, I thank the Senator from South Carolina for yielding to me. I previously supported the Senator from South Carolina in his efforts in this repect, and I now support him in this effort. I hasten to report, however, that in doing so I have no intention of implying that we should embark on any adventure of protectionism. Conversely and to the contrary, I believe that the future of our Nation and its relations to the rest of the world lie in the field of mutual beneficial trade and as near an approximation of free trade as is possible.

However, I am not prone to stand here and watch a substantial segment of this Nation's industry suffer without some prospect of immediate relief, whether by statute, as proposed by the Senator from South Carolina, or, hopefully, by the exercise of the discretionary authority that now resides in the Executive, to negotiate successfully with other countries to bring about a measure of relief against a distressed industry.

The fundamental issue, as I see it, is whether we shall continue to wait, as we have waited expectantly for years, for administrative action on what almost everyone agrees is a critical problem in the field of textiles. The President has the authority to act. He has frequently agreed that action is needed. But there has been no action. The amendment would in no way tie the hands of this administration or of administrations that will follow.

Finally, authority rests with the Executive. What we would be saying is, "If you do not think this is the right thing to do about a problem that we all acknowledge exists, then do something else. But do something."

As the Senator from South Carolina [Mr. HOLLINGS] so ably pointed out, promises of action have been long made but little fulfilled. Waiting has accomplished nothing.

I hope the Senate will go on record today as insisting on some action now, whatever it might be, with the full realization and expectation that this be understood by no one here or abroad as a symbol of the beginning of a protectionist spirit in the United States, but that it is the only way available to the legislative branch—Congress—to bring forcefully to the attention of the executive branch the necessity for a better balance in the economic realities of our relationship to other nations in the field of textiles.

I thank the Senator from South Carolina for yielding.

Mr. HOLLINGS. Mr. President, I yield myself 3 minutes.

Who would ever call the late President Kennedy a protectionist? What we are

trying to do—talking about time and place—is, after exhausting all administrative efforts to negotiate, to complete President Kennedy's program at this particular hour. What has been agreed to by 31 countries on cotton, we are seeking to make applicable to woolens and manmade fibers.

The distinguished Senator from Illinois says he gives me his sympathy, that he cries for me. Mr. President, I have had that before. We had it for 10 years, from 1950 to 1960. We had sympathy for 7 years after we got the Kennedy program.

The business leadership is no longer willing to wait for sympathy. They are going overseas to compete. We are exporting the productive capacity of the United States of America. We are exporting jobs.

As our presentation before the Committee on Finance will show, what we want is reasonable. We say that the President can negotiate these agreements, and we shall freeze nothing. Oil does not want that; they already have it. Steel does not want it; they want a different bill. Electronics and other industries also want different measures.

I know, and the distinguished Senator from Illinois knows, that it is impossible to write a legislative trade program. President Kennedy did not believe in legislative trade programs, and Senator HOLLINGS does not believe in legislative trade programs; but I believe in putting some impetus there to bring to the bargaining table the country of Japan, so that we can have these flexible contracts and can complete the program to eliminate the exportation of jobs.

When we get to the matter of the Export-Import Bank, everybody talks jobs. When we get to the subject of underwriting a Fiat plant, everybody talks jobs. When we get to foreign aid, everybody talks jobs. But when we come to the Senate this morning and talk jobs, we are told that this is not the time or the place.

The Senator from Rhode Island [Mr. PASTORE] could not be here, but I talked to him an hour and a half ago. He says that we have worked long enough, and that he is 100 percent behind this amendment; not to stultify free trade, but to bring to the negotiating table the countries involved in trade, so that we can bring about in woolens and man-made fibers what we have already done about cotton, and bring about the free trade program.

Mr. PERCY. Mr. President, I ask unanimous consent to have printed in the RECORD at this point several telegrams that have been received by me and by the Senator from New York [Mr. JAVITS] in connection with the pending amendment.

There being no objection, the telegrams were ordered to be printed in the RECORD, as follows:

NEW YORK, N.Y.,
March 27, 1968.

Senator CHARLES H. PERCY,
U.S. Senate,
Washington, D.C.:

As chairman of the Emergency Committee for American Trade representing 50 leading United States corporations, I am disturbed by reports that Senator Hollings will propose a rider to excise tax legislation which will impose quotas on imports of textiles. Such legislation would be directly in conflict with United States national interest. It would bring forth counter measures from abroad that would damage our exports and balance of trade at a time when increased export earnings are vital. Enacement of such legislation when other countries are considering advancing their Kennedy round tariff cuts to aid our balance of payments, would ensure that such cooperation would not be forthcoming. We hope you will vigorously oppose Senator Hollings' proposal.

ARTHUR K. WATSON,
Chairman, IBM World Trade Corp.

WASHINGTON, D.C.,
March 26, 1968.

Senator JACOB K. JAVITS,
Washington, D.C.:

We understand Senator Hollings will offer Textile Quota Amendment to Excise Tax bill later today or tomorrow. We believe precipitous action should be avoided and urge you to oppose Hollings amendment. United States Tariff Commission in detailed and factual report in effect found imports were not injuring the domestic industry. According to Textile World the textile industry can expect a six percent growth this year. In view of these facts we strongly urge committee consideration of this most important matter before any decision made on floor action. This is especially delicate in view of negotiations with trading partners concerning financial and economic crisis.

BERNARD HOHENBERG,
Chairman, Textile and Apparel Group, American Imports Association.

WASHINGTON, D.C.,
March 27, 1968.

Senator CHARLES H. PERCY,
U.S. Senate,
Washington, D.C.:

700 members of United States-Japan Trade Council urge you to vote nay on Hollings' rider to H.R. 15414, Tax Adjustment Act 1968.

1. U.S. Tariff Commission report in January 1968 emphasized basic health and expected continued strength of U.S. domestic textile industry, including woolens and synthetics. Therefore rider too broad for alleged injuries.

2. Textile and the apparel industry need woolen and synthetic imports since demand not being met by domestic producers.

3. If rider becomes law, will require inflexible costly bureaucratic structure to administer quota.

4. Such restrictive action can only lead to retaliation from abroad on wide variety of U.S. exports essential to improving U.S. balance of payments.

NELSON A. STITT,
Director, United States-Japan Trade Council.

Mr. PERCY. Mr. President, on January 15, 1968, the Tariff Commission submitted its two-volume report to President Johnson on textiles and apparel products. The Commission observed that the domestic industry "enjoyed a period of unparalleled growth since the early 1960's."

The report went on to detail the marked expansion in domestic producers' output, sales, employment, new investment in plant and equipment and corporate profits. Industry shipments rose 36 percent from $29.1 billion to $39.6 billion from 1961–66. Although the textile industry has traditionally been a low profit ratio industry, profits rose 48 percent for producers of textile mill products and 52 percent for apparel producers during this period.

Imports also rose absolutely and relatively during the period. Even so, the latest data showed the ratio on imports to domestic consumption at 1.4 percent for yarn, 6.5 percent for fabrics, and 5.1 percent for apparel.

The Commission's report points out that about two-thirds of the increase in imports are textile products requiring further processing in the United States by our domestic industry. The Commission also notes that the increase in the volume of domestic production was substantially greater than the increase from imports during the period 1961–66.

The Commission cautions us not to assume that these overall indications of the health of the domestic industry are applicable to each particular segment. It is no doubt true that imports have had a greater impact on some segments of the industry than on others, although other factors appear to have had equal impact.

These figures indicate a truly vital industry. After a boom in 1966, textiles appear to have joined the rest of the economy in entering a period of reassessment and adjustment. Like other industries in the economy, there is a requirement to continue modernization and improvement of both technology and industry structure, in order to adjust to new conditions. Among these, the impact of imports must be considered. But every single indicator in the recent industry survey for the present year forecasts a favorable upturn and continuation of the industry growth of the early sixties.

I do not believe, based on this data and the data in Textile World, that the textile industry cannot meet these challenges without this quota protection. To roll back imports by approximately one-third is truly extraordinary protection for an industry as vital as the one I have described above. I do not rule out the possibility that some elements of the industry may not need Government assistance, as I said earlier. I simply say we cannot tailor that remedy—if the gentlemen will forgive the pun—until we have an accurate measure of the problem.

Mr. President, in my judgment, and that of Senators such as HART, JAVITS, and TYDINGS, this would be the worst possible time for the U.S. Congress to impose quotas on our imports.

The United States is now engaged in delicate negotiations with the European Economic Community to win agreement on accelerating Kennedy round tariff quotas by the EEC to help this country overcome its balance-of-payments deficit.

An article from the New York Times yesterday morning indicates that even France is willing to consider the possibility of providing this positive form of assistance to the United States. This is a dramatic change in position for France, which previously had appeared to oppose this action that was supported by many of her partners in the Common Market.

If the Congress enacts quota legislation, there will be no chance whatsoever to win European cooperation on trade policy. This is made crystal clear by the New York Times report.

The minority members of the Joint Economic Committee unanimously urged in their minority views in the 1968 report of the committee that European nations

take steps to assist our balance-of-payments adjustment process. They endorsed the proposal now under consideration that the European community prestage its Kennedy round tariff cuts.

The only sensible position for the United States to take now is to resist imposing quotas on our imports and to complete the effort that has been launched to win European cooperation. If the United States now takes the protectionist route, we can be certain that Europe will do the same. The world will be headed down the road of restriction and controls that can only mean less employment, less growth and a lower level of general well-being and prosperity.

I ask unanimous consent to include in the RECORD a copy of the New York Times article which I have referred to as well as the statement of the Joint Economic Committee minority relating to the desirability of European initiatives.

There being no objection, the article and statement were ordered to be printed in the RECORD, as follows:

EARLY TARIFF CUT TIED TO CONDITION—EEC SAYS IT WILL DEMAND THAT UNITED STATES RENOUNCE ANY PROTECTIONIST ACTION—FRENCH STAND CHANGES—PARIS, PREVIOUSLY OPPOSED TO FASTER REDUCTIONS, WILL CONSIDER THEM

BRUSSELS, March 25.—The European Economic Community tonight told the United States it had to renounce any protectionist trade measures before the six would agree to accelerating Kennedy Round tariff cuts.

E.E.C. finance ministers also agreed at a one-day meeting here that the American selling price—a system whereby imported chemicals are assessed for duty on the basis of higher domestic prices—had to be abolished before the Europeans speeded reductions.

All six ministers agreed to "take into consideration the possibility of accelerating" Kennedy Round tariff cuts to help the United States overcome its balance-of-payments deficit.

France's Finance Minister Michel Debré made clear at a press conference that this represented a dramatic switch in position for his nation, which previously strongly opposed such a step.

GOLD PROPOSAL

Earlier Mr. Debré intensified the French campaign for a monetary system based on gold by calling for an international conference to examine fundamental world monetary and trade problems.

In a statement before the meeting, he told reporters France would only cooperate on these problems provided a "durable global solution" for the fundamental problems was sought in concert by the interested parties.

Mr. Debré's statement sounded to observers like a call for another conference like the Bretton Woods meeting, which created the International Monetary Fund in 1949. But French sources here stressed that such talks should also cover trade problems.

The ministers also told the E.E.C. executive commission to sound out all the members' trading partners by diplomatic channels on reactions to tonight's statement, and to report at another finance ministers' conference, which will take place before April 14.

EXCERPT FROM MINORITY VIEWS, 1968 REPORT OF THE JOINT ECONOMIC COMMITTEE

THE DESIRABILITY OF EUROPEAN INITIATIVES

In this context it becomes clear that European nations can take steps to assist the balance-of-payments adjustment process and at the same time obviate the need for any hasty U.S. action on a border tax or import surcharge.

Such a step was initially proposed by German Finance Minister Schiller early this year, and was restated as a proposition to the European Community's Finance Ministers on March 4 in Brussels. The proposal was that the European Community prestage its Kennedy Round tariff cuts. Doing so would give the United States a tariff advantage and offset the possible European advantage under their recently altered border tax system. It could have a favorable effect on the balance of trade. Its adoption would be a welcome act of statesmanship at a time when United States-European relations are strained and when the momentum toward a more open world trading system is in jeopardy.

EXCERPTS FROM 1968 JOINT ECONOMIC COMMITTEE REPORT ON QUOTAS ON U.S. IMPORTS

MAJORITY REPORT

We must take care to keep up our 30-year record of removing trade barriers. What we need is an affirmative trade policy to fill the void left by the conclusion of the Kennedy Round. At the very least, this would include authority for future broad tariff bargaining, for negotiations concerning the removal of nontariff barriers, and for more adequate adjustment procedures.

In connection with the President's program, there is a hint of resort to border taxes if we cannot obtain an agreement with other countries, particularly the Common Market, to get rid of the border taxes which they now apply and the rebates which they give to their exporters. While the rules of the General Agreement on Tariffs and Trade allow this procedure for indirect taxes, it discriminates against the United States and other countries which do not use it, and against the United Kingdom which has been trying to get rid of it.

We should bargain hard with the Common Market to persuade them to drop the use of border taxes and rebates, and we should demonstrate our willingness and readiness to cooperate in making the border tax system a thing of the past.

Second, we can hardly hope in the long run to improve matters by reducing our imports, by cutting off our flow of investment funds abroad, or by reducing the freedom of American citizens to travel abroad—all of these are techniques that will quickly lead to retaliation by other countries.

MINORITY REPORT

But a trade bill could also be expanded by those who wish to give special attention to certain industries, such as is provided in pending quota bills. Certainly the problems of such industries should be given the fullest deliberations by Congress in its work on any trade bill, but the Congress should avoid taking measures for one industry that are not extended to all industries similarly situated and of similar national importance. The essential theme of nondiscriminatory multilateralism in U.S. trade policy should be maintained, both as regards the external trading world and our internal trade policy administration. We should also endeavor at all times to eliminate restrictive practices and inequities wherever they may exist either at home or among our trading partners.

Mr. PERCY. Mr. President, it is an unfortunate circumstance that this measure should come to the floor prematurely. For myself I might say that I would hope we could avoid such special legislation as quotas for any single industry. I am sure there are a number of Senators who would join me in this hope that alternatives to quotas could be developed for those industries demonstably deserving of Government assistance.

But I know I speak for a larger group in expressing regret that this amendment—which is substantially the Hollings bill, S. 1796—should come to the floor without the benefit of reports from the executive branch, printed committee hearings, deliberation by the Committee on Finance, and a report to guide or help to frame the debate on the floor. I would hope there are a number of sponsors of the particular bill upon which this amendment is based who would have reservations about proceeding with such haste on a measure that can receive no hearings and little debate in the House—much less the Senate—on its way to final passage.

Everyone agrees this is one of the most complex of any industry under consideration for extraordinary—quota—protection. It is unfortunate then, that we are asked to ignore the assistance of our own committee process in considering this single bill. It is ironic that we now have available to us—as of January 15—a detailed study of the textile industry by the Tariff Commission which would provide a basis for committee study and consideration. If the gentleman from South Carolina disagrees with it, the Committee on Finance can easily establish the real facts. In short, just at the time the current facts of the industry's situation are available to the committee we are now asked to forgo committee action, which I know would be of benefit to the greater number of Senators.

Mr. President, I am proud now to yield to the Senator from Michigan. I might observe there is and has been for many years a fine photographic company in his State. For 28 years I have heard pleas from industrialists that that industry cannot compete without special protection. During the time when I was the head of a similar company in Chicago, when I would come down to testify, I found myself testifying against our industry, whose representatives on all sides were pleading for protection. I thought we ought to read into the public record the reports we send to our stockholders instead of just the hand-wringing of the industry for the benefit of the Tariff Commission.

I am glad to say the photographic industry is still thriving and growing, and one of the industry's strong, forward-looking companies is in the great State of Michigan.

Mr. HART. Mr. President, last night and this morning, we have heard much about a very complex problem—namely, the economic condition of the textile industry and the impact of imports.

I now want to make a very simple point: This is not the time to decide if this industry needs quota protection permissive of us. I say this not to minimize its problems, such as they may be. I say it rather because there are overriding issues at stake. And they could not have been foreseen when many of our colleagues agreed to cosponsor the pending proposal.

As the debate on the excise tax bills shows, the whole Nation is deeply concerned about our balance-of-payments problem. Our Government is now—this very week—working hard with other

countries to improve our balance of payments and maintain the dollar.

First, we are hopeful the other countries will speed up by 3 years the tariff cuts they agreed to in the Kennedy round. The United States would not speed up, thus giving our exports a 3-year trade advantage.

Second, we will be meeting with other countries in Stockholm this Friday to try and develop a new system of monetary reserves.

Like it or not, we cannot escape the fact that the cooperation of the other countries is vital to the success of these efforts. Such cooperation will be seriously jeopardized if we approve the textile quota amendment.

Mr. President, I ask unanimous consent to have printed in the RECORD at this point a telegram from Arthur K. Watson, chairman, IBM World Trade Corp., and a membership list of the Emergency Committee for American Trade.

There being no objection, the items were ordered to be printed in the RECORD, as follows:

NEW YORK, N.Y.,
March 27, 1968.

Senator PHILIP A. HART,
U.S. Senate,
Washington, D.C.:

As Chairman of the Emergency Committee for American Trade, representing 50 leading U.S. corporations, I am disturbed by reports that Senator Hollings will propose a rider to excise tax legislation which will impose quotas on imports of textiles. Such legislation would be directly in conflict with U.S. national interest. It would bring forth counter measures from abroad that would damage our exports and balance of trade at a time when increased export earnings are vital. Enactment of such legislation when other countries are considering advancing their Kennedy round tariff cuts to aid our balance of payments would insure that such cooperation would not be forthcoming. We hope you will vigorously oppose Senator Hollings' proposal.

ARTHUR K. WATSON,
Chairman, IBM World Trade Corp.

Membership list, Emergency Committee for American Trade:

William M. Allen, President, Boeing Company.

George W. Ball, Senior Partner, Lehman Brothers.

Thomas J. Barlow, President and Chief Executive Officer, Anderson, Clayton & Co.

Lee S. Bickmore, President, National Biscuit Company.

James H. Binger, Chairman, Honeywell, Inc.

William Blackie, Chairman, Caterpillar Tractor Company.

Roy D. Chapin, Jr., Chairman and Chief Executive Officer, American Motors Corporation.

Donald W. Douglas, Jr., President, Douglas Aircraft Company, Inc.

T. C. Fogarty, Chairman of the Board, Continental Can Company, Inc.

Henry Ford, II, Chairman, Ford Motor Company.

Richard L. Gelb, President, Bristol-Myers Company.

J. Peter Grace, President, W. R. Grace & Company.

Patrick E. Haggerty, Chairman, Texas Instruments Inc.

R. V. Hansberger, President, Boise Cascade Corporation.

Daniel J. Haughton, President, Lockheed Aircraft Corporation.

H. J. Heinz, II, Chairman, H. J. Heinz Company.

William A. Hewitt, Chairman, Deere & Company.

E. B. Hinman, President and Chief Executive Officer, International Paper Company.

Robert S. Ingersoll, Chairman, Borg-Warner Corporation.

J. K. Jamieson, President, Standard Oil Company (N.J.).

Donald M. Kendall, President and Chief Executive Officer, Pepsico, Inc.

John R. Kimberly, Chairman of the Board, Kimberly-Clark Corporation.

Donald P. Kircher, President, The Singer Company.

Robert C. Kirkwood, Chairman and Chief Executive Officer, F. W. Woolworth Company.

Edwin H. Land, Chairman and President, Polaroid Corporation.

Roger Lewis, President, General Dynamics Corporation.

James A. Linen, III, President, Time Incorporated.

David L. Luke, III, President and Chief Executive Officer, West Virginia Pulp and Paper Co.

William F. May, Chairman, American Can Company.

Thomas B. McCabe, Chairman, Scott Paper Company.

J. I. Miller, Chairman, Cummins Engine Company, Inc.

George S. Moore, Chairman, First National City Bank.

Milton C. Mumford, Chairman, Lever Brothers Company.

James A. Newman, Executive Vice President, Booz, Allen & Hamilton Inc.

David Packard, Chairman, Hewlett-Packard Company.

Daniel Peterkin, Jr., President, Morton International, Inc.

Peter G. Peterson, President, Bell & Howell Company.

Rudolph A. Peterson, President, Bank of America, N.T. & S.A.

John J. Powers, Jr., President, Chas. Pfizer & Co., Inc.

Robert W. Purcell, Chairman, International Basic Economy Corporation.

Charles C. Randolph, Publisher, Business Week.

James M. Roche, Chairman of the Board, General Motors Corporation.

Arthur Rock, Chairman, Scientific Data Systems, Inc.

David Rockefeller, President, The Chase Manhatten Bank N.A.

Robert D. Stuart, Jr., President and Chief Executive Officer, Quaker Oats Co.

Charles E. Swanson, President, Encyclopedia Britannica.

A. Thomas Taylor, Chairman and President, International Packers Limited.

Charles B. Thornton, Chairman, Litton Indusrties, Inc.

Arthur K. Watson, Chairman, IBM World Trade Corporation.

John M. Will, Chairman of the Board, American Export Isbrandtsen Lines.

Joseph C. Wilson, Chairman, Xerox Corporation.

Mr. HART. Accordingly, Mr. President, I urge my colleagues—in the interest of maximizing our chances of preserving the dollar—to table this amendment; and, in a moment, I shall move to table the amendment.

Mr. HOLLINGS. Mr. President, I yield 1 minute to the Senator from Missouri [Mr. SYMINGTON], and 1 minute to the Senator from Nevada [Mr. BIBLE].

Mr. SYMINGTON. Mr. President, I believe in free trade. But over recent months I have studied carefully what is happening to the former great agricultural market the United States had in the Common Market; also what is happening to our industry as a result of the countless nontariff barriers, the export subsidies, the import levies being placed on us by foreign countries; and also their quotas.

Mr. President, it has been said this may be right. But it is not the time. It is never the time apparently, however, to consider certain economic and commercial problems of the United States, and always the time to consider the economic and commercial problems of other countries.

We are in a major war. If it is right for us to be in Vietnam, we are fighting for them as well as ourselves. We are also defending them in Europe. We have not asked for their military help in Vietnam, but surely, price and quality being equal, and considering the degree of our military commitment in Europe, they should give us a fair chance to develop our agricultural and industrial relationships with their countries.

It is because of this thinking that I intend to vote for the Hollings amendment.

Mr. BIBLE. Mr. President, I rise to support the pending amendment. The arguments heard here yesterday and today are the same arguments we have heard year after year. I favor reasonable control of textile imports, because of the interest and the welfare of an industry that is very vital to my State.

The wool manufacturers in the United States are the only customers of the domestic woolgrowers. Imports of woolen textiles exceeded 20 percent of domestic production in 1967, according to the Commerce Department figures. In January and February of 1968, the figures have indicated that such imports this year will substantially exceed those in 1967. This upward trend cannot be permitted to continue without potential disaster to the domestic mills and to wool-producing industry in my State. It is time to call a halt to this constant increase.

The Hollings amendment, in my judgment, provides a reasonable and clear solution to a most serious problem, and it has my wholehearted support.

Mr. HOLLINGS. Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. HART. Those who sponsored this proposal could not, of course, have foreseen this critical negotiation coinciding with this vote.

The PRESIDING OFFICER. All time has expired.

Mr. McGEE. Mr. President, I wish to associate myself with the Senator from South Carolina [Mr. HOLLINGS] in the amendment to impose a quota on the total quantity of natural or manmade fibers which may be imported for consumption in the United States during any calendar year. The record in support of this amendment has been written, Mr. President, over a long period of years. I might say it has been a period in which neither our textile industry nor our domestic wool industry have prospered.

Over the years, I have maintained close relationship with the woolgrowers of Wyoming, and with the wool manufacturers upon whom they depend for a

market. Both wish to expand, but their desires to grow, to provide their employees with jobs, are increasingly threatened by low-wage competition from abroad. Every pound of wool imported in manufactured form strikes, not only at the American mills whose products are being displaced, but also at the American grower whose customers are being injured. Last year, the National Wool Growers Association adopted a resolution unanimously. It called for action to achieve a reasonable limitation on these imports, Mr. President, with the warning that the trend of increased imports, if not reversed, "will inevitably mean the extinction of the U.S. manufacturing industry and, therefore, of our own industry."

Mr. President, I think this amendment seeks to impose eminently reasonable restrictions. I would hope to see it adopted.

Mr. TYDINGS. Mr. President, I strongly hope that the Senate rejects the amendment now under consideration, which would impose quotas on a variety of textile products. I take this position not only because I believe no adequate case has been for imposition of quotas to protect this industry, but also because I believe imposition of quotas would have gravely damaging consequences for our national economy.

At the present time, the Common Market countries are determining whether they should reduce their tariffs on goods exported by this country at a more rapid pace than they have already agreed to do in the Kennedy round trade negotiations. Our Government has requested accelerated tariff reductions in order to give us immediate assistance in expanding our exports and redressing our serious balance-of-payments deficit. This delicate negotiation would be completely upset, I believe, if the Senate at this time were to impose new import restrictions on textiles or any other commodity. Other countries would say—with reason—"Why should we open our tariff walls further to assist the United States, while all they offer in return is new barriers to our imports?"

In addition, next week a meeting will be convened in Stockholm of the monetary officials of the leading countries of the world to discuss immediate and long-term steps which should be taken to prevent new runs on the dollar, and to insure that the basic currencies which lubricate world trade remain stable. If we now in the Senate indicate a "go-it-alone" policy, and try to swing the balance of trade even in this one industry to our own favor by our unilateral action in restricting imports, then I think we will be undermining the basic spirit of cooperation and mutual assistance which is vitally necessary to bring these difficult monetary talks to a successful conclusion.

Agreement on continued stability in exchange rates and monetary policy generally depend on a shared belief among all major trading countries that no one can truly succeed by taking unilateral action for short-range individual benefit. But if we take such unilateral action, even in this one industry, this will be a signal to the world that unilateral action is the order of the day. Any possibility of agreement for stability in world monetary affairs would, I believe, vanish.

In 1933, my father, Millard Tydings stated, in his book "Counter-Attack":

> Each nation must know by now that it cannot put up its tariff walls without forcing other governments to pursue identical policy The United States tried that (in the Smoot-Hawley Tariff of 1929) and the remainder of the world followed suit. As a result, trade which is the very life blood of nations and of individuals has been brought to a dangerously low ebb.

That lesson remains true today. I hope we in the Senate will demonstrate that we have not forgotten it.

I believe—particularly at the present time—that we cannot afford to forget it. Our dangerous balance-of-payments deficit will not permit us to forget it. In 1967, we had an overall deficit of $3.6 billion. This was the result of the net outflow of dollars associated with our huge military establishment deployed throughout the world and the massive effort, in particular, in Vietnam.

This deficit, as we all know today, has shaken world confidence in the dollar, and has forced the Congress just last week to remove the gold cover simply to calm world fears, though only temporarily. But the only element of our balance-of-payments picture which kept the run on the dollar from turning into a total rout was our favorable balance of trade. In 1967, this country exported over $4 billion more than it imported. If our exports were to shrink, our overall balance-of-payments deficit would rise accordingly.

Make no mistake. If we pass this quota bill—and the others waiting in the wings behind it, on steel, oil, radios, taperecorders, shoes, meat and dairy products, sheet glass, lead and zinc—our exports will strink drastically.

Retaliatory action by other countries is not the only reason why import restrictions would curtain exports. There is a vital linkage between the volume of imports and of exports. Experience has shown that the dollars which American firms pay out for imports tend to be returned to this country as payment for U.S. exports. Economists called this a "feedback effect." And, of course, this "effect" works both ways. When U.S. payments for imports are reduced, the dollars available to other countries for purchase of U.S. goods are reduced. Treasury Secretary Henry Fowler testified last fall to the Senate Finance Committee that, from this "feedback effect" alone "for each $1 billion reduction in our merchandise imports, we will lose somewhat over half a billion dollars of exports."

This loss of exports plus the even greater loss we must expect from retaliatory trade restrictions of other countries demonstrates clearly that protectionism is necessarily self-defeating, even in the short run. The specific domestic industries which are shielded from import competition by new restrictions do gain—but only at the expense of other domestic industries whose exports are curtailed. A few specific firms benefit by protectionism—but the national economy, on an overall basis, suffers a net loss.

Thus, when an industry spokesman claims that his industry needs protection to "save American jobs," you must always keep in mind that the requested protection will undoubtedly cause the loss of more American jobs than would be saved.

In fact, with specific reference to the textile industry, there is great doubt in my mind that any industry spokesman could seriously claim that imports have cost any American worker his job.

Several months ago, the President requested the U.S. Tariff Commission to inquire into the impact of imports on the domestic textile industry. The Tariff Commission has no axe to grind. I believe it is a wholly impartial and fair-minded agency.

And its report, which was issued in January of this year, demonstrates the fundamental weakness of the textile industry's case for protection from imports. The Commission stated that the domestic textile industry "enjoyed a period of unparalleled growth since the early 1960's."

The report went on to detail the marked expansion in domestic producers' output, sales, employment, new investment in plant and equipment and corporate profits. Their shipments rose 36 percent from $29.1 billion to $39.6 billion from 1961 to 1966. Although the textile industry has traditionally been a low profit ratio industry, profits rose 48 percent for producers of textile mill products and 52 percent for apparel producers during this period.

Imports also rose absolutely and relatively during the period. Even so, the latest data showed the ratio of imports to domestic consumption at 1.4 percent for yarns, 6.5 percent for fabrics, and 5.1 percent for apparel. The Commission's report points out that about two-thirds of the increase in imports are textile products requiring further processing in the United States. The Commission also notes that the increase in the volume of domestic production was substantially greater than that for imports during the period 1961–66.

The Commission cautions us not to assume that these overall indications of the health of the domestic industry are applicable to each particular segment. It is no doubt true that imports have had a greater impact on some segments of the industry than on others. It is clear, however, that the textile industry is in an increasingly prosperous position and that across-the-board restrictions on textile imports are inappropriate.

Another major reason that I believe we must oppose enactment of new trade restrictions relates to the need to work against domestic inflation. Imports play a vital role in working against inflationary pressures. In recent times, this has been demonstrated in at least two commodity areas: steel and textiles. Both the domestic steel and textile industries have, for the past 2 years, been producing at virtually full capacity. And in both industries, demand has oustripped domestic supply. This has been particularly true in the last year because of the great pressures generated by the Vietnam buildup. Steel for war material and tex-

tiles simply for military clothing have added notably to civilian demand.

This is a classic inflationary picture. And, in fact, some inflation has resulted. But the availability of imports in steel and textiles has kept price levels from spiralling sky high.

The steel and textile industries are now pointing with great alarm at the most recent trade statistics, which show import increases in both commodities. But they fail to explain the true meaning of these statistics. They cannot demonstrate that these imports displaced any domestic production, or that these imports cost any American worker his job.

These imports simply met demand which would not otherwise have been filled. If restrictive quotas had barred these imports, prices for the domestic products would have risen in the key steel and textile commodities. And the crucial cost-of-living index would also rise, bringing automatic wage increases in a vast number of industries. We would move further up the spiral of wage-price inflation. And so, once again, a few specific industries might profit by import restrictions—but at the expense of the national well-being as a whole, and at the expense of the American consumer—the housewife trying to clothe her children, the head of the house who buys a new car.

A final reason why protectionism must be opposed is more intangible, but no less important. Since World War II, the economies of the United States and the other industrial countries of the world have dramatically expanded. In the United States alone our GNP has expanded from $100 billion in 1940 to $760 billion last year. These are many factors which explain this superb growth. But one of the most important factors was psychological. It was the expectation of growth.

Every businessman knows the importance of this psychological factor. Whether it is called confidence in the soundness of the economy, or anticipation of future profits, it amounts to expectation that past trends of growth will be followed by more of the same.

I believe that enactment of the protectionist legislation now pending before the Senate would seriously undermine the expectation of future worldwide economic growth. An economy dominated by restrictive quotas is, I believe, essentially a static economy. The quotas are a formal government-imposed declaration that, regardless of economic competitiveness, certain producers will be guaranteed certain shares of the national market. Just as wage controls or government-condoned cartel arrangements are directly contrary to the basic strength of our free enterprise economy, I believe that restrictive import quotas are artificial, inefficient, and inappropriate instruments of economic policy.

Retaliation from other countries would follow, not only because of a tit-for-tat governmental policy, but also because imposition of quotas by the world's largest exporter, the world's most powerful economy, would promote a worldwide conviction that competitiveness was no longer the key to world trade. A new, static attitute would result. World markets would be arbitrarily carved up into quota areas, and all the world would be the loser.

These are the reasons why I oppose adoption of this amendment, and why I oppose protectionism in general. The harm which would result to the Nation would be greater than any possible benefits which we might confer on a specific industry.

My own State has a particularly strong need for preservation and expansion of our foreign trade, and this need is an additional compelling reason why I oppose action which would curtail that trade.

Last year some 27 million tons of foreign trade—both imports and exports—came through the Port of Baltimore. More than 125,000 people in this city hold jobs directly related to the port's activities. Their payrolls alone amount to over $400 million. But even these figures fail to account for the massive indirect economic effects of the port's activities. The port authority estimates that last year's shipments contributed a total of about $1.9 billion to the economy of Baltimore city and county.

Baltimore's stake in continued expansion of foreign trade is thus clear. The interest of my State of Maryland is clear. The national interest is clear.

For all these reasons, I must oppose enactment of this amendment.

Mr. SPONG. Mr. President, I have been disturbed by the impact of foreign imports on our domestic textile industry for some time. In 1966, textile imports totalled about 2.8 billion square yards—an increase of 300 percent over the 1961 import total of 926 million yards. While imports were growing 300 percent during this period, our domestic production grew only by one-third.

In 1947 the United States was the largest exporter of textiles in the world; now we are the world's greatest importer of textiles. Our textile trade surplus in 1947 was over $1 billion; by 1958 we had a deficit of $165 million; and in 1966 we had a deficit of over $900 million with textile imports of approximately $1.5 billion and exports of approximately $550 million.

The capacity of the nations exporting textiles is growing and the disparity in wages between the United States and lower wage nations makes it hard for the American textile industry to compete with the major foreign exporters.

Also a large part of the textiles imported into our country are subsidized in one manner or another in order to earn dollars. It is also true that there are approximately fifty countries in the world which limit or prohibit imports of textiles from the United States.

A thriving textile industry is vital to the well-being of our Nation. The primary textile industry employs about 900,000 persons, and millions more are employed in activities supplying the industry with fibers, machinery, and chemicals.

In my own State of Virginia in 1966 there were 95,600 people employed in the textile, apparel, and manmade fiber industries. This was 28.3 percent of the total manufacturing employment in the Commonwealth for that year. The textile payroll in Virginia in 1966 was about $200 million and apparel manufacturing added over $100 million in payroll income.

Not only are the textile and related industries important to our economy as a whole, but they produce vital jobs where they are most scarce. In Virginia, the 21 counties in Appalachia have total manufacturing employment of 21,489, and textile and apparel employment of 11,963 or approximately 55 percent of the total manufacturing jobs in the area.

In many areas of the Commonwealth the textile, apparel, and related industries make up a significant part of the local economy. This is especially true in Martinsville, Danville, and certain counties in southside Virginia and in the valley of Virginia.

Because of the growing impact of foreign textile imports and the importance of the industry to our Nation, I joined with the junior Senator from South Carolina [Mr. HOLLINGS] and other Senators in introducing legislation that would allow the United States to deal with the serious problem of textile imports.

The amendment offered today by the junior Senator from South Carolina [Mr. HOLLINGS] is substantially the same as the above bill, and is designed to put the President in a position of strength from which he can seek agreements which will put the trade of textile articles on an orderly basis.

The amendment is drafted in a way to provide the greatest flexibility and encouragement to the President in seeking agreements on the regulation of the textile trade. For example, the quota provisions of the bill would not be established until 180 days after it becomes law and then only if agreements have not been obtained. Also the authority of the President to seek agreements would not end when the quota provisions come into effect. Also if agreements are subsequently arrived at their terms can be established in lieu of the existing quotas.

The major provisions of this amendment are as follows:

First. Limits would be applied to the importation of textile articles whether made of natural fiber, manmade fibers, or a combination or blend of natural or manmade fibers. This includes apparel, as well as household furnishings.

Second. The amount of imports of any of the above items for any year would not exceed the average quantity of imports of such items during the base period of 1961–66.

Third. Beginning January 1, 1969, the import quota for any textile article would be adjusted in any year by an amount corresponding to the increase or decrease—if more than 5 percent—in the total U.S. consumption during the preceding year as compared to average consumption during the 1961–66 base period.

Fourth. The amount of increase for any textile product during any quarter could not exceed the percentage share which total textile imports accounted for during the same quarter of the calendar year 1966. This is to prevent seasonal flooding of the market.

Fifth. Quotas by county and category of product would be established under this legislation as under the Long Term Cotton Textile Arrangement. This would prevent the undue concentration of imports in any category.

Sixth. The calculation of domestic consumption, import quotas, categories of products and other determinations would be made by the Secretary of Commerce and certified by him to the Secretary of the Treasury. This same procedure applies under the Long Term Cotton Textile Arrangement.

Seventh. Any agreement entered into by the United States with another country can by action of the President supersede the quantitative limits imposed by this bill.

This strengthens the hand of the President in negotiations in this vital area for this legislation will encourage foreign importers to come to the negotiating table.

Eighth. The amount of textile imports, which may be entered during the balance of the year in which the bill becomes effective, would be a proportionate amount of a full year's quota.

It is important to our national defense and our economy that we have a flourishing, competitive textile industry. We need the products and the jobs provided by this industry and I believe that Congress should act to help assure that the industry does not suffer because of cheap foreign imports.

At the same time, this Nation has an obligation to expand trade and assist developing nations. It realizes the growth of U.S. markets, including textile markets, should be shared with our friends abroad. But the growth of U.S. textile markets, developed by the domestic industry, must not be appropriated by low-wage imports. Neither must present capacity and employment be displaced by imports.

We seek orderly trade in textile products, not protection. We desire a balance between a reasonable volume of textile imports and a strong, expanding domestic industry. To obtain these ends I support this amendment.

Mr. HART. Mr. President, for myself and the Senator from Illinois [Mr. PERCY], I move to table the amendment of the Senator from South Carolina.

Mr. ERVIN. Mr. President, I ask for the yeas and nays on the motion to table.

The yeas and nays were ordered.

The PRESIDING OFFICER. The question is on agreeing to the motion to table the amendment of the Senator from South Carolina [Mr. HOLLINGS].

Mr. PERCY. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. PERCY. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the motion to table the amendment of the Senator from South Carolina [Mr. HOLLINGS]. On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. LONG of Louisiana (when his name was called). On this vote I have a pair with the Senator from New York [Mr. JAVITS]. If he were present and voting, he would vote "yea." If I were at liberty to vote, I would vote "nay." I withhold my vote.

Mr. SMATHERS (when his name was called). On this vote I have a pair with the Senator from Rhode Island [Mr. PASTORE]. If he were present and voting, he would vote "nay." If I were at liberty to vote, I would vote "yea." I withhold my vote.

The rollcall was concluded.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG] is absent on official business.

I also announce that the Senator from Arizona [Mr. HAYDEN], the Senator from New York [Mr. KENNEDY], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], and the Senator from Texas [Mr. YARBOROUGH] are necessarily absent.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY] and the Senator from Rhode Island [Mr. PELL] would each vote "nay."

Mr. KUCHEL. I announce that the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] are necessarily absent.

If present and voting, the Senator from Wyoming [Mr. HANSEN] would vote "nay."

The pair of the Senator from New York [Mr. JAVITS] has been previously announced.

The result was announced—yeas 35, nays 54, as follows:

[No. 80 Leg.]

YEAS—35

Aiken	Harris	Monroney
Bartlett	Hart	Morse
Boggs	Hatfield	Morton
Brewster	Hickenlooper	Mundt
Carlson	Inouye	Murphy
Case	Jackson	Pearson
Cooper	Kuchel	Percy
Dirksen	Lausche	Proxmire
Fong	Mansfield	Tydings
Fulbright	Metcalf	Williams, Del.
Griffin	Miller	Young, Ohio
Gruening	Mondale	

NAYS—54

Allott	Ellender	Moss
Anderson	Ervin	Muskie
Baker	Fannin	Nelson
Bayh	Gore	Prouty
Bennett	Hartke	Randolph
Bible	Hill	Ribicoff
Brooke	Holland	Russell
Burdick	Hollings	Scott
Byrd, Va.	Hruska	Smith
Byrd, W. Va.	Jordan, N.C.	Sparkman
Cannon	Jordan, Idaho	Spong
Church	Kennedy, Mass.	Stennis
Clark	Magnuson	Symington
Cotton	McClellan	Talmadge
Curtis	McGee	Thurmond
Dodd	McGovern	Tower
Dominick	McIntyre	Williams, N.J.
Eastland	Montoya	Young, N. Dak.

PRESENT AND GIVING LIVE PAIRS, AS PREVIOUSLY RECORDED—2

Mr. Long of Louisiana, against.
Mr. Smathers, for.

NOT VOTING—9

Hansen	Kennedy, N.Y.	Pastore
Hayden	Long, Mo.	Pell
Javits	McCarthy	Yarborough

So the motion to lay on the table was rejected.

The PRESIDING OFFICER. The question now recurs on agreeing to the amendment. On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. SMATHERS (when his name was called). On this vote I have a pair with the distinguished Senator from Rhode Island [Mr. PASTORE]. If he were present, he would vote "yea." If I were permitted to vote, I would vote "nay." I therefore withhold my vote.

Mr. WILLIAMS of New Jersey (when his name was called). On this vote, I have a pair with the distinguished Senator from New York [Mr. JAVITS]. If he were present, he would vote "nay." If I were permitted to vote, I would vote "yea." I therefore withhold my vote.

Mr. HARRIS (when his name was called). On this vote I have a pair with the distinguished Senator from Rhode Island [Mr. PELL]. If he were present, he would vote "yea." If I were permitted to vote, I would vote "nay." I therefore withhold my vote.

Mr. KENNEDY of Massachusetts (when his name was called). On this vote I have a pair with the distinguished Senator from Arizona [Mr. HAYDEN]. If he were present he would vote "yea." If I were permitted to vote, I would vote "nay." I therefore withhold my vote.

The assistant legislative clerk resumed and concluded the call of the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG] and the Senator from Oregon [Mr. MORSE] are absent on official business.

I also announce that the Senator from Arizona [Mr. HAYDEN], the Senator from New York [Mr. KENNEDY], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], and the Senator from Texas [Mr. YARBOROUGH] are necessarily absent.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY] and the Senator from Oregon [Mr. MORSE] would each vote "nay."

Mr. KUCHEL. I announce that the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] are necessarily absent.

If present and voting, the Senator from Wyoming [Mr. HANSEN] would vote "yea."

The pair of the Senator from New York [Mr. JAVITS] has been previously announced.

The result was announced—yeas 55, nays 31, as follows:

[No. 81 Leg.]

YEAS—55

Allott	Brooke	Church
Anderson	Burdick	Clark
Baker	Byrd, Va.	Cotton
Bayh	Byrd, W. Va.	Curtis
Bennett	Cannon	Dodd
Bible	Carlson	Dominick

Eastland	McGee	Russell
Ellender	McGovern	Scott
Ervin	McIntyre	Smith
Fannin	Montoya	Sparkman
Hartke	Moss	Spong
Hill	Mundt	Stennis
Holland	Murphy	Symington
Hollings	Muskie	Talmadge
Hruska	Nelson	Thurmond
Jordan, N.C.	Pearson	Tower
Jordan, Idaho	Prouty	Young, N. Dak.
Long, La.	Randolph	
McClellan	Ribicoff	

NAYS—31

Aiken	Gruening	Miller
Bartlett	Hart	Mondale
Boggs	Hatfield	Monroney
Brewster	Hickenlooper	Morton
Case	Inouye	Percy
Cooper	Jackson	Proxmire
Dirksen	Kuchel	Tydings
Fong	Lausche	Williams, Del.
Fulbright	Magnuson	Young, Ohio
Gore	Mansfield	
Griffin	Metcalf	

PRESENT AND GIVING LIVE PAIRS, AS PREVIOUSLY RECORDED—4

Harris, against.
Kennedy of Massachusetts, against.
Smathers, against.
Williams of New Jersey, for.

NOT VOTING—10

Hansen	Long, Mo.	Pell
Hayden	McCarthy	Yarborough
Javits	Morse	
Kennedy, N.Y.	Pastore	

So Mr. HOLLINGS' amendment was agreed to.

Mr. HOLLINGS. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. HOLLAND. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. HOLLINGS. Mr. President, I now offer the amendment to the bill itself.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. HOLLINGS. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered, and, without objection, the amendment will be printed in the RECORD.

The amendment, ordered to be printed in the RECORD, is as follows:

At the appropriate place in the bill to insert the following:

"The total quantity of textile articles (whether made of natural or manmade fibers, or any combination or blends thereof, but not including natural fiber in its unprocessed states such as raw cotton, raw wool, raw silk, or raw jute and not including any articles now entitled or hereafter made entitled to entry free of duty), including manmade staple fiber, filaments, and filament yarn, wool tops, and spun yarn, fabric, apparel, household furnishings, and other finished textile articles of natural or manmade fibers or combinations or blends thereof, which may be entered, or withdrawn from warehouse, for consumption during any calendar year shall not exceed the average annual quantity of such articles entered, or withdrawn from warehouse, for consumption during the six calendar years 1961–1966: *Provided,* That commencing with the calendar year beginning January 1, 1969, the total quantity of textile articles which may be entered or withdrawn from warehouse, for consumption for each ensuing calendar year shall be increased or decreased by an amount proportionate to the increase or decrease (if more than 5 per centum) in the total United States consumption of such textile articles during the preceding calendar year in comparison with the average annual consumption for the six-year period 1961–1966 as determined by the Secretary of Commerce: *Provided further,* That the portion of any increase in the quantity of any such textile article which may be entered, or withdrawn from warehouse, for consumption during any quarter of the calendar year shall not exceed the proportionate per centum share which the total quantity of imports of textile articles accounted for during the like period of the calendar year ended December 31, 1966. The quantities of any textile article which may be entered, or withdrawn from warehouse, for consumption during the balance of the calendar year in which this Act becomes effective shall be equal to that proportionate per centum share of the average annual imports of such article for the years 1961–1966 which the number of days remaining in the calendar year bears to the full year. The Secretary of Commerce shall determine and allocate the allowable quantities of textile articles which may be entered, or withdrawn from warehouse, for consumption among supplying countries by category of product on the basis of the shares such countries supplied by category of product to the United States market during a representative period, except that due account may be given to special factors which have affected or may affect the trade in any category of such articles. The Secretary of Commerce shall certify such allocations to the Secretary of the Treasury. Notwithstanding the foregoing, in the case of textile articles originating in any country which has entered, or hereafter enters, into an agreement with the United States governing the amount of textile articles which may be imported into the United States from such country, the President by proclamation may increase, decrease, or otherwise limit the quantity of textile articles from such country which may be entered, or withdrawn from warehouse, for consumption in conformance with such agreement. All determinations by the President and the Secretary of Commerce under this section shall be final. This section shall become effective one hundred and eighty days after enactment of this Act."

Mr. LONG of Louisiana. Mr. President, I think the Senate has expressed its judgment on the amendment. I would assume that the Senate is prepared to put the amendment on the substitute and to add it to the bill. Therefore, I am willing to accept it.

Mr. WILLIAMS of Delaware. Mr. President, I have to check further in connection with this matter. I ask that the Senator withhold that request temporarily.

Mr. LONG of Louisiana. The Senator can vote on it, if he wishes to.

Mr. WILLIAMS of Delaware. I am not sure. I want to check.

Mr. LONG of Louisiana. It seems to me that the Senate has voted on the merits of the amendment. If the Senate is willing to put the amendment on the substitute, it would be willing to put it on the bill.

Mr. WILLIAMS of Delaware. Yes, I understand. But temporarily, Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection it is so ordered.

The question is on agreeing to the request of the Senator from Louisiana that the Senate agree to the amendment of the Senator from South Carolina to the bill itself. [Putting the question.]

The amendment was agreed to.

Mr. HOLLINGS. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. HOLLAND. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. MORSE subsequently said: Mr. President, this afternoon, when the Hollings amendment was before the Senate for a vote, I missed it because I had been called to the executive branch for a conference in regard to a very important Oregon project problem on which I have been working for some time.

But now, I should like to ask unanimous consent to have printed in the RECORD immediately following the vote on the Hollings amendment, certain telegrams which I have received pertaining thereto.

There being no objection, the telegrams were ordered to be printed in the RECORD, as follows:

WASHINGTON, D.C.

Senator WAYNE MORSE,
Washington, D.C.:

We understand that Senator Hollings will offer textile quota amendment to excise tax bill later today or tomorrow. We believe this action should be avoided and urge you to oppose Hollings amendment. U.S. Tariff Commission, in recent report, in effect found textile imports were not injuring the domestic industry. Additional import restrictions could seriously impair our ability to export farm commodities and undoubtedly would lead to retaliatory action by major importing nations. In view of these facts, we strongly urge committee consideration of this most important matter before any decision made on floor action.

Mearl Gifford, Great Plains Wheat, Inc.; Cole Carpenter, Mid-Continent Farmers Association; Glen Hofer, National Association of Wheat Growers; Kenneth Naden, National Council of Farmer Cooperatives; Oren Lee Staley, National Farmers Organization; Tony Dechant, National Farmers Union; Herschel Newsom, National Grange; Glen Pogeler, Soybeans Council of America; A. F. Troyer, Soybean Growers of America; John Palmer, Tobacco Association, Inc.; Clarence Palmby, U.S. Feed Grange Council.

WASHINGTON, D.C.,
March 27, 1968.

Senator WAYNE MORSE,
U.S. Senate,
Washington, D.C.

We strongly urge you to vote to table Senator Hollings' textile quota amendment to excise tax bill. Amendment will be voted on one hour after morning hour today, Wednesday. (1) Amendment would undermine U.S. efforts now at crucial stage to secure agreement with other countries on accelerating Kennedy round tariff reductions to increase U.S. exports and on establishing new measures to maintain international monetary system. (2) Textile industry does not need protection from imports. January 1968 Tariff Commission report indicated that profits, employment and hourly wages in textile industry are all increasing. (3) No Senate or House hearings have been held on textile

quota amendment. (4) Approval of textile quotas would trigger wave of protectionism throughout world.

Package of additional information being delivered to your office this morning.

PHILIP A. HART,
JACOB K. JAVITS,
JOSEPH D. TYDINGS,
CHARLES H. PERCY.

AMERICAN IMPORTERS ASSOCIATION,
Washington, D.C., March 26, 1968.

Senator WAYNE MORSE,
Washington, D.C.

We understand Senator Hollings will offer textile quota amendment to excise tax bill later today or tomorrow. We believe precipitous action should be avoided and urge you to oppose Hollings amendment. United States Tariff Commission in detailed and factual report in effect found imports were not injuring the domestic industry. According to Textile World the textile industry can expect a six percent growth this year. In view of these facts we strongly urge committee consideration of this most important matter before any decision made on floor action. This is especially delicate in view negotiations with trading partners concerning financial and economic crisis.

BERNARD HOHENBERG,
Chairman, Textile and Apparel Group.

UNITED STATES-JAPAN TRADE COUNCIL,
Washington, D.C., March 27, 1968.

Senator WAYNE MORSE,
U.S. Senate,
Washington, D.C.:

700 members of U.S.-Japan Trade Council urge you to vote nay on Hollings' rider to H.R. 15414, Tax Adjustment Act 1968.

1. U.S. Tariff Commission report in January 1968 emphasized basic health and expected continued strength of U.S. domestic textile industry, including woolens and synthetics. Therefore rider too broad for alleged injuries.

2. Textile and the apparel industry need woolen and synthetic imports since demand not being met by domestic producers.

3. If rider becomes law, will require inflexible costly bureaucratic structure to administer quota.

4. Such restrictive action can only lead to retaliation from abroad on wide variety of U.S. exports essential to improving U.S. balance of payments.

NELSON A. STITT, *Director.*

AMERICAN TEXTILE MANUFACTURERS INSTITUTE,
Washington, D.C., March 27, 1968.

Senator WAYNE MORSE,
Senate Office Building,
Washington, D.C.:

Understand the Hollings textile amendment to the excise tax bill will be voted upon early Wednesday. The 2¼ million people employed in textile and apparel manufacturing, plus other tens of thousands employed in related industries and services, have a huge stake in checking the relentless upward trend in textile article imports produced in low-wage countries under working conditions that would be intolerable here. Imports have already displaced almost 200,000 jobs and the January import level broke all previous records. The Hollings proposal is eminently fair and reasonable both to the domestic industry and foreign exporters. Your vote and continued support is vital to success.

Respectfully,

FREDERICK B. DENT,
President.

IBM WORLD TRADE CORP.,
New York, N.Y., March 27, 1968.

Senator WAYNE MORSE,
U.S. Senate,
Washington, D.C.:

As chairman of the Emergency Committee for American Trade, representing 50 leading United States corporations, I am disturbed by reports that Senator Hollings will propose a rider to excise tax legislation which will impose quotas on imports of textiles. Such legislation would be directly in conflict with United States national interest. It would bring forth counter measures from abroad that would damage our exports and balance of trade at a time when increased export earnings are vital. Enactment of such legislation when other countries are considering advancing their Kennedy round tariff cuts to aid our balance of payments would insure that such cooperation would not be forthcoming. We hope you will vigorously oppose Senator Hollings' proposal.

ARTHUR K. WATSON,
Chairman.

Mr. MORSE. Mr. President, I voted to lay the Hollings amendment on the table—which motion lost—although I was a cosponsor of the Hollings bill. Had I been here, I would have voted against the amendment, not because I did not think there should not be hearings on it, but because I thought there should be hearings on it.

The Senate knows that I am stickler for parliamentary procedure. I think that the amendment would have been greatly strengthened, so far as the legislative record is concerned, if we had taken it through the process of hearings. No hearings were held on the amendment. I cosponsored the bill offered as an amendment with the expectation that those who favored and opposed it would be given their day in legislative court, so to speak, to make their case pro and con.

It is rarely wise to follow the parliamentary course of action which was followed this afternoon in consideration of the amendment because, for all practical purposes it was, in the form as it was presented, a legislative rider.

I think it should have stood on its own footing after a hearing.

That is the position I would have taken. I think that the telegrams I have had printed in the RECORD bear support of the position I took on the amendment.

Mr. McGOVERN. Mr. President, I have an amendment in the nature of a substitute, which I send to the desk and ask the clerk to state.

The PRESIDING OFFICER (Mr. HOLLAND in the chair). The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. McGOVERN. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with; and I ask unanimous consent that the amendment be considered en bloc.

The PRESIDING OFFICER. Without objection, it is so ordered; and, without objection, the amendment will be printed in the RECORD.

The amendment, ordered to be printed in the RECORD, is as follows:

Strike all beginning at line 4 on page 1 through line 12 on page 8, and all beginning with line 5 on page 27 through line 2 on page 35, and insert the following:

"TEMPORARY TAX ON CORPORATIONS.—Part II of subchapter A of the Internal Revenue Code of 1954 (relating to tax on corporations) is amended by adding at the end thereof the following new section:

"'SEC. 13. TEMPORARY DEFENSE EMERGENCY TAX

"'(a) IMPOSITION OF TAX.—In addition to other taxes imposed by this subtitle, there is hereby imposed a defense emergency tax on the taxable income of every corporation for each taxable year ending after December 31, 1967, and beginning before the termination of the defense emergency period (as defined in subsection (c)). The tax shall be an amount equal to the amount of the surcharge for the taxable year, as computed under subsection (f).

"'(b) EXCEPTIONS.—

"'(1) FOREIGN CORPORATIONS.—Subsection (a) shall not apply to a corporation subject to the tax imposed by section 881(a) (relating to foreign corporations not engaged in business in the United States).

"'(2) NEW CORPORATIONS.—The surcharge imposed under subsection (a) shall not apply in the case of a taxpayer which was not in existence before January 1, 1968. If the taxpayer was not in existence on December 31, 1967, but after such date acquires assets from another corporation in a transaction in which gain or loss is not recognized by reason of the provisions of subchapter C, and such other corporation was in existence before January 1, 1968, subsection (a), notwithstanding the preceding sentence, shall apply to the taxpayer for the taxable year in which such transaction occurs and subsequent taxable years but only if the taxpayer receives a surcharge exemption, pursuant to regulations promulgated under subsection (g)(2), on account of the receipt of such assets.

"'(c) DEFINITIONS.—

"'(1) DEFENSE EMERGENCY PERIOD.—For purposes of this section the term "defense emergency period" means the period beginning January 1, 1968, and ending when the President of the United States by Executive order may designate the end of such defense emergency period for the purposes of this section.

"'(2) BASE PERIOD.—For purposes of this section the term "base period" means the period beginning January 1, 1961, and ending December 31, 1964.

"'(3) TAXABLE INCOME.—The definition of taxable income in section 63(a) is applicable for the purposes of this section except that—

"'(A) in the case of a life insurance company, the term "taxable income" as defined in section 802(b);

"'(B) in the case of an insurance company subject to the tax imposed by section 821, such term means the mutual insurance company taxable income as defined in section 821(b);

"'(C) in the case of an insurance company subject to the tax imposed by section 831, such term means the taxable income as defined in section 832; and

"'(D) in the case of a regulated investment company subject to the tax imposed by section 852, such term means the investment company taxable income as defined in section 852(b)(2).

"'(d) TAXABLE YEARS BEGINNING BEFORE DEFENSE EMERGENCY PERIOD AND ENDING WITHIN SUCH PERIOD.—In the case of a taxable year beginning before January 1, 1968, and ending after December 31, 1967, the tax imposed by subsection (a) shall be an amount equal to that portion of a tentative tax, determined under subsection (a), which the number of days in such taxable year after December 31, 1967, bears to the total number of days in such taxable year.

"'(e) TAXABLE YEARS BEGINNING WITHIN DEFENSE EMERGENCY PERIOD AND ENDING AFTER THE CLOSE OF SUCH PERIOD.—In the case of a taxable year beginning within the defense emergency period and ending after the close of such period the tax imposed by subsection (a) shall be an amount equal to that portion of a tentative tax, determined under subsection (a), which the number of days in such taxable year within the defense emergency period bears to the total number of days in such taxable year.

"'(f) SURCHARGE.—

"'(1) IN GENERAL.—The surcharge referred to in subsection (a)(2) is equal to 85 percent of the amount by which the taxable income for the taxable year exceeds the surcharge exemption computed under subsection (g).

"'(2) SHORT TAXABLE YEAR.—If the taxable year is a period of less than 12 months the taxable income for such taxable year (referred to in this paragraph as the short period) shall, for purposes of paragraph (1), be placed on an annual basis by multiplying such income by 12 and dividing the result by the number of months in the short period. The surcharge computed under paragraph (1) shall be such part of the surcharge computed on such annual basis as the number of months in the short period is of 12 months. The provisions of section 443(b) shall not apply with respect to the tax imposed by this section.

"'(g) SURCHARGE EXEMPTION.—

"'(1) GENERAL RULE.—For purposes of this section the surcharge exemption shall be determined as follows:

"'(A) By computing the taxable income for each month during the base period during which the taxpayer was in existence. The taxable income for any month shall be the taxable income for the taxable year in which month falls divided by the number of full calendar months in such year, but in no case shall the taxable income for any month be less than zero. The taxable income shall be computed without regard to any deduction allowed by reason of the carryback or carryover of any loss.

"'(B) By computing the aggregate of the taxable income for the months in the base period during which the taxpayer was in existence and by dividing such aggregate by the number of such months.

"'(C) By multiplying the quotient obtained in subparagraph (B) by 12. The resulting figure is the surcharge exemption.

"'(D) In no case shall the surcharge exemption be less than a rate of return of 6 per centum of the invested capital.

"'(2) ADJUSTMENTS IN CERTAIN CASES.—The Secretary or his delegate shall prescribe such regulations as he may deem necessary to provide for adjustments to the surcharge exemption in those cases where a substantial amount of assets was transferred during or after the base period from one corporation to another corporation in a transaction in which gain or loss was not recognized by reason of the provisions of subchapter C, in order that the surcharge exemption is properly increased or decreased, as the case may be, to reflect the income earned (during the base period) by some assets prior to such transaction.

"'(h) TAX TREATED AS IMPOSED BY SECTION 11, ETC.—If for the taxable year of a corporation a tax is imposed by section 11 on the taxable income of such corporation, the additional tax imposed by this section shall be treated for purposes of this title (other than section 1201(a)) as a tax imposed by section 11. If for the taxable year of a corporation a tax is imposed on the taxable income of such corporation which is computed under any other section by reference to section 11, the additional tax imposed by this section shall be treated for purposes of this title (other than section 1201(a)) as imposed by such other section.'

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to taxable years ending after December 31, 1967."

Mr. WILLIAMS of Delaware. Mr. President, reserving the right of object to the amendment, was the amendment printed?

Mr. McGOVERN. The amendment has not been printed.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator withhold his request until I have a chance to look over the amendment?

Mr. McGOVERN. Mr. President, I can give a simple explanation of the amendment.

Mr. SMATHERS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. SMATHERS. Mr. President, is this an amendment to the substitute, the so-called Williams-Smathers amendment?

Mr. McGOVERN. Yes. It is a proposed replacement. It is a substitute.

Mr. SMATHERS. I thank the Senator.

Mr. McGOVERN. Mr. President, the amendment I am offering along with the senior Senator from Idaho [Mr. CHURCH] is in the nature of a substitute for the pending surtax and expenditure control proposal—the so-called Smathers-Williams amendment. It is a national defense emergency tax measure. It would have the effect of placing an 85-percent surcharge on that portion of corporate profits which exceed the 4-year average profits of a corporation for the period from 1961 through 1964, the period just prior to the time when we sent combat troops to Vietnam.

The proposal is substantially the old World War II excess profits tax. It is patterned after that proposal. We had the same sort of tax again in the Korean conflict, a tax which permitteed corporations a reasonable increase in profits but which recovered, to fund the war effort, that portion of their profits which could be considered in excess of a peacetime level.

The proposed excess profits tax would become effective on profits earned beginning with January 1, 1968, and would continue until the President, by Executive order, declared termination of the defense emergency for the purpose of the surcharge that would be imposed in this amendment.

It seems to me, in all fairness, that no one should be allowed to profit unreasonably from war when the young men of our country who enlist or who are drafted are required to serve in the Armed Forces at inconsequential pay and, while doing so, risk their lives and limbs, as well as their careers, in the service of their country. A great many of these young men will sacrifice their health for the rest of their lives. Some will carry for life the scars of wounds on their bodies, and others will lose life itself.

Therefore, I think, in all justice, we cannot require that kind of sacrifice from some of our citizens while others are permitted to make swollen profits from the war effort.

Let me say in passing that the prices and income of our farmers all across the country have actually been reduced during the past 3 years, while we have been increasing our commitment in Vietnam. Farm prices today are even down from the level of prices in the period in the late 1940's.

The amendment I have introduced has been prepared by staff experts in our internal revenue laws and carries the necessary provision for imposition of a tax on portions of fiscal years of corporations that might occur after December 31, 1967, and also makes provision for exemption of the tax on that portion of the reporting year which occurs after the termination of the emergency.

The March 1968 issue of Economic Indicators, just published, shows that in the 4-year period from 1961 until the end of 1964, corporation profits before taxes averaged slightly under $58 billion a year, and that after taxes they averaged $31.7 billion per year.

The profit figures have skyrocketed since escalation of the war in Vietnam.

Beginning in early 1965, average corporate profits before taxes, in 1965, 1966, and 1967, averaged $80 billion annually, in contrast to the $58 billion average for the base period. Even after taxes, corporations were drawing $47.3 billion in net profits. In other words, profits before taxes are up $22 billion over the base period on which this proposal rests. They are up $15.6 billion after taxes, indicating that the corporations are deriving an additional $15.6 billion in profits after taxes from the upsurge in business which has occurred since the escalation of the war in Vietnam.

Of that $22 billion increase, only $6.4 billion is now being recovered under our present tax laws.

My amendment is intended to impose a surcharge of 85 percent on the increased profits after taxes which the corporations have collected since the war in Vietnam was escalated. Corporations would not pay higher taxes on their prewar level of income.

The amendment would also allow corporations to keep 15 percent of the annual increase in profits since the base period, on the assumption that there would have been some normal growth in business profits, and that 15 percent is an equitable allowance for such normal growth.

The surcharge is not applicable below 6-percent earnings in any case on invested capital.

Mr. WILLIAMS of Delaware. Mr. President, I have no objection if the Senator from South Dakota wishes to have his amendments considered en bloc.

Mr. McGOVERN. I appreciate the Senator's consideration.

Mr. SMATHERS. Mr. President, will the Senator from South Dakota yield?

Mr. McGOVERN. I yield.

Mr. SMATHERS. I should like to ask the Senator if what he has asked to be stricken would eliminate the expenditure control feature of the Smathers-Williams amendment?

Mr. McGOVERN. Yes. It would eliminate the whole package, both the surtax and expenditure reduction.

Mr. SMATHERS. In other words, in place of the amendment sponsored by the Senator from Delaware [Mr. WILLIAMS] and me—which proposes a 10-percent income tax surtax and an expenditure control provision which would require a reduction in budget requests for the fiscal year 1969 of $6 billion—the Senator would substitute the proposal on which the Senator has just spoken.

Mr. McGOVERN. The Senator is correct.

Mr. SMATHERS. Is it correct that under the Senator's proposal, there would be no increase in personal income taxes whatever?

Mr. McGOVERN. That is correct.

Mr. SMATHERS. What the Senator is asking for is the 85-percent excess profits tax he has just described?

Mr. McGOVERN. Yes.

Mr. SMATHERS. Is it a tax only on corporations and nothing else?

Mr. McGOVERN. The Senator is correct.

Mr. SMATHERS. I just want to understand it. I thank the Senator.

Mr. McGOVERN. Mr. President, based on the data in the monthly Economic Indicators to which I referred a while ago, the measure could increase revenue by an estimated $13.3 billion, leaving corporations with $2.3 billion in profits beyond the base period 1961 through 1964.

Joint committee staff believes that a somewhat lower revenue would actually be recovered under the proposal, but that in any event it would bring at least $7.5 billion to $8 billion.

Mr. President, I recognize the vital role which corporate business plays in our national life. I respect the directors, the officers, and the stockholders of those corporations. There is no intent here to punish corporations, nor to imply any lack of public dedication on their part.

The proposed war profits tax is a just proposal to follow the tried and tested experience of a similar tax which served the Nation very well in the Korean war and World War II. The experience we had with those taxes in the two previous conflicts underscores, in my judgment, the soundness and fairness of this approach. For example, in 1944, the excess profits tax recovered over $10 billion in revenue that otherwise would have been placed on the backs of small taxpayers who are far less capable of carrying an additional tax burden than are the corporations that have derived profits from the war contracts and expanded economy.

I have for several years opposed as effectively as I know how our deepening military involvement in the affairs of Vietnam; but we are involved, the war must be financed, and I believe the proposed war profits tax which I have submitted with my distinguished colleague, the Senator from Idaho [Mr. CHURCH], is the fairest and most practical method Congress could consider.

Mr. President, I ask unanimous consent to place in the RECORD data on corporate profits from page 7 of the March 1968 issue of Economic Indicators, showing corporation profits before taxes, tax liability, and profits after taxes, starting in 1959 and running through the year 1967. These are the figures from which the averages I have just quoted have been calculated.

The PRESIDING OFFICER (Mr. LAUSCHE in the chair). Is there objection? The Chair hears none.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

CORPORATE PROFITS

[Billions of dollars; quarterly data at seasonally adjusted annual rates]

Period	Corporate profits before taxes	Corporate tax liability	Corporate profits after taxes
1959	52.1	23.7	28.5
1960	49.7	23.0	26.7
1961	50.3	23.1	27.2
1962	55.4	24.2	31.2
1963	59.4	26.3	33.1
1964	66.8	28.3	38.4
1965	76.6	31.4	45.2
1966	83.8	34.5	49.3
1967	80.8	33.2	47.6
1966—I	83.7	34.5	49.2
II	83.6	34.5	49.2
III	84.0	34.6	49.4
IV	83.9	34.6	49.3
1967—I	79.0	32.5	46.5
II	78.9	32.5	46.5
III	80.0	32.9	47.1
IV	85.4	35.1	50.3

Note: Corporate profits before taxes (seasonally adjusted annual rate) jumped $5,500,000,000 in the 4th quarter, rising to a record $85,500,000,000, according to preliminary estimates. For the year 1967 as a whole, profits before taxes were down $3,000,000,000.

Mr. McGOVERN. Mr. President, I strongly urge the adoption of this substitute amendment.

Mr. CHURCH. Mr. President, I am pleased to join with my distinguished colleague, the Senator from South Dakota [Mr. McGOVERN], in the cosponsorship of this amendment. Since September 1964, I have been speaking out against our war policy in Southeast Asia. So it is extremely difficult for me to now vote in favor of any war tax which is the direct fiscal consequence of that policy. Nevertheless, the costs of the war in Vietnam are skyrocketing. We are faced with a huge deficit. There can be no question that this deficit is exerting great pressure upon the economy, and many are concerned with the possible inflationary consequences if the Congress fails to take action in raising revenues.

Mr. President, the question posed by this amendment has nothing to do with how much additional revenue we ought to raise. As my colleague has already explained, this amendment would raise as much new revenue for the Government as would the levying of a 10-percent additional tax on all taxpayers of the country. The only question raised by the amendment is whether we should look to the taxpayers as a whole for the additional contribution or whether we should look to those corporations that are enjoying excess profits as a direct result of the acceleration of the war.

I think the time has come to squeeze the big profits out of the war in Vietnam, rather than to squeeze more taxes out of the farmer and the wage earner.

The Senate is now considering the President's request for an increase in individual taxes to reduce the huge deficit attributable to war costs.

I would urge, instead, a corporation war profits tax which would bring in at least as much as the sum involved in the President's request, and which would represent far less a sacrifice than that of the young men who are today risking their lives in Vietnam at little pay, suffering the interruption of their education, family, and career plans.

On one recent gigantic profit for the manufacture of M–16 rifles, Colt Industries made a 1,400-percent profit. During World War II, the Government recovered a significant portion of war profits, the war profits tax bringing in over $10 billion in 1944 alone.

In contrast to these corporate profits, Mr. President, American farmers and many businesses are today receiving less income than in peacetime 20 years ago. For the first time in our history, farm prices have gone down rather than up in wartime. So the question is one of doing equity, Mr. President. We have a model of war tax experience gathered from the Second World War. If it was a fair and equitable tax then, it seems to me it is a fair and equitable tax now, for nobody can doubt the reality of the war in Vietnam.

But, as the Senate knows, it will be extremely difficult for the farmers of this country, and for many wage earners, faced with higher living costs, to pay still more taxes to the Government; while, on the other hand, it seems to me that reaching those profits which exceed normal levels, and are attributable to the war is a fair, equitable, and just proposition.

Everyone knows the inequalities that arise from war. Some are called upon to sacrifice very much while others sacrifice very little. But why should we compound these inequities with higher taxes that obviously reach in the wrong direction, that only make it harder for those who are least able to pay?

For this reason, I intend to vote against the proposed 10-percent increase in the income tax. If war taxes are needed to pay for our regrettable adventure into Vietnamese affairs, let us collect those taxes from the interests that are enriched by the war. Perhaps there will be fewer pressures compelling us into ill-advised foreign campaigns of this kind if we can devise a method for taking the profit out of them.

Mr. President, I would appreciate very much if I might ask the cosponsor of this amendment a few questions to make the RECORD clear concerning the proposal.

First of all, is not this proposal similar to the war excess profits tax that we adopted during the Second World War?

Mr. McGOVERN. The Senator is correct. It follows the tax that was used both in World War II and the Korean war, a tax that worked. It permitted a 15-percent increase in profits for a corporation beyond the base period just prior to hostilities. This proposed tax follows the same formula. I think it is fair and just in every possible way to the corporations.

I know the Senator will agree with me that we are not trying to punish any business group or casting any doubts on the integrity or fairness of any business group. We are simply trying to put a fair burden on those who profit more from the war and therefore are in a better position to bear its burdens.

Mr. CHURCH. Is it not true that there is no penalty on corporations involved

in this proposal, inasmuch as the tax would not apply to any corporation that is not earning a fair return upon investment? That is to say, unless a corporation is earning at least 6 percent on its investment, the tax does not apply to the corporation at all?

Mr. McGOVERN. The Senator is correct.

Mr. CHURCH. Moreover, even if a corporation is earning more than 6 percent on its investment, if that profit does not exceed the normal earnings during the base period, it is not affected?

Mr. McGOVERN. That is correct.

Mr. CHURCH. If profits do not exceed those of the base period, the 4 years preceding the escalation of the war in Vietnam, then this tax would not apply?

Mr. McGOVERN. It would have to exceed that level before the tax would come into play; then 15 percent of any increase could be retained.

Mr. CHURCH. So the tax is designed and patterned after the excess war profits tax of the Second World War?

Mr. McGOVERN. Yes.

Mr. CHURCH. To reach those businesses that have profited particularly because of the war, from the expanded activity attributable to the war?

Mr. McGOVERN. The Senator is correct. As he knows, the tax that was used in the two previous conflicts had the strong endorsement of the Treasury Department and the top economic advisers and consultants to the Government, both private economists and fiscal experts within the Government, and the experience, on the whole, would commend that tax to us in this conflict.

Mr. CHURCH. Does the Senator know of any reason why excess profits during the present war in Vietnam ought to be treated differently than excess profits during the previous wars to which he has referred?

Mr. McGOVERN. I see no fundamental difference at all. It is true that this is not a declared, official war. But men are dying. We know the impact that the war cost has had on our fiscal and economic conditions here at home, and in terms of our balance-of-payments position abroad; so the impact of the war has been much the same, and perhaps even more severe in some respects, than it has been in previous conflicts.

I would think the same compelling case that led Congress to adopt this approach in the Korean war and in World War II ought to operate in our thinking today.

Mr. CHURCH. I certainly concur with the Senator. I think that the equities are very strong for this amendment, and I hope that the Senate will give it serious consideration.

I know that profits are regarded as sacrosanct, and that we are more inclined, as we have done thus far, to send hundreds of thousands of men to fight a war, than to undertake to reform our tax structure in such a way as to cause the cost of the war to fall upon those best able to carry it. Yet, this was the reason for the enactment of an excess profits tax in the Second World War. It seems to me to be just as good a reason for an excess profits tax in the present conflict.

I certainly think that the added burden should fall upon those best able to pay, upon the very corporations that have profited most by virtue of the war itself, rather than upon the many individual taxpayers who, like the farmers, are least able to pay, who already are paying a very high tax, and who are now being called upon to pay still more.

Mr. McGOVERN. As the Senator knows, the economic impact of the war on some segments of our economy, far from raising their income, has actually been negative. Agriculture is a perfect example of that. The heating up of the economy has raised the price of every piece of farm machinery, and has raised the prices of all the materials that farm producers use on the land, and yet, as the Senator from Idaho pointed out earlier, farm prices, for the first time in the history of this country, have actually gone down during a time of war.

So to further compound that problem by now placing a surtax on farmers, who have already been penalized by the impact of the war economy, seems to me to be the height of injustice.

Mr. CHURCH. I concur wholeheartedly with the Senator, and I hope the Senate will support us.

Mr. CARLSON. Mr. President, will the Senator yield?

Mr. McGOVERN. The Senator from Idaho has the floor.

Mr. CHURCH. I yield to the Senator from Kansas.

Mr. CARLSON. I have been very much interested in the amendment proposed by the Senator from South Dakota and the Senator from Idaho. I was a Member of Congress when we passed the excess profits taxes in World War II and during the Korean conflict, so therefore I am familiar with them.

It does raise revenue; there can be no question about that. As I understand, however, the administration is asking for a 10-percent surtax, not just for revenue, but to begin to hold down inflationary pressures. Do the distinguished Senator from Idaho and the distinguished Senator from South Dakota believe their amendment would accomplish those purposes?

Mr. SMATHERS. Mr. President, I wonder, before the Senator answers that question, whether I might interrupt to ask the sponsors of the amendment whether they will insist on a rollcall vote.

Mr. McGOVERN. I think we will ask for a rollcall vote.

Mr. SMATHERS. The next question is, would they be amenable to an agreement on a time limitation?

Mr. McGOVERN. We are. We do not need a great deal of time.

Mr. SMATHERS. Mr. President, out of order, if I may, I ask unanimous consent that there be a time limitation with respect to the amendment offered by the distinguished Senator from South Dakota and the distinguished Senator from Idaho of 30 minutes, the time to be equally divided, 15 minutes for the proponents and 15 minutes for the opponents of the amendment.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Who yields time?

Mr. CHURCH. Mr. President, I wonder whether the Senator from Delaware will be good enough to yield to the Senator from Kansas on his time.

Mr. WILLIAMS of Delaware. I yield 3 minutes to the Senator from Kansas.

Mr. CHURCH. I think, in response to the Senator's question, that any tax that raises $8 to $10 billion of additional revenue, diverts that money into the Treasury, and applies it to the costs of the war in Vietnam, is going to help in reducing the inflationary pressures on the economy.

However, I cannot say that the tax we have proposed is better adapted to that purpose than an additional tax on all of the taxpayers of the country.

Mr. CARLSON. The Committee on Finance has had extensive pleas from the administration, the Secretary of the Treasury, and the Bureau of the Budget, urgently pleading with us to do something about inflationary pressures; and this was one suggestion they had to siphon off, so to speak, some of the funds getting into the spending channels, and seek, if possible to strengthen our international monetary position.

I return to the point that the proposal will raise revenue, but I wonder if it will accomplish either of these other purposes.

Mr. McGOVERN. Mr. President, if the Senator from Kansas will yield, I wish to follow up on his point, because I believe it is a legitimate and thoughtful question.

I believe there are two points that can be made about it.

In the first place, by taxing up to approximately $13 billion of corporate profits now flowing back into the economy in the form of dividends to stockholders and in the form of plant expansion and doing other things that have an inflationary impact, we are applying a degree of inflation control. We pull those revenues into the Treasury rather than permitting them to flow out into the economy.

In the second place, I think that to apply a flat surtax across the board makes no distinction between those who are actually in a deflationary situation today, as over against those who have benefited, directly or indirectly, from the impact of the war.

As the Senator from Kansas knows, in most of the rural areas of the country there is a deflationary situation existing. The problem there is not inflation, but what we can do to increase the purchasing power of our rural residents, not only for the farmers, but also for the small businessmen, the shopkeepers, and the working people.

The surtax ignores all of those differentials and applies a flat tax that I think would actually tend to further depress the economy in already deflated parts of the country.

Mr. CARLSON. Mr. President, I thank the distinguished Senator.

Mr. MURPHY. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield.

Mr. MURPHY. I was interested in the Senator's remarks on the "excess war profits." Does the Senator have any particular industries in mind?

Mr. McGOVERN. No, we have not singled out any. The data that I cited indicate that there has been an increase in corporate profits of about $22 billion.

Mr. MURPHY. Is that net or gross?

Mr. McGOVERN. That is profit before taxes. It is also indicated in the data that only about $6 billion of that amount is being recovered under the present tax laws, as contrasted to the formula we had during the Korean war and World War II which resulted in recovering about 85 percent of the increase in corporate profits through taxes.

Neither the Senator from Idaho nor the Senator from South Dakota is trying to punish any corporation or reflect in any way on their integrity. They are doing what we would all do under similar circumstances. We are not attempting to increase taxes on their normal, peacetime level of profits.

While they are entitled to a reasonable profit and even to a reasonable increase in their profits above what they were getting before the escalation of the war, there comes a point when the public interest ought to become paramount and profits in excess of a normal level ought to be recovered.

Mr. MURPHY. Has the Senator examined any relationship between the increase in plant facilities and increase in the productive capabilities as related to the so-called immediate excess profits?

Mr. McGOVERN. No, I have not.

Mr. MURPHY. Having been in business, I know that sometimes for a year or 2 years a corporation has a good year. And I know that the Senator has had experience with farmers. Farmers have a good year and then a bad year.

I have in mind a plant in my State that was most successful during World War II, but that had to be literally bailed out to keep it from closing up about a year ago.

I wonder if all of these considerations have been included.

Mr. McGOVERN. Although we have tried to follow the experience and the guidelines of similar taxes during the Korean war and World War II, I think we would frankly admit that there is no way to devise a wartime excess profits tax that will not produce some difficulty and perhaps inequity.

We have not been able to devise a military draft system that has been completely fair to all young people. Some are called. Some are exempt. Some go to the front. And some have an easy job at home.

There is some injustice in any kind of law that deals with an emergency situation of this kind.

All I can say is that we have tried to take into consideration what would be fair to our business community and to the American people.

Mr. MURPHY. As I understand it, this is a suggestion that machinery be set up to examine the matter and determine as closely as possible an equitable manner for skimming off excess profits.

Mr. McGOVERN. The bill proposed is to skim off excess profits.

Mr. MURPHY. I would hope that the war would be over by the time that would be effected.

Mr. McGOVERN. If we increase the tax, it will go into effect as of January 1, 1968.

Mr. MURPHY. Then, I imagine that the machinery is well oiled. This is the same machinery that was used in the Korean conflict and in World War II?

Mr. McGOVERN. That is essentially correct.

Mr. MURPHY. Were the corporate profits tax the same in World War II as now?

Mr. McGOVERN. I am not certain of that.

Mr. MURPHY. They were 52 percent then.

Mr. McGOVERN. The excess profits tax we are suggesting here is the same as it was then. I cannot answer the remainder of the Senator's question.

Mr. MURPHY. How about the corporate profits?

Mr. McGOVERN. I am advised that the regular tax today is 4 percent lower than it was in World War II.

Mr. MURPHY. I thank the Senator.

Mr. CHURCH. Mr. President, I suggest the absence of a quorum and ask unanimous consent that the time not be charged against either side.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered. The clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. SMATHERS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. SMATHERS. Mr. President, the Senator from South Dakota [Mr. McGOVERN] would like to ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. SMATHERS. I yield myself 5 minutes.

Mr. President, I am very much in sympathy with the motives of the distinguished Senator from South Dakota and the distinguished Senator from Idaho, who have offered the amendment. I know what prompts them and in some ways I share their feelings. However, I do not believe that it would be a very good idea for the U.S. Senate to adopt the amendment at this time on this bill.

In the first place, as I understand their proposal, it is that we should have an 85-percent surtax on the income of a corporation to the extent it exceeds either the average income of the base period of 1961 to 1964 or an amount equal to 6 percent of invested capital, whichever is higher. At the same time, their amendment would not increase the tax that might be applicable to anybody else in the United States—individuals, or those corporations which might be exempt from the excess profits tax.

In some respects, it is unfair. I cannot help thinking that this amendment has not been thought out well enough and that sufficient consideration has not been given to what its effect would be. For example, we have read much in recent years about mergers that have occurred in this country—conglomerate mergers.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. SMATHERS. I yield myself 3 additional minutes.

For example, if a parent company has merged with another company since the base period of 1961–64—which has made it a conglomerate, as we call it today—to use a slang expression, wouldn't it be murdered by the proposed tax program?

A tax of this type, in my judgment, should not be attached to this measure. It may be—I do not deny it for a minute—that we may have to consider such a tax in the future to raise more revenue. But, certainly, this is a type of tax which should be carefully worked out and on which there should be some hearings. We have had hearings on the 10-percent surtax, and the people who feel that it would be a burden on them have had an opportunity to oppose it. But nobody has had an opportunity to look into the proposed excess profits tax to see where its heavy burdens would fall and to see if it is equitable.

In its present form, the proposed amendment is very unfair. It sets a precedent which I do not believe we want to follow in this country—that is, it places the entire burden of a war—the Vietnam war—on one segment of our economy.

I reserve the remainder of my time, Mr. President.

Mr. CHURCH. Mr. President, I have listened with interest to the remarks of the distinguished Senator from Florida. I must say, however, that what we propose is not new or novel or untried. We propose a tax identical to the tax imposed on excess war profits in both the Korean war and the Second World War.

We have lived with this tax before. We know what it is. No reason occurs to me why the arguments for it, which Congress found to exist in the Korean war and in World War II, do not exist now, unless this is a lesser war. Yet, we know that the war is growing each day. This year alone, its cost will reach $32 billion. Certainly, it is no lesser war to the men involved, to the 20,000 Americans already killed, or to the 120,000 wounded, maimed, and injured.

The distinguished Senator from Florida has said that we should not look to one segment of the economy exclusively to pay for this war, but I submit that we are not. Taxes already are exceedingly high on all the people. The question before us is, Shall we raise these taxes higher for all the people, or shall we adopt the course found warranted in the two previous wars and look to those corporations earning excessive wartime profits to pay the added amount required? That is the question.

We found a wartime excess profits tax equitable and proper twice before, and I see no reason whatever why we should not adopt a similar tax now.

Mr. President, for these reasons I hope the Senate will see fit to substitute this excess profits tax in place of the 10-percent increase in income tax for all taxpayers.

I yield the remainder of my time to the distinguished Senator from South Dakota, the cosponsor of the amendment.

Mr. McGOVERN. Mr. President, how much time do we have remaining?

The PRESIDING OFFICER. The Senator has 4 minutes remaining.

Mr. SMATHERS. Mr. President, how much time do we have remaining?

The PRESIDING OFFICER. The Senator has 8 minutes remaining.

Mr. SMATHERS. I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator is recognized for 2 minutes.

Mr. SMATHERS. Mr. President, there is one comment I wish to make with respect to the statement that all people's taxes are higher today. I am sure that the taxes of every person are higher than what they would like to pay. Certainly in those terms my taxes are too high and I am sure that the Senator's taxes are too high. However, the fact of the matter is that Federal taxes have been reduced by some $25 billion since 1962.

Among the industrial nations on the earth today, the taxes borne by the American taxpayer are, relatively speaking, lower than those borne by taxpayers in most other countries. Great Britain, West Germany, Italy, and France have taxes on their people which are a higher proportion of gross national product then U.S. taxes, even though they are not fighting the Vietnam war.

I agree there are some places in our country where people have not done as well as we would like. However, the record shows that total personal income in 1959 was $383.5 billion, $401 billion in 1960, $417 billion in 1961, $443 billion in 1962—then I skip a couple of years—$538 billion in 1965, $584 billion in 1966, and $626 billion in 1967. These figures record the impressive growth of income in this country to the highest levels in the history of this Nation or any other nation.

At the same time the actual taxload has been going down. I am very much in sympathy with those who wish they did not have to pay any more tax at this time I wish we did not have to increase taxes but I realize that we must. I do not believe we should say that because we have a war we are going to impose a very heavy tax on one segment of our country.

It may be that the day is not too distant—but I hope it is in the very distant future—when we will have to have a tax of the character the Senator from South Dakota and the Senator from Idaho are proposing. At that time, however, I suspect we would have to undertake a substantial revision of all of the taxes, and we might even have to resort to wage and price controls.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. SMATHERS. I yield.

Mr. HOLLAND. I wish to ask if my distinguished colleague does not think, considering the fact that always, heretofore, these excess-profits taxes have been coupled with a heavy increase in the personal tax, the Senate and the House of Representatives would be left in a difficult and indefensible position to vote this tax solely on corporations, without consideration of the fact that every Member of the Senate and the House is a substantial income-tax payer?

Mr. SMATHERS. The Senator is absolutely correct, and I completely agree.

Mr. HOLLAND. I thank the Senator.

Mr. SMATHERS. Mr. President, I yield 3 minutes to the Senator from Delaware.

Mr. WILLIAMS of Delaware. Mr. President, I hope the pending amendment is rejected for two reasons. First, the proposal is a six-page amendment which would completely revise the Internal Revenue Code. A copy was not available to a single member of the committee until 30 minutes ago. I shall not discuss the merits of the amendment or what it does or does not do. I do not know, and as far as I know, neither does any other member of the committee. This is not the place to make a major revision in the tax laws of this country.

Mr. President, there is another reason the amendment should be rejected and one that has not been discussed sufficiently. One of the purposes of the amendment is to strike from the bill all provisions for the control of Government expenditures. It would open the spigot to keep the free society flooded with unlimited amounts of money to continue its eternal expansion and deficits. The amendment should be rejected.

Certainly, if we are to consider raising taxes at the same time we will have some fiscal restraint. We will have to stop some of the spending programs. With the Congress and everyone in the Government from the President on down asking the average American to tighten his belt, the first thing we should do is set an example and demonstrate that the Government will start tightening its belt also.

The proposed amendment would strike from the proposal all suggestions that there be any control whatsoever over spending.

The PRESIDING OFFICER. Who yields time?

Mr. McGOVERN. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from South Dakota is recognized for 3 minutes.

Mr. McGOVERN. Mr. President, the first argument, as I understand it, that has been made against this proposed excess war profits tax which is proposed by the Senator from Idaho and me, is that it falls most heavily on one group in our society, which is the corporate group.

That same argument could be made against the present profit structure in this country, but in reverse. While many elements in our society are doing less well today than they were several years years ago, it is in the corporate business field where we have had the most striking increases in profits.

One cannot attribute all of those increases directly to the war but nevertheless in the period since January 1, 1965, when we began a serious escalation of the war in Vietnam, corporate profits climbed by $22 billion which indicates a very dramatic correlation between the investment in the war effort and the increase in profits that has not been reflected in what happened to the economy in many of our States.

In my State, which relies primarily on agricultural products for income, we have suffered a loss both in agricultural prices and income in recent years.

I think the argument that this is a tax which discriminates against a particular group in our economy should be turned around; it is actually a compelling argument for the tax in that it places the increased tax on those groups that have profited directly or indirectly from the war.

The Senator from Delaware said that the amendment was not printed in advance and not widely circulated, and that is true. I regret that it was not, but the fact remains that we have had a lot more experience with the kind of tax that the Senator from Idaho and I are offering today than the one proposed by the Senator from Florida and the Senator from Delaware. This tax is basically the same formula we used through two previous conflicts, World War II and the Korean conflict. That point is one of the virtues of this proposal.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. McGOVERN. Mr. President, I yield myself whatever time is remaining.

Mr. President, this proposal has the experience and the trial of two previous conflicts behind it.

I call to the attention of Senators who voted in favor of the proposal of the Senator from Louisiana [Mr. LONG], the chairman of the Committee on Finance, yesterday to strike out the expenditure reductions in the Williams-Smathers package, the proposal offered by the Senator from Idaho and I would leave expenditures untouched.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. McGOVERN. What we are proposing here applies only in the form of corporate taxes.

I voted against the Senator from Louisiana yesterday because I intend to vote against the surtax and I felt some reduction had to be made on expenditures if we were not going to reduce taxes. Here is an equitable way to handle it.

Mr. LONG of Louisiana. Mr. President, will the Senator from South Dakota yield?

Mr. McGOVERN. I yield.

The PRESIDING OFFICER. The time of the Senator from South Dakota has expired.

Mr. McGOVERN. Will the Senator from Florida yield me time?

Mr. SMATHERS. Mr. President, I yield 2 minutes to the Senator from South Dakota, in order that he may yield to the Senator from Louisiana.

The PRESIDING OFFICER. The Senator from South Dakota is recognized for 2 minutes.

Mr. LONG of Louisiana. Mr. President, one of the things I object to in the Williams-Smathers proposal is that while the proposal, in effect, would require that there be an enormous cutback in, as the result of a freeze on programs which have been established for many years, such as public works programs, it does not suggest that there necessarily would be the same kind of freeze on new programs. Many of us feel that the established programs dealing with Federal buildings, flood control, navigation, and things of that sort, are programs whose merits are well-known and should not be the ones to be curtailed the more deeply.

Mr. McGOVERN. I think the Senator's point is well taken.

Mr. President, I yield back the remainder of my time.

Mr. SMATHERS. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER (Mr. McINTYRE in the chair). The question is on agreeing to the amendments en bloc of the Senator from South Dakota [Mr. McGOVERN].

On this question the yeas and nays have been ordered, and the clerk will call the roll.

The bill clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG], is absent on official business.

I also announce that the Senator from Arizona [Mr. HAYDEN], the Senator from New York [Mr. KENNEDY], the Senator from Minnesota [Mr. McCARTHY], and the Senators from Rhode Island [Mr. PASTORE and Mr. PELL] are necessarily absent.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY], and the Senator from Rhode Island [Mr. PASTORE] would each vote "nay."

Mr. KUCHEL. I announce that the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] are necessarily absent.

If present and voting, the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] would each vote "nay."

The result was announced—yeas 18, nays 74, as follows:

[No. 82 Leg.]

YEAS—18

Burdick	Gruening	Metcalf
Cannon	Hart	Morse
Church	Long, La.	Moss
Clark	Mansfield	Nelson
Dodd	McGee	Yarborough
Fulbright	McGovern	Young, Ohio

NAYS—74

Aiken	Gore	Mundt
Allott	Griffin	Murphy
Anderson	Harris	Muskie
Baker	Hartke	Pearson
Bartlett	Hatfield	Percy
Bayh	Hickenlooper	Prouty
Bennett	Hill	Proxmire
Bible	Holland	Randolph
Boggs	Hollings	Ribicoff
Brewster	Hruska	Russell
Brooke	Inouye	Scott
Byrd, Va.	Jackson	Smathers
Byrd, W. Va.	Jordan, N.C.	Smith
Carlson	Jordan, Idaho	Sparkman
Case	Kennedy, Mass.	Spong
Cooper	Kuchel	Stennis
Cotton	Lausche	Symington
Curtis	Magnuson	Talmadge
Dirksen	McClellan	Thurmond
Dominick	McIntyre	Tower
Eastland	Miller	Tydings
Ellender	Mondale	Williams, N.J.
Ervin	Monroney	Williams, Del.
Fannin	Montoya	Young, N. Dak.
Fong	Morton	

NOT VOTING—8

Hansen	Kennedy, N.Y.	Pastore
Hayden	Long, Mo.	Pell
Javits	McCarthy	

So Mr. McGOVERN's amendments en bloc were rejected.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. MURPHY. Mr. President, on behalf of Senators FANNIN, HARTKE, LAUSCHE, TOWER, and myself, I send an amendment to the desk.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. MURPHY. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with and that the amendment be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

The amendment is as follows:

At the appropriate place, insert the following new section:

"SEC. —. That (a) section 513(a) of the Internal Revenue Code of 1954 (defining unrelated trade or business) is amended by striking out the period at the end of paragraph (3) and inserting in lieu thereof '; or', and by adding after paragraph (3) the following new paragraph:

"'(4) which consists of activities of soliciting, selling, and publishing commercial advertising in a periodical published by the organization, if the publishing of such periodical (except for such advertising) is substantially related to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511(a)(2)(B), to the exercise or performance of any purpose or function described in section 501(c)(3)).'

"(b) The amendment made by subsection (a) shall apply to taxable years to which the Internal Revenue Code of 1954 applies."

Mr. MURPHY. Mr. President, yesterday I discussed with the distinguished Senator from Nebraska the tendency of administrative agencies to usurp the power of the Congress—to legislate rather than to administer the law.

Clearly the power to tax is assigned by the Constitution to the Congress of the United States. And it clearly should be, for the Congress is composed of the elected representatives of the people and our forefathers rightly concluded that the great power of the purse and the power to tax should rest only with the elected representatives. Yet, all too often, we see examples where bureaucrats attempt to overstep their authority and to intrude into areas that are rightfully the prerogative of the Congress.

The provisions of my amendment, Mr. President, are very simple and are designed to remedy just such a case.

Last year the Treasury Department undertook on its own to overturn the intent of Congress—in fact, their own regulations—when they administratively issued regulations to change the tax treatment of "unrelated income." These regulations provided that as of January 1, 1968, income received from advertising in the publications of not-for-profit organizations must be taxed as unrelated business income.

Mr. President, in 1950 when the Congress amended the Internal Revenue Code so as to make it applicable to unrelated income, what Congress had in mind—as shown in the legislative history—was to tax the income of such businesses as a macaroni or tire factory owned by an exempt organization. In this particular instance, New York University had operated a macaroni factory and the 1950 law would make income derived from such a factory taxable.

In enacting this section of the Code in 1950, at no time was reference made in the bill, in the report, or in the debate to advertising or advertising income from publications of not-for-profit groups.

In short, Mr. President, these Treasury regulations are a novel contention made 18 years after the enactment of the law. Their effect is to make income received from publications of such groups as the Boy Scouts and the Girl Scouts of America liable for Federal income tax. In fact, it has been estimated that over 600 educational, scientific, and charitable not-for-profit groups would be affected by the taxation on advertising.

I received today the following telegram from Mr. Alden G. Barber, chief Scout executive of the Boy Scouts of America:

We appreciate the effort that you, Senator Hartke, and other Senators are making to declare null and void the recent decision of the Internal Revenue Service to tax advertising income on non-profit organization magazines, such as Boys Life and many other publications of a similar nature. The tax if imposed would result in a severe hardship on our organization. Thank you for your efforts on our behalf.

In closing, I would say, Mr. President, it is the Congress that should establish tax policy and that the proposed regulations are not only unwise but they exceed the administrative authority invested in the Commissioner.

I, therefore, urge the adoption of my amendment.

The PRESIDING OFFICER. Is the Senator from California offering his amendment as an amendment to the Williams substitute amendment, or to the bill?

Mr. MURPHY. It was offered as an amendment to the Williams substitute amendment.

Mr. TOWER. Mr. President, will the Senator yield?

Mr. MURPHY. I am glad to yield to the Senator from Texas.

Mr. TOWER. I wish to express my gratitude to the distinguished Senator from California for offering this timely and important amendment. I introduced the same proposal in the form of a bill in November of last year, and it has not, up until now, been acted upon.

I think this is a matter that we should act upon right away, to clear the atmosphere. Certainly, it was never intended by Congress that the Boy Scouts of America and the Girl Scouts should be penalized by the Internal Revenue Service. As the Senator points out, that agency has taken so much on itself that we are going to have to clarify the law by legislative action to prevent this kind of usurpation of legislative authority.

I think the Senator from California is performing a great service, and I hope his amendment will be agreed to.

Mr. MURPHY. I thank the distinguished Senator.

I yield now to the distinguished Senator from Indiana.

Mr. HARTKE. Mr. President, as a cosponsor of the pending amendment, I certainly endorse it, and congratulate the Senator from California for initiating this timely action.

The Internal Revenue Service, on April 14, 1967, issued an order which would tax the profits from advertising in publications of certain tax-exempt organizations. The regulation, supposedly based on an act of Congress of 17 years ago, would tax otherwise tax-exempt orga-

nizations at 48 percent on profits from "unrelated business."

Some 700 fraternal, educational, cultural, scientific professional, trade, and labor organizations would be affected by the taxation on advertising alone. While this is an impressive number, and while their publications do, indeed, compete with ordinary mass media publications, the nontaxable organizations account for only about 1 percent of the advertising dollar.

Approximately $100 million is channeled into publications of nontaxable organizations such as the Boy Scouts, Girl Scouts, National Geographic Society, American Chemical Society, National Education Association, American Bar Association, and the American Medical, American Dental, and American Osteopathic Associations, to name just a few.

With this income, such organizations are able to pursue lofty goals and fill desperately needed places in our American scheme of things.

For instance, the Boy Scouts, who are dependent upon communitywide solicitations for assistance and who merit support of all Americans for the impressive job done with our young people, derive valuable aid from Boys Life, a magazine designed for members of the Scouts. This publication is clearly a part of the scouting movement. It is, in fact, a house organ.

The root of this IRS fiat goes to an act of Congress passed in 1950 which was meant to deal with the case of a university which went into the macaroni business in New York. Here was a case in which macaroni manufacturing clearly could not be considered a related part of the activities of New York University.

The legislative history plainly shows that Congress was setting up the legal machinery for taxation of a macaroni factory or tire factory or any other completely unrelated business which might be owned by a university or any other tax-exempt entity. The intent was not to tax income from an enterprise related to the purpose for which the organization was, in the first instance, granted tax exemption.

In other words, if the business activity of a tax-exempt organization is substantially related to the purpose of the organization, then it is tax exempt. If the enterprise is unrelated, then its income is entirely taxable. These were the clear understandings of the original act.

I see in these proposed regulations all sorts of difficult problems far exceeding the damage which would be done to worthy and necessary organizations and the purposes for which they exist.

It may be that certain activities should, nevertheless, be taxable. It may be that we should look to the future when revenues may go beyond the modest needs of these organizations.

But it seems obvious to me that Congress should do these things. In no case, should the executive branch subvert a 17-year-old law which had not the slightest connection with these issues and use it as a springboard into a wholly new field of taxation.

It is for Congress to decide whether new guidelines are needed to determine whether some activities of tax-exempt organizations should be taxed. It is for Congress to determine whether tax regulations governing such organizations should be changed.

I earnestly believe that the matter should be thoroughly aired by the House Committee on Ways and Means and by the Senate Committee on Finance, and I urge the adoption of the amendment.

Mr. MURPHY. I thank the distinguished Senator. He has ably stated the two points of law involved: First, that it was never the intent of Congress to penalize these organizations, but, on the contrary, to aid their work; and second, that changes in tax laws should be made by Congress, the elected representatives of the people, not by a regulation of an administrative agency.

I yield back the remainder of my time, and ask for the yeas and nays.

The yeas and nays were ordered.

The PRESIDING OFFICER (Mr. YOUNG of Ohio in the chair). The question is on agreeing to the amendment of the Senator from California.

Mr. LONG of Louisiana. Mr. President, I wish to address myself briefly to the amendment.

If I understand it correctly, this is an amendment which has not been offered in the committee, even though one of the cosponsors is a member of the committee. I do think that we ought to have the opportunity to study it before we are asked to vote on it. While I would not seek to prejudice the right of any Senator, particularly one not on the committee, to offer such an amendment on the floor, I believe, it would be best if we had an opportunity to study these matters and suggest what appears to be the proper answer before the Senate was asked to vote.

As I understand this proposition, it seeks to change a ruling of the Internal Revenue Service concerning the tax-exempt status of revenues from advertising in various and sundry magazines published by tax-exempt organizations. For example, the U.S. Chamber of Commerce publishes a magazine known as Nation's Business. The question is, Should the profit derived from the sale of advertising in that magazine be tax exempt, because of the tax-exempt status of the U.S. Chamber of Commerce. The staff of that magazine goes out and brings in advertising and raises money for the chamber of commerce, in competition with a great number of other magazines, some of which are having difficulty making ends meet. The competing publications are also magazines directed toward the business people of the country. One man pays a tax. The other man is exempt. The Internal Revenue thinks that profits from the sale of commercial advertising that is not related to the regular activities of the organization should not be tax exempt.

The National Geographic Society is an organization that is tax exempt. It instituted a magazine devoted to articles on exploring the world and the universe—that sort of thing. At first the publication did not have advertising. It was then found that a lot of money could be made by selling advertising in the National Geographic Society magazine. The advertising it attracts is drawn away from regular commercial publications competing for business.

The American Medical Association publishes a magazine for doctors, sponsored by the American Medical Association. They solicit advertising for that magazine. The American Medical Association magazine helps to pay its way by selling a lot of commercial advertising which people read when they read the publication.

The position of the Treasury is that if a tax-exempt organization wants to go into the business of selling advertising, they ought to pay taxes on the income from that business as their competitors do. Those taxable enterprises who compete to get the same advertising business feel it is not fair that the tax exemption enjoyed by these organizations should carry over to their advertising revenue. The tax-exempt organizations may be able to offer space at lower prices because the income is tax exempt. It gives them a competitive advantage.

As I understand it, the Congress in 1950 imposed a tax on unrelated business income. The Treasury states that that law, passed in 1950, ought to apply to the unrelated income from the advertising in the various magazines of tax exempt organizations such as I have mentioned, meritorious though these organizations may be.

Mr. President, since the matter has not been studied and since it clearly discriminates against the taxable publishers of magazines that seek advertising on a commercial business basis—some of whom publish magazines that are making very little money or losing money—I hope that the amendment will be rejected.

Mr. TOWER. Mr. President, as I have already noted, I am certainly pleased to be a cosponsor of the amendment offered by the distinguished Senator from California [Mr. MURPHY].

I would note that his amendment as I pointed out, is very similar to a bill I introduced—S. 2666—on November 15, 1967.

The bill I introduced and the amendment now offered would in essence provide that income, derived by tax-exempt organizations from advertising in periodicals published by them, should not be subject to taxation.

It is quite clear that the recent IRS ruling imposing this additional tax burden adversely effects such publications as the National Geographic magazine and of course such organizations as the Boy Scouts and Girl Scouts. I understand that this IRS decision would adversely affect a large number of the 700 or so periodicals by the Nation's cultural, educational, scientific, trade and labor organizations.

I would point out further that there is indeed quite some doubt the Internal Revenue Service has the requisite power and authority to issue any such regulations without prior congressional action. In any event, I think the entire matter calls for clarification. That is the reason I introduced S. 2666 and the reason I am a cosponsor of this amendment. Further, I do not believe it was the intent of the Congress that these worthwhile organi-

zations and publications should be taxed in this manner. I believe it is clear that if such taxation is to be imposed, then congressional action should be undertaken. This is a much better approach.

Therefore, I urge the adoption of this amendment.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from California. On this question the yeas and nays have been ordered and the clerk will call the roll.

The bill clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG] is absent on official business.

I also announce that the Senator from New York [Mr. KENNEDY], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], and the Senator from Florida [Mr. SMATHERS] are necessarily absent.

I further announce that, if present and voting, the Senator from Florida [Mr. SMATHERS] would vote "yea."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from New York [Mr. KENNEDY]. If present and voting, the Senator from Rhode Island would vote "yea" and the Senator from New York would vote "nay."

Mr. KUCHEL. I announce that the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] are necessarily absent.

If present and voting, the Senator from Wyoming [Mr. HANSEN] would vote "yea."

The result was announced—yeas 57, nays 35, as follows:

[No. 83 Leg.]

YEAS—57

Aiken	Fong	Nelson
Allott	Griffin	Pearson
Baker	Hartke	Percy
Bennett	Hickenlooper	Prouty
Bible	Hill	Proxmire
Boggs	Holland	Randolph
Brewster	Hollings	Ribicoff
Brooke	Hruska	Russell
Burdick	Inouye	Scott
Byrd, Va.	Jordan, N.C.	Smith
Carlson	Jordan, Idaho	Sparkman
Cooper	Kuchel	Spong
Cotton	Lausche	Stennis
Curtis	McClellan	Symington
Dirksen	Miller	Talmadge
Dominick	Monroney	Thurmond
Eastland	Morton	Tower
Ervin	Mundt	Williams, Del.
Fannin	Murphy	Young, N. Dak.

NAYS—35

Anderson	Gruening	McIntyre
Bartlett	Harris	Metcalf
Bayh	Hart	Mondale
Byrd, W. Va.	Hatfield	Montoya
Cannon	Hayden	Morse
Case	Jackson	Moss
Church	Kennedy, Mass.	Muskie
Clark	Long, La.	Tydings
Dodd	Magnuson	Williams, N.J.
Ellender	Mansfield	Yarborough
Fulbright	McGee	Young, Ohio
Gore	McGovern	

NOT VOTING—8

Hansen	Long, Mo.	Pell
Javits	McCarthy	Smathers
Kennedy, N.Y.	Pastore	

So Mr. MURPHY's amendment was agreed to.

Mr. HARTKE. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. MURPHY. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. MURPHY. Mr. President, I move to make this amendment a part of the original bill. It has been accepted by the manager of the bill.

The PRESIDING OFFICER (Mr. MCINTYRE in the chair). The question is on agreeing to the motion to make the amendment a part of the original bill as well as the Smathers-Williams substitute.

Mr. HICKENLOOPER. Mr. President, we cannot hear back here.

Mr. HARTKE. Mr. President, I join the Senator from California in asking that the amendment be made a part of the original bill as well as a part of the Smathers-Williams substitute.

Mr. LONG of Louisiana. Mr. President, I have no objection to it. This appears to be the will of the Senate.

Mr. HICKENLOOPER. Mr. President, it would be helpful if we knew what was going on. We cannot hear what is going on in the Senate.

The PRESIDING OFFICER. The Senate is about to vote on a motion offered by the Senator from California [Mr. MURPHY] to make the amendment that has just been agreed to, a part of the original bill, as well as a part of the Smathers-Williams substitute. [Putting the question.]

The motion was agreed to.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Bartlett, one of its reading clerks, announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 11816) to provide certain benefits for law enforcement officers not employed by the United States who are killed or injured while apprehending violators of Federal law.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. HARTKE. Mr. President, I send an amendment to the desk and ask for its consideration.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. HARTKE. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered, and the amendment will be printed in the RECORD.

The amendment ordered to be printed in the RECORD, is as follows:

On page 22, after line 14, insert the following:

"SEC. 8. EXEMPTION FROM ESTIMATED TAX FOR INDIVIDUALS ENGAGED IN TRADE OR BUSINESS.

"(a) Declaration of Estimated Tax.—Section 6015(c) (defining estimated tax in the case of individuals) is amended by striking out paragraph (3) and inserting in lieu thereof the following:

"'(3) the sum of—

"'(A) the amount which the individual estimates as the sum of any credits against tax provided by part IV of subchapter A of chapter 1, and

"'(B) in the case of an individual whose estimated gross income from the active conduct of a trade or business for the taxable year is at least two-thirds of the total estimated gross income from all sources for the taxable year—

"'(i) in the case of a taxable year beginning in 1969, the lesser of $1,100 or an amount equal to 20 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A);

"'(ii) in the case of a taxable year beginning in 1970, the lesser of $2,200 or an amount equal to 40 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A);

"'(iii) in the case of a taxable year beginning in 1971, the lesser of $3,300 or an amount equal to 60 percent of the sum of the amounts described in parargaphs (1) and (2) minus the amount described in subparagraph (A);

"'(iv) in the case of a taxable year beginning in 1972, the lesser of $4,400 or an amount equal to 80 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A); and

"'(v) in the case of a taxable year beginning after 1972, $5,500.'

"(b) Failure by Individual to Pay Estimated Tax.—Section 6654(f) (relating to computation of tax for purposes of determining underpayment of estimated tax) is amended by striking out paragraph (3) and inserting in lieu thereof the following:

"'(3) the sum of—

"'(A) the credits against tax provided by part IV of subchapter A of chapter 1, other than the credit against tax provided by section 31 (relating to tax withheld on wages), and

"'(B) in the case of an individual whose gross income from the active conduct of a trade or business for the taxable year is at least two-thirds of the total gross income from all sources for the taxable year—

"'(i) in the case of a taxable year beginning in 1969, the lesser of $1,100 or an amount equal to 20 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A);

"'(ii) in the case of a taxable year beginning in 1970, the lesser of $2,200 or an amount equal to 40 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A);

"'(iii) in the case of a taxable year beginning in 1971, the lesser of $3,300 or an amount equal to 60 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraphs (A);

"'(iv) in the case of a taxable year beginning in 1972, the lesser of $4,400 or an amount equal to 80 percent of the sum of the amounts described in paragraphs (1) and (2) minus the amount described in subparagraph (A); and

"'(v) in the case of a taxable year beginning after 1972, $5,500.'

"(c) Effective Date.—The amendments made by this section shall apply with respect

to taxable years beginning after December 31, 1968."

Renumber succeeding sections of the bill.

Mr. HARTKE. Mr. President, this is a very simple amendment and I do not think it will require a long time to explain.

Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. HARTKE. I am happy to yield to the distinguished majority leader.

Mr. MANSFIELD. Mr. President, would the Senator consider a limitation of time?

Mr. HARTKE. I would be glad to.

Mr. MANSFIELD. One hour?

Mr. HARTKE. I do not need that much time.

Mr. MANSFIELD. How much time would the Senator suggest?

Mr. HARTKE. I would say, in my opinion, one-half hour 15 minutes to a side.

Mr. WILLIAMS of Delaware. Mr. President, reserving the right to object, may we have the amendment stated to find out what it is?

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. HARTKE. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with. I shall explain it briefly. After that we will agree to a limitation of time.

Mr. STENNIS. Mr. President, we must know what is in the amendment.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Indiana for unanimous consent that the reading of the amendment be dispensed with?

Mr. RUSSELL. Mr. President, I would object to any time limitation on an amendment not read in the Senate under any circumstances.

The PRESIDING OFFICER. The clerk will read the amendment.

Mr. HARTKE. Mr. President, I ask unanimous consent that reading of the amendment be dispensed with. I shall explain it. It is the same amendment but it has been changed to coincide with the Smathers-Williams substitute. It is amendment No. 659 on the desks of Senators.

The PRESIDING OFFICER. Is there objection?

Mr. WILLIAMS of Delaware. Mr. President, reserving the right to object, I would like to have a statement of what the amendment would do.

Mr. HARTKE. Mr. President, this amendment is aimed at correcting an inequity in connection with small, unincorporated businesses.

Under the present law any business corporation which has taxes of $100,000 or less is not required to make those tax payments during the current year.

The House of Representatives changed the provision by providing that any corporate business would be required to accelerate its tax and pay it in the current year in which it was earned, if it exceeded $40, the sum applied to individuals.

In the Committee on Finance the provision was changed to provide that basically small businesses with profits of less than $25,000, which must pay a 22 percent tax on profits, would be allowed to continue under the old practice. Up to $5,500 in tax could be deferred.

The inequity is that in the present situation a small incorporated business with a profit of $25,000 a year, paying a tax of $5,500, would have a deferral of that tax payment for 1 year. But any single proprietor or partnership would be required to make payment as it becomes due. His business income payment is accelerated but a comparable incorporated business is not. Therefore there is created a sharp inequity.

There is only one argument against the amendment. It will probably cause the Treasury to lose money in the first year or defer the collection of $400 million to $600 million. There is no waiver of the payment of the tax.

The amendment would only provide for the same kind of treatment for unincorporated businesses as is accorded a corporate business with a profit of $25,000 a year or less, which means a tax payment of $5,500.

Mr. President, that is the substance of the bill. I am glad to yield to the distinguished majority leader or to anyone else who wishes to propose a unanimous-consent request.

Mr. LONG of Louisiana. Mr. President, this amendment would cost a greater amount of money—a far greater amount—than the provision we have in the bill for small corporations.

It is estimated that this amendment would cost between $400 million and $600 million in lost revenue in fiscal 1969. In 1970 it would cost between $700 million and $1 billion in revenue losses. In 1971 it would cost between $900 million and $1.3 billion. In 1972 it would cost between $1 billion and $1.6 billion. In 1973 it would cost between $1.2 billion and $1.8 billion.

Mr. HARTKE. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I shall yield in a moment.

Mr. President, these are estimates furnished to me by the Treasury Department. Mr. President, the result would be a substantial tax deferral. It would defer the payment of taxes by businessmen—taxes which they have to pay currently at the present time.

The staff of the Joint Committee on Internal Revenue Taxation is often more accurate than the Treasury Department in estimating losses. They estimate that the amendment would involve a revenue loss of $800 million in the first year. Compare this tax cut to the bill which the Committee on Finance reported which will accelerate the payment of corporate taxes and, as a result, increase fiscal 1968 receipts by $680 million.

It is one thing to do what the committee did and provide for the acceleration of corporate taxes in a way that would give a small business corporation a break. However, the Senator proposes something that would cost a great deal more. In this case you would be reducing taxes on the individual businessman by about $800 million a year while increasing the taxes on the rest of the general public.

I believe that Senators are familiar with the tax provisions which allow self-employed persons, including businessmen, to defer taxes on amounts they save. This proposal would come on top of that tax reduction for those people and would provide an additional tax cut.

In view of the fiscal condition of this Nation at this time, I do not think we are in a position to vote for a tax cut of, at the start, between $400 million to $800 million, for people who are doing very well already, in the form of an amendment to a part of a bill to raise taxes on others.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. WILLIAMS of Delaware. Mr. President, I join the Senator from Louisiana in urging that this amendment be rejected. Not only would it result in the losses of revenues mentioned but it would also create a great inequity.

Under this amendment any individual who was operating an unincorporated business, if two-thirds of his income comes from that business he would be exempted from filing an estimated tax or paying a withholding tax. Every wage earner has to pay an estimated tax, but under this proposal one small group would be exempted. I think it is grossly unfair to all of the other taxpayers who are required to pay their taxes in advance.

Furthermore, the adoption of this amendment would result in a first-year loss in revenue of around $800 million. I hope that the amendment will be rejected.

Mr. LONG of Louisiana. This discriminates between employers and employees. It would favor the employers and would discriminate against employees. I would hope that the amendment will not be agreed to.

Mr. HARTKE. Mr. President, will the Senator from Louisiana yield?

Mr. LONG of Louisiana. I yield.

Mr. HARTKE. I agree that this is a temporarily expensive amendment, but in equity and fairness we should take a corporate business and treat it exactly like an unincorporated business. If we are going to be fair, one way would be to return to the House amendment. Is it not true, forgetting dollars for a moment, that an unincorporated business is treated differently from an incorporated business? The incorporated business is entitled to a deferral of its tax but if you are not incorporated, then you are not.

Mr. LONG of Louisiana. In this bill, we are increasing the taxes of incorporated businesses. We want to speed up the rate at which they have to pay their taxes. The interest they would have earned on these amounts will be lost. And during the transition to this faster schedule of payments, they will have to pay more in a year. So we are increasing the taxes of an incorporated business. We did decide that we would not speed up the payment of tax quite so rapidly on a small corporation as we do on a big one, but most small corporations will still have a tax

increase over the 5-year transition period.

Now the Senator wants to give a big tax cut to unincorporated businesses while increasing taxes on incorporated businesses. According to staff estimates, the amount of money he would pass through in tax cuts in 1 year to unincorporated businessmen would almost equal the amount that the bill as passed by the House would bring in fiscal 1968 through the measures, accelerating tax payments of incorporated businesses, and continuing taxes on automobiles and telephones, measures which would affect people all across the country. Furthermore, his amendment would discriminate against employees in favor of employers.

Mr. HARTKE. Let me suggest—and the Senator can correct me if I am wrong—that if we do not accept this amendment it means that if a man has an incorporated business with a profit of $25,000 a year or less, he will be permitted to defer his tax payment until the next year; is that not true?

Mr. LONG of Louisiana. That is correct.

Mr. HARTKE. That is right. But if he has an unincorporated business, or a partnership, he is, by law, required to make payments in the current year, which puts him at a competitive disadvantage and means that he is not entitled to the deferral.

Mr. LONG of Louisiana. He pays tax currently, as employees pay it currently.

Mr. HARTKE. All right, but what I am saying is that if we are going to make the employer incorporate, then we should treat the employer who is unincorporated in the same fashion. I cannot see why, if we believe in tax equity, we cannot accept the amendment.

Mr. LONG of Louisiana. There are several ways in which the earnings of small corporations can be taxed. The corporation tax is often substantially no more, and may be less, than a person would be paying if he were not incorporated, as long as he keeps his money in the corporation. When he takes that money out of the corporation, he owes a tax as personal income to himself and he pays tax on it.

So it is true that there are some situations under which a man who incorporates his business can pay less taxes, as long as he keeps the earnings in the corporation and does not distribute them, than he would pay if the business were unincorporated. But when the earnings are distributed, he must pay tax at that point, and what he gained by keeping the money in the corporation may be lost. So it depends upon the choice a businessman wants to make. He can incorporate to gain a tax advantage or remain unincorporated to gain one—if he does not want to incorporate then he does not pay the corporate tax. It is purely up to him to decide which way he thinks will be to his advantage.

We have before us a bill to increase taxes on corporations. The Senator wants to amend the bill to cut the tax on unincorporated business while we increase taxes on all corporations. There may still be a tax advantage to doing business as a corporation and the businessman will be able to choose whichever form of organization will be to his advantage. If he wants to do business as an individual proprietorship instead of as a corporation, there are advantages in some respects and disadvantages in others.

To amend the law so that the tax that a business pays would be the same regardless of the way it is organized would cost us a fortune. And why do we want to do that, if the businessman can do it either way? If he does not like the tax structure under one method, then he can go to the other, If he thinks, by having a corporate structure, he will gain some tax advantage, then he can go ahead and incorporate. He has that choice. No one will quarrel about that.

UNANIMOUS-CONSENT AGREEMENT

Mr. MANSFIELD. Mr. President, I ask unanimous consent that there be a time limitation of up to 20 minutes, with the time to be equally divided between the Senator from Louisiana [Mr. LONG] and the Senator from Indiana [Mr. HARTKE].

The PRESIDING OFFICER (Mr. TALMADGE in the chair). Is there objection to the request of the Senator from Montana? The Chair hears none, and it is so ordered.

Mr. HARTKE. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from Indiana is recognized for 5 minutes.

Mr. HARTKE. I should like to point out again exactly what the amendment would do. It is a bill in equity. It would treat unincorporated business as it treats those which are incorporated. That is what it is intended to do.

All I saying is one of two things should happen, either that the amendment adopted in the Finance Committee should be deleted from the bill or that this amendment should be adopted in order to cease giving preferential treatment to incorporated businesses or partnerships in contrast to individual proprietorships.

I want to read some words from a speech which the distinguished chairman of the Finance Committee made on February 14.

His speech is identically in line with what I am talking about here today:

> To other people, tax reform is a means of achieving equity between taxpayers with similar incomes.

Exactly what I am talking about.

Here is what the Senator from Louisiana further stated:

> Generally what we mean here is that taxpayers in similar lines of business or with similar types of income should pay similar amounts of tax. Equity can also mean bringing persons with different incomes into a better tax paying balance with each other. In large part, the Revenue Act of 1962 reflects these approaches to reform. Many provisions of that Act had the clear objective of making the tax law more equitable as between competing businesses.

But the bill before us denies the objective the distinguished chairmen then talked about. The unincorporated businessman has to go ahead and pay his taxes just as he usually does, through the year, but if he is incorporated he can go ahead and have his taxes deferred and he can use that money all year long.

So far as I am concerned, in all equity, one of two things should be done. If the Senator from Louisiana, chairman of the Finance Committee, wants to offer to delete that portion for incorporated businesses and place them on the same basis as individuals, I would be glad to join in such an amendment. Otherwise, my amendment should be adopted.

Mr. LONG of Louisiana. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 5 minutes.

Mr. LONG of Louisiana. Over a period of years, we have been speeding up the rate at which corporations pay their income taxes. We continue that process in this bill. We accelerate the payment of corporation income taxes and by doing that make the payments more current. They will not be quite as current as those of an employee, or other individual, but we have moved in that direction in this bill.

Now the objective is to get all taxes on a current basis insofar as possible. The Senator seeks to swim against that tide. Instead of making individuals pay their taxes currently, he wants to postpone the payment of their taxes. That would cost us hundreds of millions of dollars. It would be a matter of turning the clock back rather than moving it forward.

The Senator talks about discrimination. There are tax advantages that I have indicated that corporations have which individuals do not have, and vice versa. A businessman can choose whether it is to his advantage to do business as a corporation or to do business as an individual. But there could be no greater discrimination than what the Senator proposes in his amendment. He would give the boss a tax deferment of $5,500 that he would not give the employee. What justice is there in that? Those two people are taxpayers who stand in the same situation. They are both individuals.

If one were to vote to say he is going to give the boss the same tax break he is going to give the corporation, then by extending the same line of logic he would have to agree to do the same thing for employees. It would cost $800 million in the first year to do this for unincorporated businessmen. Goodness knows what it would cost to do this for employees as well, if we tried to be uniform. Nobody would have any idea what it would cost, but it would cost several billion dollars. At that point, we could forget about this bill because what it would cost would completely negate the whole purpose of the bill before us, which was to raise $900 million this year and $3 billion next year.

Mr. HARTKE. Mr. President, I yield myself 1 minute. The Senator asks, By what strange logic can one say he is trying to treat employees differently from employers? That is what the Finance Committee did when it accepted the amendment for incorporated businesses. The Senator cannot argue one way when it relates to incorporated businesses and another way when it relates to unincorporated businesses.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. HARTKE. I yield.

Mr. LONG of Louisiana. Does not the Senator know that every corporation is taxed on a different basis than its employees are taxed?

Mr. HARTKE. Yes. I want to apply the logic of that by saying that, as far as I am concerned, any business which is incorporated shall be treated in the same fashion as an unincorporated business as far as the tax laws are concerned.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. HARTKE. Mr. President, I am ready to vote.

The PRESIDING OFFICER. Do Senators yield back their time?

Mr. HARTKE. I yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time on the amendment has been yielded back.

The question is on agreeing to the amendment of the Senator from Indiana. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Missouri [Mr. LONG] is absent on official business.

I also announce that the Senator from Arkansas [Mr. FULBRIGHT], the Senator from New York [Mr. KENNEDY], the Senator from Minnesota [Mr. MCCARTHY], and the Senators from Rhode Island [Mr. PASTORE and Mr. PELL] are necessarily absent.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY], and the Senator from Rhode Island [Mr. PASTORE], would each vote "nay."

Mr. KUCHEL. I announce that the Senator from Wyoming [Mr. HANSEN] and the Senator from New York [Mr. JAVITS] are necessarily absent.

The Senator from Kentucky [Mr. MORTON] is detained on official business.

If present and voting, the Senator from Wyoming [Mr. HANSEN] and the Senator from Kentucky [Mr. MORTON] would each vote "nay."

The result was announced—yeas 5, nays 86, as follows:

[No. 84 Leg.]

YEAS—5

Bartlett	Hartke	Pearson
Bayh	McIntyre	

NAYS—86

Aiken	Ellender	Magnuson
Allott	Ervin	Mansfield
Anderson	Fannin	McClellan
Baker	Fong	McGee
Bennett	Gore	McGovern
Bible	Griffin	Metcalf
Boggs	Gruening	Miller
Brewster	Harris	Mondale
Brooke	Hart	Monroney
Burdick	Hatfield	Montoya
Byrd, Va.	Hayden	Morse
Byrd, W. Va.	Hickenlooper	Moss
Cannon	Hill	Mundt
Carlson	Holland	Murphy
Case	Hollings	Muskie
Church	Hruska	Nelson
Clark	Inouye	Percy
Cooper	Jackson	Prouty
Cotton	Jordan, N.C.	Proxmire
Curtis	Jordan, Idaho	Randolph
Dirksen	Kennedy, Mass.	Ribicoff
Dodd	Kuchel	Russell
Dominick	Lausche	Scott
Eastland	Long, La.	Smathers
Smith	Talmadge	Williams, Del.
Sparkman	Thurmond	Yarborough
Spong	Tower	Young, N. Dak.
Stennis	Tydings	Young, Ohio
Symington	Williams, N.J.	

NOT VOTING—9

Fulbright	Kennedy, N.Y.	Morton
Hansen	Long, Mo.	Pastore
Javits	McCarthy	Pell

So Mr. HARTKE's amendment was rejected.

The PRESIDING OFFICER (Mr. BYRD of Virginia in the chair). The Chair recognizes the senior Senator from South Dakota.

AMENDMENT NO. 671

Mr. MUNDT. Mr. President, on behalf of the distinguished occupant of the chair [Mr. BYRD of Virginia] and myself, I call up amendment No. 671.

Mr. MANSFIELD. Mr. President, may we have order?

The PRESIDING OFFICER. The Senator will suspend until order is restored. The Senate will be in order.

Mr. MUNDT. We have made one or two minor modifications in the amendment, one of which corrects a typographical error. I ask unanimous consent that our amendment, as modified in conformity with our instructions, be read.

Mr. AIKEN. May we hear the modifications?

Mr. MUNDT. I send the amendment to the desk and ask that it be read, as modified.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. At the end of the amendment, insert the following new section:

SEC. —. Special 20 percent surtax on taxpayers trading with certain Communist countries

(a) In addition to any other tax imposed by the Internal Revenue Code of 1954, there is hereby imposed on every taxpayer who during the taxable year has engaged in export trade with any Communist country which is supplying material to the Government of North Vietnam, a tax equal to 20 percent of the taxable income of the taxpayer for the taxable year.

(b) The tax imposed by subsection (a) shall not apply for any taxable year to any taxpayer who submits to the Secretary of the Treasury or his delegate a statement under oath that he has not engaged during the taxable year in trade with any Communist country which is supplying material to the Government of North Vietnam.

(c) Terms used in this section shall have the same meaning as when used in the Internal Revenue Code of 1954.

(d) This special 20 percent tax shall cease to be applicable when the United States is no longer engaged in armed conflict with North Vietnam (whether or not there has been a declaration of war).

Mr. MUNDT. Mr. President, first of all, this is the third test of our senatorial position on trading with the enemy in war time in which the distinguished Senator from Virginia has been the leader and in which I have been associated with him. We have tried—successfully on two other occasions to stir up support reflecting our responsibility to the boys overseas to do something to discourage profiteering by American exporters who are supplying raw material and finished products to the Soviets and their satellite countries which today, as I shall state in my prepared remarks, are solely responsible for the fact that the war is continuing now because they are supplying all the petroleum and sophisticated weapons and much of the rest of the materiel which enables the North Vietnamese to prolong the fighting which has brought about these terrifying casualties of killed and wounded and which stoke the fuels of obstinacy which keep Hanoi and Ho Chi Minh from coming to the conference table to negotiate a legitimate settlement to the war.

Mr. AIKEN. Mr. President, will the Senator yield to clarify the wording of his amendment at this time?

Mr. MUNDT. I yield.

Mr. AIKEN. It is my understanding that this 20-percent tax is to be imposed upon any taxpayer engaged in export trade with any Communist country which is supplying material to the Government of North Vietnam. That means the 12 or 13 countries which are generally recognized as being Communist countries.

Mr. MUNDT. There are not quite that many Communist countries actually engaged in supplying the Government of North Vietnam. We have a list of those countries. We know exactly which ones they are. And any exporter can learn by a letter to his Government in Washington the exact identity of the countries involved.

Mr. AIKEN. This penalty would not apply to those trading with France and England?

Mr. MUNDT. It would not.

Mr. AIKEN. It would not apply to any countries which are not considered to be Communist?

Mr. MUNDT. These are not the countries engaged in shipping the implements of war. Some non-Communist countries are shipping food, and so forth. However, the MIGs and the other sophisticated weapons are shipped from the Communist countries. Three of them are centered around Russia and Eastern Europe.

Mr. AIKEN. Is Russia the sole shipper of these goods?

Mr. MUNDT. No. The same Communist countries, as the Senator well knows, from serving on the Committee on Foreign Relations, have been very successfully arming Nasser and Egypt, so that another war in the Mideast is being ignited.

Mr. AIKEN. The pending amendment would also apply to those who supply material to people or groups of people, even though the material does not go through the North Vietnamese Government.

Mr. MUNDT. As the Senator well knows, under the Communist governments, they have a collectivist economy so that everything does go through the government.

Mr. AIKEN. That was my question. I thought that ought to be made clear.

My other question concerns the penalty for trading with the enemy. The penalty does not apply to trading with the Vietcong or the people of South Vietnam?

Mr. MUNDT. I do not know of a single thing which is being sent into South Vietnam under the basis of trade. It is all picked up from the north, and from Haiphong Harbor and other places by

means of truck or railroad, it is then ferried down to the satellites in South Vietnam.

There is no way in which the material can be shipped direct to them in South Vietnam.

Mr. AIKEN. Is petroleum a war material?

Mr. MUNDT. Yes. Petroleum would be covered.

Mr. AIKEN. Then, anyone selling petroleum to the Vietcong or to the South Vietnamese people would not be subject to this penalty.

Mr. MUNDT. They would not be subject to the penalty for selling it to the Government of South Vietnam because it is not a Communist state. It is not the country with which we are at war. However, if they ship it to the Government of North Vietnam and they then ship it to their Vietcong associates, it would be covered.

Mr. AIKEN. Would the Senator's amendment apply to the Vietcong or to the people in South Vietnam who are at war with us?

Mr. MUNDT. I would have no objection to that. I think it is covered because I do not know of any direct shipments of weapons to South Vietnam to take care of individual Vietcong soldiers in South Vietnam. I think a change would be unnecessary.

Mr. AIKEN. It is my impression that the Vietcong are at war with us particularly, and that they require a large amount of supplies with which to carry on the war.

Would the tax penalty apply to any company or person in the United States that sells to the Vietcong or carries on export business within the country with a company which sells to the Vietcong?

Mr. MUNDT. I do not think it is a realistic approach.

Mr. AIKEN. I think it is awfully realistic.

Mr. MUNDT. There would be a much greater penalty than that on such a transaction because anyone selling to the Vietcong is selling to a nonexistent government. The seller could never collect. The material is going to North Vietnam and is being ferried down by truck, railroad, and every other way they can find, to their associates in Vietnam.

Mr. AIKEN. I think that the Senator would find there is a very large market at the present time in the hills of South Vietnam for the enormous amount of supplies that they require. Would anybody undertaking to supply them be subject to this penalty?

Mr. MUNDT. If the Senator would feel happier and if the Senator from Virginia agrees, that would be all right. I think that it is however absolutely unnecessary. We could cover that hypothetical case by saying, "supply material to the Vietcong or any other people with whom we are at war."

Mr. AIKEN. And have it apply to American people.

Mr. MUNDT. The Senator is correct. They will be the ones to pay the tax.

Mr. AIKEN. Suppose the Vietcong bought a substantial amount of supplies from American companies in Saigon, what would be the situation then?

Mr. MUNDT. The Amercian companies would be subject to the tax. It would be a rather unusual occurrence, but they would be subject to it.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. MONDALE. A cracking plant is being built in Romania by the United Petroleum Co., which is a U.S. company. It is nearly completed, and recently I visited it. The plant was built in part because our Government encouraged its construction for many different reasons.

I assume that, whether the United Petroleum Co. wants to or not, there are certain things that the company must continue to do there until the plant is in complete operation.

As I read the amendment, the tax would apply to their business. Is that correct?

Mr. MUNDT. I would certainly hope so. Romania is supplying a great deal of the petroleum to North Vietnam without which the war could not continue and without which our boys would not be killed. If they are making that kind of blood money, I would like to see such business covered, and I believe it would be.

Mr. MONDALE. Does the Senator know the production from that plant is going to Vietnam?

Mr. MUNDT. I know that a good deal of the production from Rumania is going to Vietnam.

Mr. MONDALE. Does the Senator know whether this production is from that particular plant?

Mr. MUNDT. It would not make any realistic difference. If they were to take it through a pipeline, one could not say that it came from that particular plant. However, if we have American oil companies making profit at the expense of boys fighting in Vietnam, I think that a 20-percent war profits tax is too small.

I hope, however, that the tax will be adequate to make them stop this kind of blood traffic, because war is a serious business. This may be profitable for a few greedy American companies, but it is not profitable for the boys who are fighting in the war.

Mr. MONDALE. Does the Senator know whether there are any so-called Iron Curtain countries, which would not come within this definition?

Mr. MUNDT. We get a list periodically, because we have been following this and we have page after page of what is being shipped and by whom.

I would assume that a little country like Albania might not have the wherewithal to ship or to sell. I do not recall from memory. But if it does, it would be included.

Mr. MONDALE. Would it be fair to say that most, if not all, the countries of eastern Europe which are commonly known as Communist countries would probably be included within the definition of this amendment?

Mr. MUNDT. It depends upon whether the Baltic States, such as Latvia, Estonia, and Lithuania, are included. They are Communist countries. They probably do not have enough to eat, and certainly have no war supplies to sell. But it would be fair to say that most of the industrialized Communist countries of eastern Europe would be involved.

Mr. MONDALE. The Senator from South Dakota, I am certain, is aware that we annually ship several millions of dollars of agricultural products to Poland.

Mr. MUNDT. I am. And they would be included.

Mr. MONDALE. The shippers would come within the 20-percent provision of this amendment?

Mr. MUNDT. Yes.

Mr. MONDALE. Does the Senator from South Dakota know of any military uses to which this food would be put?

Mr. MUNDT. It is not a question of military use. I would not expect farmers who send grain to be exempted, any more than people who are selling steel and diamond-pointed oil drills. It all goes to strengthen the economy of an enemy country engaged in supplying Vietnam with the weapons killing our boys in the war.

I agree with Bernard Baruch, who said:

> When you're in war with an enemy, there are no such items as non-strategic supplies.

If you are trying to win, you shut off everything you can. Even shipping food to the enemy frees manpower from the fields in the Communist country so they can turn to the making of weapons of war, to jeopardize the lives of American boys, while a few avaricious people make an extra few dollars profit. I want to tax that profit, and tax it big.

Mr. MONDALE. Does the Senator from South Dakota have figures which show the types and quantities of military assistance which, for example, Rumania sends to North Vietnam?

Mr. MUNDT. I have figures, and if I have an opportunity to deliver the speech I have prepared, the Senator's ears will be ringing with them, if he remains in the Chamber.

Mr. AIKEN. May I ask another question? If Rumania buys crude oil and refines it and sells the finished product so that any of it goes to hostile countries, would the owners of the plant which produces the oil sold to Rumania, if they were Americans, be subject to the 20-percent tax?

Mr. MUNDT. The question sounds somewhat obtuse, the way the Senator has asked it.

The language of the amendment reads: "Any country which has engaged in export trade with any Communist country supplying it."

If it is of that pattern, they would be taxed. The question is so obtuse that I cannot follow whether or not this is an American company.

Mr. AIKEN. If the American company was incorporated in one of the Middle Eastern countries and sold the oil to Rumania, would they not be subject to the 20-percent tax?

Mr. MUNDT. They would, if they paid an American tax.

Mr. AIKEN. If it was American financed.

Mr. MUNDT. That is correct.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. MONDALE. If this tax were imposed—and it would be a substantial tax——

Mr. MUNDT. Twenty percent.

Mr. MONDALE. The practical consequences would be, I assume, that most trade involving a U.S. company or a U.S.-owned subsidiary with an Eastern Europe nation would become competitively unrealistic. This amendment would probably eliminate most, if not all, of this type of trade.

Mr. MUNDT. I would hope so. Curiously enough, Communists are willing to pay highly inflated war prices for products they desperately need. Anyone who wants to read profit and loss statements of American companies that are making money from the war should examine what those companies are being paid by the Russians, and he will realize that the companies can pay a 20-percent tax without it hurting too much. That is why we put the tax across the corporate income, not just on war profits.

Mr. MONDALE. Does the Senator contemplate that this tax—which I agree with him would have the effect of ending virtually all trade between this country and Eastern Europe—would have the effect of denying these commodities to Eastern Europe?

Mr. MUNDT. No. As I said before, they will pay fantastically high prices to get these items from this country, which has the curiously indefensible policy of drafting its boys on Monday and encouraging its exporters to sell on Wednesday supplies which next Monday can kill American boys if those supplies happen to wind up in Vietnam. The Communists pay a high price. Why not, when our country can be induced to shoot itself with its own guns?

Mr. MONDALE. Does the Senator envisage the possibility that this amendment might not deny anything to Eastern Europe, but rather give these customers to our Western Europe competitors? For example, would we lose millions of dollars of trade with Poland and the other countries in agricultural products, the nonstrategic computer business, the petroleum business, the modern tool business related to civilian cars, and other items of that nature? Would not the effect of the Senator's amendment simply be to give all this business to Western Europe?

Mr. MUNDT. Will the Senator describe for me, first, a machine tool useful in making cars which is not useful in making tanks or planes?

Mr. MONDALE. As the Senator knows, a small Fiat factory is being constructed in Budapest, and another is scheduled to be constructed in Moscow or just outside of Moscow.

Mr. MUNDT. That one was abandoned because of the Byrd amendment.

Mr. MONDALE. The credit was eliminated by that amendment. However, American tools are, in fact, a part of the factory, but through other forms of financing.

As I understand this amendment, it would not deny a Communist nation anything, but just cause them to go elsewhere with their business. Would the Senator agree with that?

Mr. MUNDT. I would not agree with that.

Mr. MONDALE. What would they be denied?

Mr. MUNDT. A great many of the things they must get from this country which are hard to get if not impossible to procure elsewhere.

Mr. MONDALE. Can the Senator cite an example?

Mr. MUNDT. Yes. The Worden gravity meter, which is exclusively an American product, which we have been selling to the Communist bloc. They buy it here because it happens to be an American invention, an American device. It is very useful in killing many American boys, because the enemy needs it to measure the accuracy of its weapon trajectory. That is why they are willing to pay a high price to get these devices. And if they get them here, those who sell them should pay a heavy tax.

Mr. MONDALE. If it is used for strategic reasons, then our export system should prohibit it.

Mr. MUNDT. The Senator will be shocked to learn what his President has done. One thousand nine hundred items are on the list of selective exports. Ninety-eight percent of the requests have been granted by the Johnson administration.

Mr. MONDALE. What are they?

Mr. MUNDT. If the Senator will remain in the Chamber until I deliver my speech, I will recite them.

Mr. MONDALE. The Senator from South Dakota, I am sure, is aware of the remarkable liberalizing events in the Eastern European countries, notably Yugoslavia, Rumania, and to some extent Poland, and of more recent date, Czechoslovakia. These countries, although they still proclaim communism, are demanding more and more independence. They are becoming more and more independent from Comicon, which is the Moscow-dominated economic apparatus. They have demanded more independence from the Eastern Europe military apparatus, and they are pursuing an independent line in international affairs—witness Rumania in the Middle East crisis.

It would appear that the only remaining sanction which Moscow enjoys in trying to impose its will upon these countries is the dependence of those countries on the Soviet Union for trade.

Is it not just possible that by trying to eliminate trade between this country and Eastern Europe in nonstrategic items we are not denying them anything because they will go to other sources. Instead, we may be actually contributing to the one thing which remains available to Moscow for control of these Eastern European countries; namely, trade dependence?

Would it not be far wiser for us to become more involved in nonstrategic trade to encourage these nations to shift their economies to the West, and therefore place these countries in a position to pursue a nondependent, nationalistic course in international matters.

Mr. MUNDT. I would like to be able to agree with the Senator, but his statements leave me on cloud 9. I have heard them enunciated by others before. The position should be explored. We heard a lot of that at the time of the consideration of the consular treaty. The Secretary of State engaged in the same hypothesis that the Senator has just ventilated: We were told are making fine progress with the Russians, we are getting to be friends, we ought to move forward and approve the Consular Treaty now because it will cement all of these things.

Well, it has been over a year and the Soviet Union has not ratified the treaty yet. They have held us up to public scorn around the world and they have said that they induced us to ratify the treaty, but they have not done so.

We are living in a realistic world. These proposed changes are subject to demonstrable truth. In speech after speech and at meeting after meeting the East European Communists said, "We are going to work to provide whatever it takes to assist our comrades in North Vietnam to blow the Americans out of Southeast Asia." That does not sound like a nice Sunday afternoon conversation to me.

If there is anything to the hypothesis of the Senator, he should vote for my amendment to test it in the laboratory of life.

All the Communist countries have to do is to trade with the United States as voluminously as they desire, and to desist from shipping the weapons of war to Hanoi which are continuing the ugly war in Vietnam and making us the scorn of the world.

It is no wonder the free world turns its back on President Johnson and our country when they see us trying to chisel out profits from the shipment of arms while we are drafting boys to be sent to Vietnam. They do not associate with that kind of crass materialistic concept of war. The Senator wishes it were not so and so do I. However, one has to look at the facts of life.

Mr. MONDALE. Mr. President, this morning's New York Times contains an article, which I shall ask to have printed in the RECORD, describing what went on at the Prague Conference to which the new Czech leaders had been summoned by the more Stalinist leadership in Eastern Europe.

It is quite apparent from this story and other sources that this conference was held to try to slow down the forces of nationalism and democracy that were being evidenced in Czechoslovakian life.

This story reports that the policy of the Czech Government is to try to restrain the country from the tendencies that are operating in favor of a more stable world. Working in favor of Communist control from Moscow was the threat of economic reprisal based on the present dependency of Czechoslovakia upon the Soviet Union for capital, and raw supplies to run its industry.

Does the Senator from South Dakota think that we help the situation by making the Czechs more dependent upon the Soviet Union, as this amendment would do?

Mr. MUNDT. This amendment would not do that. We would help the situation because we make it possible for trade with Czechoslovakia to expand, provided they do not use the trade to join in the arming of the enemy we have in North Vietnam. That is all there is to our proposal, whether they are friendly or unfriendly.

I do not accept the New York Times as an authority on what happened in Czechoslovakia any more than I accept what they say in connection with Vietnam because they say we cannot win the war and that we ought to pull out. One of the Senator's colleagues from Minnesota agrees with them and another colleague of the Senator from Minnesota disagrees with them. I am not going to put the Senator on the spot but I am not going to get confused by the New York Times.

Does the Senator have other questions?

Mr. MONDALE. I thank the Senator.

Mr. President, I ask unanimous consent to have printed in the RECORD at the end of the remarks and not during the colloquy, an article entitled "Czechs' Concern Over Bloc Rising" which was published on page 10 of the New York Times this morning.

The PRESIDING OFFICER (Mr. SPONG in the chair). Without objection it is so ordered.

(See exhibit 1.)

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. SMATHERS. Would the Senator be interested in having the present manager of the bill accept the amendment and take it to conference on a voice vote?

Mr. MUNDT. I would have to talk with my colleagues. I am a little more interested in having a rollcall vote because I know the House conferees will be obstinate about it. They were pretty stubborn when we had the Byrd amendment on the Fiat Motor Co., and they were stubborn when we had the next amendment on the curtailing of the right of the Export-Import Bank to loan American funds to finance trade over there. If it is worth doing at all it is worth doing right.

I shall insist on a rollcall vote.

Mr. SMATHERS. Very well.

I wish to ask the Senator a couple of questions that occur in trying to make this an amendment that could be enforced.

For example, the amendment provides:

(b) The tax imposed by subsection (a) shall not apply for any taxable year to any taxpayer who submits to the Secretary of the Treasury or his delegate a statement under oath that he has not engaged during the taxable year in trade with any Communist country which is supplying material to the Government of North Vietnam.

Mr. MUNDT. Which is supplying material to the government of North Vietnam.

Mr. SMATHERS. Very well. Supplying material to the Government of North Vietnam.

That would require every taxpayer in the United States to comply with this provision for an oath. Is that the intention of the Senator?

Mr. MUNDT. The provision means there would be an affidavit such as there is on a joint income tax return that involves social security. There would be one more statement to check to state that you are not doing it.

Mr. SMATHERS. I gather that it is the intention of the Senator to have every taxpayer who fills out his tax form to swear under oath. I guess the taxpayer would have to go to a notary public and say that he has not been doing any business with Communist countries.

Mr. MUNDT. It would be the same kind of indication that is made in connection with other matters on the Internal Revenue tax return.

Mr. SMATHERS. That is, just a statement.

Mr. MUNDT. Subject to perjury.

Mr. SMATHERS. This proposal might become law. What does the Senator mean?

Mr. MUNDT. It is a fair question. There would be one tiny square following a short sentence at the bottom of the page which would say, "Have you been shipping to any Communist country or trading with the enemy?" The taxpayer would check the square marked "No," just as he now checks a square to indicate whether he is 65 years of age or over. It would not take more than a second of any taxpayer's time at the most.

Mr. SMATHERS. If this bill should become law, as far as legislative history is concerned, it is the intention of the Senator that the taxpayer would not have to file an oath.

Mr. MUNDT. The Senator is correct.

Mr. SMATHERS. The taxpayer would only check the square.

Mr. MUNDT. That would be right.

I would want it subject to the same rules of perjury as the other parts of the income tax return.

Mr. SMATHERS. But all taxpayers would do that, including taxpayers who work in the Capitol cleaning up the dishes.

Mr. MUNDT. It is very important but it is only a little scratch of the pen. I would think that anyone would be delighted to put an X in the square and to save 20 percent of the tax required of those unable to do so. I know I would. I wish I had a lot of checks to make like that in this era of high taxation.

Mr. SMATHERS. In other words, another section would be required to fill out on the tax return, with a question such as "Did you or did you not trade or do any business with a country which is doing business with the Communists?"

Mr. MUNDT. Along with all the other X's we will be filling out on our income tax forms between now and April 15. We will be making a great many of them, but none of them gives a 20-percent tax saving as this one would.

Mr. SMATHERS. Then, if a person did say that he was not doing business with a Communist country, at that point there would have to be some more lines on the income tax form where they would figure out the 20 percent of the $1,000 tax, and figure that in it. In other words, we would lengthen the income tax return which we file, would we not?

Mr. MUNDT. I would not think so. We might broaden it instead of lengthening it. It would be but a small sentence in a small box.

Mr. SMATHERS. When the Senator refers to supplying material to Vietnam, over what period of time is that?

Mr. MUNDT. During the taxable year.

Mr. SMATHERS. That is not in here.

Mr. MUNDT. Yes, it is.

Mr. SMATHERS. The Senator would be willing to take care of that during the taxable year, I assume? In other words, legislatively——

Mr. MUNDT. Line 6 it is on. Page 1.

Mr. SMATHERS. As to whether a man is engaging in trade with any Communist country, that would be upon the taxpayer. How about when the Communist country supplies the material? Does the Senator have any limitation on that?

Mr. MUNDT. Only as long as we are at war. We are now at war. It could not be ex post facto on this. It has to be during the taxable year, or in futuro. We cannot write legislation backward.

Mr. SMATHERS. The Senator's idea is to have this apply from the time it becomes law—if passed—that is, thereafter. In other words, we would say thereafter, if any trade was engaged in.

Mr. MUNDT. That is correct.

Mr. SMATHERS. Then we should put the word "thereafter" in here.

Mr. MUNDT. It does not need it because we cannot write, constitutionally, ex post facto laws.

Mr. SMATHERS. Say that a fellow finally sold something to a Communist country this year, but he did not know whether it actually was a Communist country, is that dealt with here? A Communist country dealing eventually with Vietnam say 2 years later? What do we do about that?

Mr. MUNDT. It says on page 2, line 5, "which is supplying," and that brings it to the present.

Mr. SMATHERS. All right. So then he would not be prosecuted in the first instance if he supplied the material in 1968 and they did not supply it to Vietnam until 1970, if that war is still going on—which we hope it is not. But what happens at that point? Will such a man be prosecuted, or what?

Mr. MUNDT. I would not think it would be occurring during a taxable year, but if he developed a lush customer over there and he continues to supply that customer, then he would get caught with the tax.

Mr. SMATHERS. One could be sympathetic with the idea that the Senator is trying to bring out, but I am hopeful that we would not undertake a measure of this nature which really leaves much to be desired in the manner in which the amendment has been drafted. I have no criticism to make of my friend because I know it was drafted probably in a hurry.

Mr. MUNDT. No complaint against the legislative counsel, either. The Senate's legislative council had to do it quickly. If the amendment is adopted—as I certainly hope it will be—and it goes to conference, the technicians will be able to take care of any quibbles that the technicians are now raising on the floor of the Senate because they can get to the meat in the coconut. Just like fly specks on a sheet of music, they will be ascertained and removed so that the

musical notation will be clear to all. In other words, that we see to it trading with the enemy is stopped or severely penalized.

Mr. SMATHERS. Does the Senator know the number of countries supplying material to Vietnam?

Mr. MUNDT. I do not know them all. I know some of them. Our Government certainly knows them all. The taxpayer could be kept advised. We can put an order on it. We can get it.

Mr. SMATHERS. Well, if the Senator does not know completely, how is the taxpayer supposed to know?

Mr. MUNDT. It will take longer than I thought, but we will get to it. I have a list of those countries showing where supplies to Vietnam come from.

Mr. SMATHERS. My question is—and I do not want to be understood as being against what the Senator is trying to do—just what countries are sending materials of war to Vietnam. How is the taxpayer suppose to know?

Mr. MUNDT. A 6-cent stamp will take care of it. If the man is an exporter, he will find out anyhow as to the legality of it, and a letter to the Department of Commerce in Washington will produce the entire list.

Mr. SMATHERS. Well, suppose Albania—I do not know this—is supplying material to Vietnam.

Mr. MUNDT. They have got a record of it. Anyone could get it upon request with a 6-cent stamp.

Mr. SMATHERS. Then he will get a letter back saying "we are not trading with Vietnam."

Mr. MUNDT. He can go to the Tax Court. He does not have to worry if the Commerce Department wrongly advises him.

Mr. SMATHERS. What about a partnership? Suppose we have a partnership where one member is trading with Albania, and the other partners know nothing about it. Does the action of the one partner taint all the partners? Are they all to be subject to the tax? Or just the one that traded with Albania? How does the amendment work in that case?

Mr. MUNDT. I am not sure what kind of partnership it would be. It might be limited. But that fellow who made that kind of deal, he would be liable.

Mr. SMATHERS. If the other partners had no knowledge that some of their business was with a country supplying material to Vietnam, then they would not be subject to the tax, is that right?

Mr. MUNDT. That would be a decision of the Internal Revenue Service and the Tax Court. I cannot make legislative history on the floor of the Senate to meet every imaginary contingency.

Mr. SMATHERS. Well, legislative history is made on the floor of the Senate, is it not?

Mr. MUNDT. Right. I have said that the partner who knows about that trading would be taxed. The rest would have to prove their total ignorance. It could happen. That is why partnerships seem to be going out of style these days and corporations are becoming more popular because so many people get caught with bad partners quite often.

Mr. SMATHERS. What happens if some goods are sent to a country in good faith, say to Britain, and then transferred by that country, or some intermediary, to someone in Albania who, in turn, will send it on to Vietnam?

Mr. MUNDT. They would be in the clear, if it is sold to someone in a country which is not Communist. We can approach those problems later on in the session with a different approach. This is the first step.

Mr. SMATHERS. Then all that this would really require, if a person wants to do business, and not pay the additional tax would be for him to send his products through an intermediary, say, in Lichtenstein, and let the goods find their way to Albania and then to Vietnam. Thus, once a product was sold to a non-Communist country in good faith, those who made the sale would not be subject to the additional tax under the Senator's amendment; is that not correct?

Mr. MUNDT. If they sold it to an entrepreneur in a free country, they would not be guilty. We are not trying to correct all things here. We are trying to find out, really, what is the attitude of the Senate toward whether we want to make this war possible to win or whether we are just talking and complaining about it.

I do not believe we will ever bring the war to an end as long as the industrial genius of this country is supplying Communist countries with the kind of material being shipped, knowing that the Communist countries have become the sole reason why they continue to fight in Hanoi. We raise a lot of quibbles and technicalities here. I do not suppose the boys getting shot at with something which has been refabricated from an American exporter is interested in trying to stop it.

Mr. SMATHERS. I do not want to get into that aspect of the matter. I have two sons, both of whom served in Vietnam. Thus, I share the sentiments of the Senator from South Dakota.

Mr. MUNDT. I know that the Senator does.

Mr. SMATHERS. I want to get the war over in Vietnam, as I know the Senator does.

Mr. MUNDT. We have to start somewhere.

Mr. SMATHERS. On the other hand, I do not like to see us doing something that does not look very practical. I am afraid, that actually, we may be doing that. If the Senator from South Dakota could supply a list of those countries which are giving aid to Vietnam, it would help, frankly, in making legislative history, to warn the taxpayers of this country as to those countries they should not do business with. But my question is, as long as the Senator himself, who has followed this sort of thing very closely, and who is a member of the Foreign Relations Committee, does not know this information, then how is the taxpayer supposed to know it?

Mr. MUNDT. The Senator from South Dakota knows enough about it to know that simply putting a list in the RECORD to indicate that other Communist countries are not included means it is a partial list and it could subsequently be outdated. I am talking primarily about Russia, Czechoslovakia, Rumania, and Poland. Those probably are the big four in Eastern Europe. There are undoubtedly others, but they will be published in the Federal Register and they will be made available to the public. There is no mystery about them. We know that the greatest part of this comes out of Russia, because she is the great industrial complex of the Communist world.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. MUNDT. I will yield to the Senator from Minnesota if he will associate himself with me when the majority leader comes here and asks if we can limit the time on this amendment, and I have to tell him I have not even had the opportunity to read the first paragraph of my prepared speech. The majority leader would like to vote on final passage tonight and I would like to help him.

Mr. SMATHERS. Mr. President, if the Senator will yield, how long does he anticipate his speech will take?

Mr. MUNDT. It is going to take longer now than I originally had anticipated, because of some quibbling technicalities which have been raised and which must be answered.

Mr. SMATHERS. Can the Senator estimate how long he will take?

Mr. MUNDT. No; I do not know how long it will take the Senator from Minnesota and the Senator from Florida to ask the remaining questions.

Mr. SMATHERS. It would be helpful if the Senator from South Dakota could say how long it would take if he would speak without interruption. If we could work out such an arrangement for him in making his speech, how long would he estimate it would take?

Mr. MUNDT. It would take me some time. How long it will take to answer the questions, I do not know. I had anticipated originally that I could make the whole case in less than an hour. I see now that is not possible. In addition the coauthor of this amendment, Senator BYRD, has a speech to make.

Mr. SMATHERS. Does the Senator think he can finish it an hour from now?

Mr. MUNDT. I doubt it. If only two Senators who oppose have taken as long as they have in asking questions and other Senators come to their defense, we may be here the rest of the week.

Mr. SMATHERS. I do not know that the Senator who has thus far spoken was opposing the amendment.

Mr. MUNDT. That is encouraging.

Mr. SMATHERS. I am just asking the question whether it is possible for the Senator to accomplish what he seeks to accomplish.

Mr. MUNDT. Realizing that there are technicalities involved, and wanting to get on with the general idea, if the Senator would be willing to accept it and then let the technicalities be worked out, we could be through here in 30 minutes.

Mr. SMATHERS. I have indicated that I would be willing to take it to conference.

Mr. MUNDT. That is a good gimmick to use on a freshman Senator, but the Senator knows me well enough to know I would not take that up. I think the issue deserves a rollcall vote.

Mr. SMATHERS. I would never imply that the Senator from South Dakota does not know more about parliamentary procedure than I do.

Mr. MUNDT. No, but I have sat on many conferences, and I know how conference committees work. If we want to do something about the problem, granted that it is not perfect, granted that it does not cover everything, but that it gives some indication to the people of the country and the people of the world that we are not trying to mix profits with war, that we want to shut off these supplies, that we are giving our help to the war effort, then, fine work, let it go to conference. If the Senate does not want to do this, fine. But I think every Senator is entitled to have a rollcall on his proposals at the appropriate time.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. MONDALE. I thank the Senator for his patience and courtesy.

I have just returned from 3 weeks in Eastern Europe. I am thoroughly convinced that this Nation's policy of restricting credit and imposing excessive export controls and other restrictions poison the possibilities of expanded trade with Eastern Europe. It is a self-defeating policy which has actually contributed to control by Moscow over Eastern European countries, slowing down the day when the independent policies of those countries can be asserted.

Mr. MUNDT. Will the Senator differentiate in his mind the contributions trade can make to better understanding as between a time of war and a time of peace, between countries which trade in civilian goods, and do not ship military goods to kill our soldiers in Vietnam, and those that do; or does the Senator think we should treat them all the same?

Mr. MONDALE. The first answer to that question is that we are not denying them anything. I think a proper name of the amendment proposed by the Senator from South Dakota would be the De Gaulle amendment, because President de Gaulle will be delighted if it is adopted. It means that the $200 or $300 million of trade we have with Eastern European countries will be made available to him for his farming and commercial interests. This is also true of West Germany, Italy, and England.

So what we probably are doing, in the midst of the balance-of-payment crisis, if we adopt the amendment, is to deny $300 or $400 million in favorable commercial trade in nonstrategic items and simply give this trade to others, our competitors.

Mr. MUNDT. Is the Senator really saying—I want him to correct me if I am wrong, but this is the implication—that it is all right in time of war for young men to serve their country and leave the farm and leave the school, in the neighborhood of 600,000 of them, and let them make that sacrifice, but we should not do anything in any way to curtail the extra income that war profiteers are making because they can sell to a plush Communist market in Russia the war-making supplies which in turn are refabricated or manufactured and shipped as war material from there?

Mr. MONDALE. Does the Senator think it weakens the Communists and strengthens us to inflict on ourselves the denial of markets in eastern Europe for our farm supplies and other supplies, and leave them to France? In what way does this contribute to the war effort and weaken them and strengthen us?

Mr. MUNDT. Because many of the products they want—and I would not give concessions to farmers that I would not give to everybody else—which are approved for shipment and which we send, are goods which are in rather short supply in other areas of the world. So they come in here and pay the American profiteers fantastically high prices because they have to have them to keep their Russian economy moving at full speed. In a desperate situation, one pays any price to plug up the holes. So it does weaken the United States not to force them to go to less productive markets, where they have less to choose from, where they cannot get such sophisticated machinery as gravity meters, machinery for oil wells, diamond drills, and all the other new and modern tools to be used in the bowels of the earth, which have been developed in this country because of our great oil explorations and oil development here. So those countries can get many things here that they would not get otherwise or elsewhere. We strengthen them by doing that.

It is my fundamental position—and this is where we disagree—that we should do nothing to strengthen our enemy; that there is nothing we can sell the Communist enemy that is nonstrategic; that we should not sell our enemy anything, not a pencil or a pill, because I do not want to do anything to strengthen their capacity to prolong the war and escalate our loss of life and treasure overseas.

I think the basic flaw in the administration of the President—and the Senator, instead of us, should be supporting him, and I have supported him in Vietnam—is that he relies too much on military strength, military effort, military weapons, and military sacrifices, and has not really begun to utilize our diplomatic strength and our industrial strength and our great commerce. We propose that some should pay 20 percent, because these certain exporters have been trading with the Communists overseas.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. MUNDT. I will yield, if the Senator will associate himself with me when the majority leader consults us about a time limitation and point out that he has prevented me from even getting started with my prepared presentation.

Mr. MONDALE. In the article to which I earlier referred about the Dresden meeting, Mr. Henry Kamm, reporting from Prague on March 26, states:

> A high member of the Czechoslovak Government indicated in conversation that economic pressure had been put on Czechoslovakia to restrain her internal liberalization and to hold the Soviet-block line in foreign policy.

I emphasize "economic pressure."

In other words, what happened in Dresden was that the Stalinist-type Communist leaders summoned Dubcek and the new leaders of the Communist Party, because they were terribly concerned about the liberalization going on in Czechoslovakia. The article implies that the only thing available to Moscow is economic pressure, and notes the particular economic dependence of Czechoslovakia on Soviet Russia.

Does the proposal of the Senator from South Dakota weaken or strengthen the Soviet Union? I believe it serves to strengthen, by increasing that economic dependence and the corresponding ability of the Soviet Union to apply pressure.

I believe the Senator's proposal is bad for our balance of payments. I think it is bad for the development of peaceful coexistence, free trade, and understanding between the East and the West. I believe it is the one means by which we can most strongly contribute to the economic hold which the Soviet Union wishes to continue to exercise over eastern Europe.

Further, it denies nothing to eastern Europe; it simply gives De Gaulle and the other leaders of western Europe the opportunity to supply what we would withhold.

Mr. MUNDT. Mr. President, I should like to answer that.

Let us take Czechoslovakia, since that country is the example the Senator has quoted. I, too, have been in Czechoslovakia, though not recently—not within the last 8 months—so I bow to my friend from Minnesota as being much more expert than I am for that reason, and also because he reads the New York Times with much greater dedication than I.

I remind the Senator, however, of the events of the last liberal uprising in Czechoslovakia when that great liberal, Jan Masaryk, was murdered by being thrown out the window. That is how that one ended. So this time they are resorting to economic pressure. Let us explore that.

We can say to the Czechs, "You need not trade much with Russia any more. We have a lot of wonderful merchandise over here. You make some fine things we would like to have in our country. We can work it out, just as soon as you will agree not to ship weapons to Hanoi to continue to prolong the war," which is causing such agony in this country and which is actually the reason we are debating this bill today.

The proponents of the measure are saying, "Let us tax everybody 10 percent higher." I say, "Let us shorten the war by curtailing the supplies which are prolonging the war," and we run into a maze of technicalities. I believe it is just as plausible that we can help make this split more certain by saying to the Czechs, "You can count on us; you just quit shipping supplies to Hanoi," and thereby putting a little bit more pressure on Russia. Russia is having something of a hard time meeting her commitments now. She is trying to establish superiority in antiballistic missiles. We hear debates as to whether we now have a missile lag with Russia or not. She is developing a tremendous new navy. She has been able to arm North Korea.

The administration says that we could not have protected the *Pueblo* when she

came near the coast of North Korea. Why? Because of 75 Russian Migs just over the hill. Where did they come from? From Russia; from this great military economy they have built up in part because we and others have come to their aid, have taken care of their civilian needs, and have let them put all of their resources into the military.

We have thereby permitted the arming of the Arab States, and they are on the verge of another war, simply because Russia and other Communist States have supplied arms to Nasser and his friends—the Senator knows it and I know it—and we made it easier for them to do it by satisfying the needs of the Russian civilian economy, so that they could take the men, the materiel, the planes and equipment that would normally be used for civilian needs and concentrate on making themselves the great, big military merchant and supply source of the world.

I want to stop that just a little bit. I want to do it so badly that I am willing to accept a technical difficulty or two in drafting the legislation. I think an expression by the Senate on intent is the important thing. That is why I want a rollcall.

Good gracious, if the majority of Senators feel as does the Senator from Minnesota, fine; that is what a rollcall is for. Let us reveal that. If they feel, however, as do I, that we ought to do something different after 5 years of fighting and no period of winning, then I think we have got to do something different, and it should not be to pull out, or pull back, under that enclave theory of General Gavin, which I think is as dead as the soldiers would be all around him if he were in charge, and were to do it.

But let us not just sit here and twiddle our thumbs and say, "Let us send 50,000 more soldiers, and escalate our sales to Russia, so she can send enough men, guns, Migs, and weapons to kill the additional 50,000."

When are we going to get off from this bloody treadmill, and try something different? Here, at least, is a suggestion: to curtail the source of supply and thus reduce the length and the cost of the war.

Mr. HOLLAND. Mr. President, will the Senator yield for a question?

Mr. MUNDT. I promised to yield first to the Senator from Minnesota.

Mr. MONDALE. Just one minute.

I, too, am grateful that we are to have a rollcall. It is quite clear that the philosophy underlining the Senator's proposal has been the dominating one in both the House of Representatives and the Senate.

I think this philosophy is tragically wrong: it is misguided; it is helping the enemy; it is hurting our balance of payments; it is interfering with peaceful strategic trade; it is obliterating our attempts to understand each other more; and, tragically, it is preventing the best hope for these pathetic countries of Eastern Europe to be able to stand on their own feet and wrest themselves free from Soviet control. In the old days, the Khrushchev strategy in the Hungarian uprising was based on suppression by force. Those days are over.

Mr. MUNDT. Are you sure?

Mr. MONDALE. I am not sure.

Mr. MUNDT. You do not take the word of the New York Times for it, absolutely into permanency. You may be sorry if you do.

Mr. MONDALE. I am not as close to Moscow as is the Senator from South Dakota. I think these days are over, but he may have better information than I.

In any event, it is quite apparent, regardless of that, that the basic strategy of the Soviet Union today is to maintain economic dependence over Eastern Europe. The Soviet Union is terribly concerned by the dramatic shift of trade, on the part of Rumania, to Western markets.

For when countries become independent of the Soviet Union in trade, they almost inevitably show that they will become independent in political matters as well.

I believe this policy should be debated. I think Congress is making a serious mistake. The countries of Western Europe are the main beneficiaries, because they are getting the markets. Eastern Europe is not being denied anything. I think if this amendment is agreed to, there will be joy in Moscow, and there will be joy in France; but there should be very little joy in Washington.

Mr. MUNDT. There will certainly be joy among the armed services in Vietnam if we adopt it. The Senator can add that, too. It will not be limited to those places the Senator mentioned and, in my opinion, will not be evident there, even if in fact the Senator's hypothesis is sound, and I have heard it for a long time—I sit on the Foreign Relations Committee and listen to it. In fact, I have spent more time listening to State Department speakers apologizing for their bad guesses about this particular policy than anything else they talk about, because they have made a lot of these conjectures, and always have an alibi ready when they do not work out.

For example, there is the fact of the Russians' failing to sign the Consular Agreement. They have done nothing about it. If the Senator's hypothesis is sound, they would have signed it a long time ago. The State Department also guessed wrong and advised us badly on that one.

But apart from that, if they are now going to try to put countries together, and cement their Communist coalition by becoming the great provider, economically, for the rest of the world, it would seem to me, if that hypothesis were correct, we would not be helping it by our amendment. We would not be making it easier for the Russian economy to plug up those loopholes, so that they can provide all those things. They buy from us only the things they desperately need.

Mr. MAGNUSON. Does the Senator intend to offer his list of items?

Mr. MUNDT. Yes. Obviously, we will not now finish this debate tonight. There are pages of exactly what they bought, the date they purchased it, and the payment in terms of our dollars. I think the Senator is entitled to know that. I think our constituents are entitled to know that, because we are going to say, by our vote on this issue when it comes to a vote some time tomorrow, "All right; let us encourage an expansion of that war-feeding trade" or we are going to say, "Let us discourage it."

Certainly the pending amendment is not going to solve the problem. I think that we can argue the economic matter either way. Only time can tell which one of us is correct as far as the economic philosophy is concerned. But we have a war on our hands today.

Mr. HOLLAND. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. HOLLAND. I noticed during the discussion of the able Senator from South Dakota that he has several times used the words "war materials," and referred to the fact that the Communist countries are supplying war materials to North Vietnam.

Mr. MUNDT. Perhaps I should have said weapons of war, too.

Mr. HOLLAND. I notice, however, in reading his amendment that he does not confine his amendment to the furnishing by Communist countries of war materials or materials of war, but the amendment says, "supplying material to the Government of North Vietnam."

Mr. MUNDT. The Senator is correct. That is any material.

Mr. HOLLAND. We find the words on lines 7 and 8 of page 1: "which is supplying materials to the Government of North Vietnam."

Mr. MUNDT. The Senator is correct.

Mr. HOLLAND. We also find the same words on page 2 of the amendment which is the portion which covers the affivadit by the taxpayer. The same words are used there.

Do I correctly understand that the Senator proposes then that the taxpayer in order to free himself from the tax if he deals with any Communist country must be able to make an affidavit that that country is not furnishing any type of material to North Vietnam?

Mr. MUNDT. The Senator is correct, it says "material" and, as I say, if one adopts my hypotheses—if one disagrees, fine—it is clear, people think that we can fight a war with an enemy and give him everything but ammunition and win the war and send him clothing and fruits and vegetables and housing material and bathtubs. I think that in this kind of a war, we are fighting an economic war along with a military war and we should deliberately do nothing at all to strengthen our enemy.

That is one of my big quarrels with President Johnson whose direction of the war is that he can continue to pile on the military strength and increase the casualties as if there were no economic way by which to put the pinch on Hanoi. I think that there is. I think we should start trying now—with this amendment.

I want to break down their economy by stopping all exports from going there as much as we can and by putting on an economic pincher, which I think we can do rapidly and with less cost in lives than by bombing them, by simply putting pressure on their supply of war material. That is why we provided that it cover materials of any kind.

Mr. HOLLAND. The Senator did not intend to cover the war materials or

materials of war or to use similar words, but intended to cover materials of any kind exported from Communist countries to North Vietnam.

Mr. MUNDT. The Senator is correct.

Mr. HOLLAND. I thank the Senator. That leaves the Senator from Florida in a very difficult position.

I have served on conference committees twice in the last 2 years in which amendments were pending that involved this general question. One had to do with the foreign aid appropriation. One had to do with the last version of Public Law 480.

In both cases the conferees were furnished with figures from the Department of Commerce which showed rather conclusively that the principal furnishers of materials other than war supplies to North Vietnam were Japan and Hong Kong.

Mr. MUNDT. And England, France, West Germany, and many others.

Mr. HOLLAND. If the thrust of the amendment is to prevent any material from reaching North Vietnam, I think the Senator should take notice of the fact that the principal suppliers of materials other than war materials to North Vietnam are not Communist countries.

I wonder why the Senator has limited his amendment to Communist nations.

Mr. MUNDT. That is a good question and I shall gladly answer it.

Mr. HOLLAND. If the thrust of the Senator's amendment is as broad as he has indicated, and if he is anxious to prevent any materials from reaching North Vietnam, I think he, who incidentally was in one instance a conferee on one of the bills I have mentioned, should have knowledge of the fact and should recall that the figures furnished us by the Commerce Department showed very clearly that most of the materials reaching North Vietnam, other than war materials, came from two friendly countries, Hong Kong and Japan. Does the Senator recall that?

Mr. MUNDT. Of course I remember that. I will now answer the question the Senator was asking, and that was, if I understand it correctly, that he wanted to know why we did not spell out weapons of war and why we included all materials exported from Communist countries to North Vietnam. That is a very good question.

The Senator from Virginia [Mr. BYRD] and I discussed that at some length. In the first place, when we start trying to spell out what are weapons of war and what are nonstrategic supplies, as the Senator from Florida knows as well as I, we at once hit a hopeless impasse unless one catalogs and inventories all of the items to be included or removed.

In the second place, it is true that Japan, West Germany, the Scandinavian countries, England, to a great degree, and many of the other so-called friendly countries are shipping materials other than weapons of war to North Vietnam and are thereby in a sense shooting in the back their friend Uncle Sam who is defending their freedom, because they are making it more possible for Hanoi to continue and to escalate the war. Nevertheless, while they do that, we recognize that in the winning of this war, we must shut off first and foremost the shipment of missiles, guns, Migs, tanks, and ground-to-ground rockets, because we are fighting a country that cannot manufacture its own sophisticated weapons.

If we would just decide that instead of sending boys over there to such a great extent we would keep these countries from shipping armaments, the war would be over soon. I am convinced that it would have been over more than a year ago had we been able to develop some kind of blockade. I know the arguments against bombing Haiphong and against blockading the harbor. However, had we been able to blockade the harbor, the war would have been over. This amendment provides a different, a safer, but still an effective step in stopping those war supplies from reaching North Vietnam.

This is the first step in the direction of making it unlikely that the Communist countries will continue to supply that endless, growing chain of weapons to North Vietnam. That is why we said materials, as far as the Communist countries are concerned and did not take any action against any of the non-Communist countries, because none of them are sending any of the armaments or military weapons.

Mr. HOLLAND. Frankly, I am surprised. I thought that probably the Senator had inadvertently omitted the word "military" before "materials," or had omitted some similar word.

Mr. MUNDT. We did it deliberately.

Mr. HOLLAND. However, since I find that the Senator is definitely trying to preclude trade between our country and any Communist country that is supplying any kind of material whatsoever to North Vietnam, and since the Senator knows, as I know he knows, that the principal suppliers of materials other than war materials to North Vietnam are not the Communist countries, but are instead Japan and Hong Kong——

Mr. MUNDT. Just a moment. The Senator said that I know, and the Senator from Florida knows that I know, that the principal supplies of materials other than war materials to North Vietnam are Japan and Hong Kong.

Mr. HOLLAND. The Senator was one of the conferees on one of the conference committees to which I referred.

Mr. MUNDT. However, when the Senator says that I know and he knows that I know that the major suppliers of nonmilitary goods are Japan and Hong Kong, that depends upon how he defines those supplies. If the Senator is talking strictly about food supplies, nonmilitaristic supplies, and supplies that cannot be refabricated into military weapons, I concur. However, if the Senator is commingling other items, I deny the accuracy of the statement.

Mr. HOLLAND. Mr. President, the data furnished us by the Commerce Department shows very clearly that the principal suppliers of material generally other than military supplies to Vietnam were Hong Kong and Japan.

That covers cloth of all kinds, food and supplies of all kinds. That covers all kinds of knickknacks, household goods of every kind, and many other types of goods, as the Senator well remembers.

Mr. MUNDT. When the Senator limits it to that limited list then I concur.

Mr. HOLLAND. I was frankly surprised that the Senator left out the word military, because that word was not left out in the amendment which we had before us which dealt with the foreign aid bill and with the Public Law 480 authorization bill. This problem makes the amendment have a rather hollow ring, because it is aimed at cutting off supplies other than military supplies from only a limited source and which furnishes only a small part of those supplies other than military supplies. I am surprised that this was not an oversight, and I want to express the surprise in the RECORD.

Mr. MUNDT. What particularly does the Senator find wrong with keeping the Communist countries from shipping these materials to our enemy?

Mr. HOLLAND. I believe there is no difference between a thimble or a handkerchief or a shirt that comes from Hong Kong and one that might come from a Communist country, and I believe there is no difference between a can of food of some kind that comes from Hong Kong or Japan and one that comes from a Communist country.

If the Senator seriously is trying to cut off materials of all types, I am amazed that he does not take note of the fact that the principal suppliers of materials other than war materials to North Vietnam are the friendly countries which I have mentioned, together with some others which he has mentioned, who supply lesser amounts—the Scandinavian countries and others. It makes the amendment have a much different meaning to me, and I have already said it makes the amendment have a rather hollow ring, if the Senator really meant to leave out the word "military" in connection with materials.

Mr. MUNDT. As I said before, the only reason the word "military" is left out is to make certain that those who tend to make mountains out of molehills in the field of technical, microscopic analyses cannot apply the same technique that we have had ventilated on the floor of the Senate today, and say, "How do you know that the Russians are sending them a military supply? This is not a gun. This is only the stock of a gun. The barrel is in the other package. It is not put together."

So if you are going to make it effective, you have to make it "material" when you are dealing with the great Communist sources supplying the weapons for North Vietnam.

The reason why we are not concerned about the material going in from Tokyo and such places—although personally I am concerned, and I wish the free world would help us in a great, joint economic effort to end the war—why we are not trying to legislate against that now is that, happily, the free nations of the world are not the offenders in the areas where it hurts the most and where our boys are getting killed with imported armaments. Mig's are made in Russia; 8,000 Russian antiaircraft guns are shooting down nobody knows how many American boys, while we debate the issues and quibble over technicalities here on the Senate floor today. Every one of those guns was sent from Russia, and all the big tanks about which we read go in from Russia. Why should we not do something realistic? We squander our

time and worry about taxes and such things. We had better move along the paths which are available to us. We cannot correct all the cupidity and the desires of tradesmen in all the other countries to make easy profits from difficult wars but we can start reducing our losses in life and treasure by approving this amendment now. We can do something about the people in America who sell these materials. All materials sold to those countries would be subject to the 20 percent war profiteering tax.

Mr. HOLLAND. If the Senator would so change his amendment as to make it apply to the item with which he is concerned—that is, the supply of military equipment—it would be one thing. But he has not done it, and he has made his amendment such as to apply to all materials, when we all know that the materials other than military which go to North Vietnam, in the main, come from non-Communist countries. We know that. We have been furnished that information. So long as the amendment is in its present form, I cannot support it.

I thank the Senator for yielding, with his customary courtesy.

Mr. MUNDT. I should like to make one further comment, before I yield to the distinguished coauthor of the amendment, because I should like him to speak today, and I have not completed the first paragraph of my speech.

However, I am a realist—I say this particularly to the Senator from Minnesota [Mr. MONDALE], the senior Senator from Florida Mr. [HOLLAND], and the junior Senator from Florida [Mr. SMATHERS]—the Senator from Virginia and I are realists. We are trying to do something practical. So we herewith put in the RECORD, in black and white, a public challenge. We will be most eager to have from anyone who finds technical faults with this amendment suggestions for improving the amendment. When the time to vote arrives tomorrow, if the suggestions come with sincerity and the statement, "We will then support the amendment," we will embrace those suggestions.

Of course, if this is just a haggling desire to try to destroy the amendment, we will not do it. We welcome suggestions. We appreciate meaningful criticisms. Give us a positive approach, and we will embrace it.

Mr. COOPER. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. COOPER. I do not raise a technicality. The thrust of the Senator's argument has been that the approval of his amendment would inhibit the shipment of arms to Vietnam. I agree that a vote for this amendment might express disfavor of those who trade with the Communist countries which supply arms to Vietnam. But I must ask what effect would it have upon preventing or even inhibiting the supply of arms to Vietnam? Does the Senator believe it would truly have any effect?

Mr. MUNDT. Yes. I am not just interested in a forensic exercise.

I have sat with the distinguished Senator from Kentucky in the Committee on Foreign Relations and have seen him wring his hands, as I have wrung mine, about the fact that after 5 years of bloody war we do not do anything different except sending more boys to Vietnam and incurring more casualties. We do not try anything different. We do not even try to stop the influx of weapons from abroad.

The Senator from Kentucky knows the reasons we hear as well as I : "It might antagonize Russia if we bomb Haiphong, so we let the supplies pour in from the north on the Red Chinese railroad and from the east through the harbor."

Senator BYRD and I say that here is one way in which we can cease shipping the ingredients badly needed by Russia to fabricate the weapons she manufactures and sends to Hanoi. Here is one way to cut the supply of weapons used by our shooting enemy. I do not know how it can be simpler. If we just stop them from making and sending 100 extra guns, we can save some American lives.

Mr. COOPER. I have enjoyed my service on the Committee on Foreign Relations with the Senator from South Dakota, and I have learned to appreciate him even more than I have in the past. He is consistent. He is a very patriotic man.

But in voting for this amendment would we be doing anything more than giving the illusion to a soldier in Vietnam that we are helping him.

Mr. MUNDT. We are helping him. It is not an illusion.

Mr. COOPER. We might present ourselves to the people of this country as patriotic persons, and we are without the amendment. The practical question is whether we would accomplish anything by adopting the amendment. I doubt that it would have the slightest effect upon Russia or the eastern Communist countries, except to cause them to be more adamant in their position, I do not wish to vote for a gesture.

Mr. MUNDT. Will the Senator yield for a counterquestion?

Mr. COOPER. I yield.

Mr. MUNDT. I do not wish to vote for a gesture.

Will the Senator agree with me that by stopping the shipment of Worden gravimeters, which the Russians can get from no other country but the United States, which helps them measure the accuracy of the rockets they use to kill American boys, if their aim is off instead of on target, would we not have helped saved the lives of some of American boys?

They frantically try to get these devices, because they cannot get them anywhere else. Would not that alone justify this effort?

Mr. COOPER. If a bill should come before the Senate which would do what the Senator desires—prevent the export of such devices to Russia—of course it should be approved. The administration can take such action now. I do not believe an extra 10-percent surtax would have that effect.

Mr. MUNDT. May I add, because the Senator is proceeding on my time, the Senator may have all the time he wishes to question me, but I wish to make clear that on the tax measure, and I want the Senator to understand, this proposal does not only involve the profits on trade with Communists—it would have the impact of sharply reducing, if not in fact, substantially stopping such wartime trade.

Mr. COOPER. I understand.

Mr. MUNDT. This would involve the entire corporate tax corporate.

IBM is one of the offenders because they are sending computers to the Russians and computers are almost an armament because by that means they are able to have men in the right place and at the right time. If IBM insists on profits of this kind, I think its income should be subject to the tax. That would be the penalty.

Mr. COOPER. I had said I would not raise a technical issue; and now, the Senator is leading me to one.

I doubt that we can impose on a taxpayer a tax rate higher than would be imposed on another taxpayer in the same class of income.

Mr. MUNDT. It has been done many a time. We have had the excess war profits tax on war products manufacturers. There is nothing novel in our proposal.

Mr. COOPER. If a measure comes before the Congress, with the effect the Senator and all desire, it would, I believe, receive support.

However, to vote for an amendment, the effect of which is doubtful, could be considered by the people of the United States and the men in Vietnam as not much more than a gesture.

Mr. MUNDT. I hope the Senator sleeps well tonight and comes in tomorrow with the right decision.

There is no place where we as Senators have a better opportunity to save the lives of our brave fighting men.

I shall refer to another illustration. We are shipping to the Russians rifle-cleaning compounds. The Senator can bet his bottom Kentucky dollar the Russians are trans-shipping that rifle-cleaning compound to their comrades in Vietnam because the troops who are there are having a difficult time keeping their rifles clean and functioning in that climate.

If we can keep them from having clean rifles with which to kill American boys, is that not worth having a taxpayer pay a penalty tax if he wants to trade with the enemy? I wonder what right he thinks he has anyway, trading with the enemy in time of war, and this is a time of war.

We simply say, "Go ahead if you put your corporation profits above patriotism, the people of this country, and peace. Go ahead, but you have to pay a 20-percent tax across the board to do it." That is a realistic matter and it will stop virtually all trading with the enemy.

Of course, lives are saved when weapons are taken away from the enemy. The President says, "Give me more men; escalate the bombing." We stay with him because we say that to accept defeat in Vietnam is disastrous but we deplore his totally inconsistent and indefensible trade policy, vis-a-vis our Communist enemies.

Mr. President, I yield the floor.

Mr. BYRD of Virginia. Mr. President, I am glad to associate myself with the distinguished Senator from South Dakota. I doubt that there are many people in the entire Congress who have given as much study or devoted as much time to learning just what the Commerce

Department has done in granting export licenses to nations throughout the world. I think that over the last 2 years he has rendered a fine service to the people of the United States, as well as to the people of the great State of South Dakota in the work he has done in this field.

I am pleased to associate myself with the senior Senator from South Dakota. It was his work last August, and I was glad to be associated with him, that brought to an end the talk, including talk on the part of the President of the United States, to have taxpayers finance a Fiat automobile plant in the Soviet Union; while at the same time the Soviet Union is the principal supplier of war materials to North Vietnam.

Mr. President, the amendment offered today is not a perfect one. It does not reach all of the problems that need to be reached.

However, it seems to me that it makes a step in the direction that we need to go because I have been waiting for 2½ years to see some sense of urgency on the part of our Government in trying to bring the Vietnam war to a conclusion.

I submit that there has been very little, if any, diplomatic and financial pressure exerted by our Government in an effort to keep friend and foe alike from supplying that nation and those men who are fighting American soldiers in Vietnam.

Mr. President, I wish to cite a few figures. During 1966 the United States suffered 35,000 casualties in Vietnam. During 1967 the United States suffered 71,000 casualties in Vietnam. During that 2-year period we had an average of 1,000 U.S. casualties per week.

Now, we come to 1968 and during the first 11 weeks of this year we have averaged 2,300 American casualties.

We are in a major war. One would not know that from being in Washington, but we are in a major war. Only in three other wars in the history of our Government have there been more casualties. Those three wars were the Civil War, World War I, and World War II. The total number of U.S. casualties in Vietnam have surpassed the total number of casualties in the Korean war.

I say that our Government—Congress, the President, and the executive branch—are obligated to take every reasonable step to put pressure on friend and foe alike to get this war over with. Yet I cannot see that there is any real sense of urgency on the part of the Government to do that.

The amendment we are considering might be called an antiprofiteering tax. I have been a businessman all my life, so I am not antibusiness. But I do not like American businesses trading with nations which in turn supply and equip a nation with which we are at war.

As the distinguished senior Senator from South Dakota [Mr. MUNDT] stated time and again on the floor of the Senate today, if it is the wish of those companies to do that, then they should pay an extra tax, a profiteering tax, a war tax, for that privilege.

I would hope that they would voluntarily cease trading with nations which are supplying our enemy. It seems to me that that would be the proper course for an American company to take.

I do not want to see trade disrupted between the United States and Eastern European countries. I should like to see more trade between the United States and European countries. But the United States is at war; those countries are not at war.

I say that so long as we are at war, an entirely different situation exists with respect to American companies that trade with nations which in turn supply our enemies.

I feel very keenly about the war in Vietnam. I have from the beginning questioned the wisdom of our becoming involved in a ground war in Asia. But the United States having sent 500,000 Americans to Southeast Asia, I submit that we in the United States, and we in Congress especially, are obligated to put all the financial and diplomatic pressure that we can on friend and foe alike in an endeavor to bring the war to an early and successful conclusion.

Thus, I intend to support the amendment offered by the Senator from South Dakota, of which I am a cosponsor. It is not perfect. There are some technical flaws in it perhaps, but the technicalities can be worked out with the lawyers in the conference committee.

At least, it seeks to show to the American people that Congress has some interest in doing what it can to bring this very tragic war, in which this country has been engaged for a long time now, to a conclusion.

Mr. President, I yield the floor.

NOTICE BY SENATOR MUNDT REGARDING TIME LIMITATION ON DEBATE TOMORROW

Mr. MUNDT. Mr. President, may I proceed long enough to say that although very few Senators have been in the Chamber to listen to the debate today, obviously all Senators can and should read the RECORD tomorrow morning.

Very properly, at least, every Senator should have someone in his office who can tell him in the morning everything of significance that has appeared in the RECORD.

Accordingly, I thought I would say that we are trying to work out an arrangement, after convening at 11 o'clock, tomorrow morning to proceed with this debate and work out a reasonable time limitation so that we can vote at a reasonably early hour in the afternoon.

For that reason, I should like to know how many—if any—Senators wish to talk on this issue and would want me to reserve some time for them, so that I will not agree to a unanimous-consent request for a time limitation that might shutoff some Senators who wished to speak.

Senators, of course, always read the RECORD, or have someone in their offices who read it every day, so that they can find out about the kind of discussion I am mentioning now, so that if there are any repercussions tomorrow as a result of the time limitation and someone says to me, "I wanted to talk. Why did you not leave me some time?" I can say, "You should have read the RECORD." All Senators are now on notice about the limitation of debate.

Mr. President, I should like to read into the RECORD for the benefit of those who think we are playing around with this amendment and dealing with thimbles and knickknacks, and spools of thread, some more of the specifics of what type of trade with the enemy we are actually trying to curtail.

I mean, the Senate is a mature body. The war in Vietnam is not one being fought at the White House. It is not just a presidential war. It is not what my good friend from Oregon [Mr. MORSE] used to call "McNamara's war." Mr. McNamara has gone. It has now gotten to be everyone's war. We have been in it for a long time—5 bloody, shooting, killing years—and the wheels are still spinning in the same bloody grooves, without any real accomplishment or progress.

It is getting to be most difficult for those of us who are supporting the administration, in the monotonous repetition of a formula of failure, to continue to support it when, as the Senator from Virginia has pointed out so eloquently, the administration has virtually utilized none of our economic power, none of our diplomatic power, and none of our capacity for world leadership, to try to bring concerted effort upon Hanoi to come to the peace table before we have any continuing escalation of the casualties and the military consequences.

So the question rightfully arises, because even the technical critics of the amendment, even the captains of the commandos who damn it with faint praise, admit that this 20 percent tax will probably shut off a lot of trade in these kinds of supplies to Russia. If she cannot get them, it is going to have the chain reaction of reducing Russia's supply of trade with North Vietnam.

If we show just a little willingness on the other hand to recognize that in wartime people should not be profiteering unconscionably by trading with the enemy, perhaps a wise and persuasive American leader—our present President or someone else—can then say to our friends in the free world: "Look here, we are denying ourselves. How about kind of shortening up a little bit on what you are sending your enemy and ours over there?" Possibly then we can get the war over with, instead of continuing it under a formula which everybody knows is steadily escalating without the desired results.

When we have an administration that has its needle stuck in one groove, when all it plays is, "More troops, more money, more deaths, more war," that is not going to get the job done. We have to do some constructive thinking and to employ some new tactics. Here at least is a different approach. Here we are doing something positive. If it hurts anybody at all, it will hurt some bloated American war profiteer who will not make as much money as he was making before in trading with the enemy.

Our amendment may have some technical flaws and deficiencies, which can be worked out in conference, but it moves in the direction that the great heart pulse of America wants us to move in, and that is move forward on with

the job of getting on with the war with fewer, rather than larger, casualties.

What does the list include? I have mentioned gravimeters. I have mentioned cleaning compounds for rifles. Let me mention a few other products, because the Senator from Florida [Mr. HOLLAND] said we are not interested if we are just going to deal with thimbles and other nonmilitary materials.

There was one shipment, for example, of $482,273 worth of oil production and drilling machinery. No question about what that is for. It is for drilling wells to get oil.

Where does the oil go? It goes directly to Hanoi to such an extent that every gallon of oil used by every moving machine which has killed an American boy in the Vietnam war in the last 4 or 5 years has been supplied by Russia.

Do we want to penalize the country of shipment? Do we want to decrease these shipments? Do we want to encourage them? Let us have a rollcall decision to see just what we want to do in this area.

The Soviets have a great desire for aluminum and aluminum alloys, because they are busy building war planes for Nasser, for Korea, for North Vietnam, and for themselves. So, in one order, they purchased $4,695,000 worth of aluminum products from the United States. It is a substance important to them in the manufacture of their planes, missiles, rockets, and other products with which they deal death and destruction to our American boys overseas.

So, Senators will vote tomorrow, this time with their eyes open. Should we encourage or discourage these death-dealing supplies?

Let me point them out so Senators can read about it in the morning and their constituents can read about it later. I refer to page S2972 of the CONGRESSIONAL RECORD for March 18, 1968. There are four and a half pages spelling out the inventory that President Lyndon Johnson fixed by Executive action on October 12, 1966, saying to his associates in America, "Go out and profiteer. These things you can sell, without limit and without license, to our fighting enemy."

All the Senator from Virginia and I are saying is that if we allow them to trade with the enemy, they should pay a 20-percent tax on the blood traffic in which they engage.

Mr. President, I shall not ask to have the list reprinted in the RECORD today, but for those who want to know, for those who want to explain their votes when they go before their constitutents, for historical reference, all others who are interested, look at pages S2972, S2973, S2974, S2975, S2976, and the top half of S2977 of the RECORD of March 18, this year, if they want to see the whole catalog of supplies being shipped, free from restriction of any kind, for fat profits, to the Soviet Union now. And that is not all.

Mr. DODD. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. DODD. I want to warn the Senator, in view of his generosity, that I have differences with him.

Mr. MUNDT. That is all right.

Mr. DODD. I have long admired the Senator from South Dakota. As he well knows, he and I are usually in agreement. With much of what he has said, I totally agree. But what troubles me about the Senator's proposal is that we must recognize, as I think my record will establish that I have recognized, that there are differences within the Communist empire. I have never denied that. I think my record will establish it.

In the case of the Soviet Union, for example, I think we should restrict or liberalize our trade policies depending upon their conduct in world affairs. The Senator knows that I have said this time and again on the floor of the Senate.

Mr. MUNDT. The amendment confirms that, because it applies only to Communist countries now shipping war supplies to our enemy in North Vietnam. It does not apply to those who are willing to restrict their trade there but only to those who are in this war just as we are, those who supply the iron and the men. So the amendment distinguishes between the two groups.

Mr. DODD. I understand. I have read the Senator's amendment carefully and searchingly. I am entirely sympathetic with his views. I think the Senator knows that. But let us take an example. Should we restrict or liberalize our trade policies, depending on their conduct in world affairs, which I have advocated in my 14 years in Congress? I have never varied my views on it.

Mr. MUNDT. This amendment does precisely that.

Mr. DODD. Let me go on, if the Senator will permit me. I say if they step up the cold war, as I know they are now doing in Vietnam—I am as convinced of that as I am that I am standing here—then I say we should cut back sharply. On the other hand, if they were to agree to terminate this dreadful war in Vietnam on acceptable conditions—and I am sure this is no news to the Senator—I would favor letting them know in advance that we are prepared to pay for that with substantial trade concessions. I would go so far as to include long-term credit arrangements.

At this very moment a situation exists in Czechoslovakia which might warrant—might, I say—a substantial liberalization of our trade with that country. If I correctly understand what is going on there, I think this is so. In the case of Poland, events seem to be moving in the opposite direction.

In any event, the amendment proposed by the Senator from South Dakota would have to be applied to all Communist countries on an across-the-board basis, and that is what troubles me about it.

Mr. MUNDT. I should like to correct the Senator's statements as he goes along.

Mr. DODD. Let me finish.

Mr. MUNDT. No; the Senator is speaking on my time, and I wish to correct his statements now.

This is not an across-the-board approach; it is an across-the-board approach only as to the Communist countries that are selling weapons and war materials to North Vietnam.

The Senator's belief may be correct. It is a hope that everyone has. But I think the Senator from Connecticut is too realistic to accept it as a fact.

Mr. DODD. I think the Senator from South Dakota is too idealistic.

Mr. MUNDT. If there has been a great change in Czechoslovakia, if there is actually such a change, all in the world that Czechoslovakia has to do is to give some tangible, manifestation of the change by ceasing to sell weapons to our shooting enemy that are prolonging the war, and the amendment then will not apply.

Mr. DODD. I know; but as the Senator puts it, there is no latitude. Why does he not give our administration, in its conduct of foreign affairs, a chance?

Mr. MUNDT. That is a question I want to answer. This administration, unlike any other administration in American history, took executive action on October 12, 1966, opening up the unrestricted right of American would-be millionaires and profiteers to trade with the enemy in time of war. That had never happened before in all our national history. I am not going to trust any further an administration that is so confused in its war issues and in its priorities that instead of curtailing trade with the enemy, it takes deliberate action to expand it. I can add 1,900 items as to which, 98 percent of the time, this administration has OK'd shipments of all kinds of ingredients helpful to the war productivity of the Russian Communists. So I refuse to trust the administration in that area any longer.

Mr. DODD. Will the Senator hear me?

Mr. MUNDT. The Senator asked me a question, and I thought he wanted an answer.

Mr. DODD. I appreciate the Senator's answer, but I am trying to reason this thing out within and for myself.

Is it not wise and prudent and realistic to say that if we can win them away from the Soviet Union—which is the hard core of the Communist conspiracy—we should do so? People are people, and there are signs, which the Senator and I have discussed, of the ferment, the tumult, the disturbances in the Communist empire. Should we not encourage this development?

Man's desire to be free is, I am convinced, never going to be satisfied until he is free. I have always thought, and the Senator knows it well, because I have talked with him about it, that our best hope, I think now, is to change them. I never have been an advocate of a war against them. I have thought the natural desire of man to be free would take care of it, though with great pain, great loss, and great suffering.

I think, therefore, that the Senator's amendment is too restrictive, that it makes more difficult the task of accomplishing this purpose.

The administration, the Senator says, is unwilling to do any of these things. The Senator knows how I have on different issues opposed my own administration, and my own President, whom I like and respect. I have had my differences with them. I think they have made mistakes—for example, the grain deal.

I spoke up when I thought they were wrong.

But I think the Senator is going too far. I would rather see us in a more flexible position. Let us not write them all off. Let us give them a chance to evolve in our direction if they want to.

Mr. MUNDT. Mr. President, I must appropriate a little bit more of my time at this stage.

Mr. DODD. I thought the Senator had unlimited time.

Mr. MUNDT. When I am accused of writing them all off, and the facts are diametrically opposite, I must correct the record.

Mr. DODD. I do not want to use up the Senator's time. I thought we had unlimited time.

Mr. MUNDT. I do not have unlimited time. I have been here all afternoon.

Mr. DODD. I mean on the debate. The Senator knows what I mean.

Mr. MUNDT. If the Senator will permit me to finish, I will permit him to ventilate his ideas at whatever length he chooses.

Mr. THURMOND. Mr. President, will the distinguished Senator yield?

Mr. MUNDT. Not right at the moment. I want to correct the Senator from Connecticut when he says I treat them all alike. We do not.

Mr. DODD. The Senator's amendment does.

Mr. MUNDT. The amendment does not. The amendment says it is applicable only to those Communist countries which are engaged in shipping supplies to the enemy we are fighting in Vietnam.

Mr. DODD. But since all Communist countries send material, in one degree or another, to North Vietnam, does the Senator's amendment, in effect, not treat them all alike?

Mr. MUNDT. A distinguished barrister like the Senator could argue with greater validity and greater persuasion if he would take our amendment and say, "This provides a mighty fine opportunity now, for Czechoslovakia; they are beginning to break away and looking for new ties." Our Ambassadors could talk to them and say, "Look, if you will really get away from this business of associating yourself with the war in Vietnam, and cease sending your arms to our enemy and do not send any more in, we will make trade treaties with you, and fortify your independence from Russia."

We would then be strengthening our position, it seems to me. The Senator has one hypothesis, and I have the other, but I think both of us, in our hearts—certainly I am—are a little bit skeptical about the permanency of the freedom which is just beginning to flicker a little bit in Czechoslovakia; we remember the serious problems of the time of Masaryk and the time of the Benesch, because we have been studying these Communist convolutions for a good long while.

Mr. DODD. Mr. President, will the Senator yield?

Mr. MUNDT. I yield.

Mr. DODD. How shall I put it? The Senator is saying to these governments, "Unless you do this, now, this will happen." Why do we not leave it up to the administration, and to diplomacy?

Mr. MUNDT. Because it fails us.

Mr. DODD. It never really fails. It is the art of man with other men; and the alternative is war. When diplomacy ends, the guns start. The Senator and I do not want to see that happen. Why not leave the matter open, and let our diplomats say to those diplomats of, say, Czechoslovakia—not in this form; I am not a diplomat and I never have been, but there must be a way to say it—"Why don't you stop this, and consider what we will do for you?"

If we write this amendment into law, I am afraid that door will be closed, and I think we will make our task more difficult. I ask the Senator to think about that. It would make it impossible to differentiate, as I consider proper, between our trade policy in the case of Czechoslovakia—and I am taking that country as an example—and our trade policy in the case of Poland. They are different.

Mr. MUNDT. Will the Senator yield?

Mr. DODD. I yield.

Mr. MUNDT. Does the Senator really think it makes much difference to the big objective we all have in mind, which is ending the war in Vietnam without defeat?

Mr. DODD. Yes, I do.

Mr. MUNDT. Does the Senator think it makes any difference toward that objective——

Mr. DODD. Yes, I do.

Mr. MUNDT. I have not asked the question yet.

Mr. DODD. The Senator asked me a question, and I have answered it. I do.

Mr. MUNDT. Let us go back and ask the question. Does it really make any difference——

Mr. DODD. Yes, I think it makes a great deal of difference.

Mr. MUNDT. Let me finish the question. I am not a lawyer, but I am smart enough to know how to trip up a lawyer who answers a question before I get it asked. I could then change the question.

Mr. DODD. I thought the Senator finished the question.

Mr. MUNDT. No. Does the Senator really think it makes any difference——

Mr. DODD. Yes, I do.

Mr. MUNDT. As far as the results in the great goal which we share——

Mr. DODD. Yes, I do.

Mr. MUNDT. Of getting the war in Vietnam concluded without failure, whether or not—now I am coming to the meat of the question—whether or not the guns and the planes and the tanks and the rockets that prolong the war and kill our boys are shipped to Hanoi by Czechoslovakia with a pleasant little greeting saying, "Merry Christmas," or are shipped to Hanoi by Russia, with a scowl and a frown and some sort of statement telling us to go to the hot place? The results are the same; the guns and the weapons are the realities. That is the question.

Mr. DODD. My answer is just what I have made it. Perhaps I was presumptuous in attempting to answer too early. I think it does make a difference.

I know the Senator from South Dakota well enough to respect his views and I know his earnest desire for the cessation of the war and the establishment of peace.

If there is any little thing that we can do to stop it, we ought to do it. And this may be a way to stop it.

The art of diplomacy is to prevent war, and until we have exhausted every means in our power, we should continue to try. I think that is where the Senator and I differ, if I may say so.

I am no less an ardent anti-Communist than is the distinguished Senator from South Dakota. I do not think we have a basic difference. I think the Senator got off on the wrong track. I think we ought to be working on these Communist countries all the time, not with the threat of war, but by encouraging the intellectuals and by feeding the desire of man for freedom. I do not think that we serve that cause when we write into this law an amendment of this kind.

Our best hope, in my view of this whole situation, if I may describe it as such, is to change them without recourse to war. And I have never varied from that in my 14 years in Congress, as the Senator well knows.

Our task is to change them, but to be ready if they attack us. We should be ready at all times to show them the light and to show them where their interest lies.

I do not think that we can do it by as restrictive an amendment as the amendment now pending before the Senate. I plead with the Senator to think about this overnight. We ought to be working on this level. It has not been very fruitful.

I do not think the grain deals did us any good. In fact, I think it did us great harm to get into grain deals. However, several different administrations were responsible for it. All or most of the grain dealers wanted to do this. So we did it, to our great detriment.

I have been arguing that our best hope lies not in war, but in peace, and that we must try to convince people by reasonable arguments that the best hope of mankind lies in freedom and not in tyranny.

I think we can convince human beings of this if we can get through to them. Every time we go about it in the fashion that the Senator suggests, I believe that it hardens the situation and does not help much.

What does the Senator think of that?

Mr. MUNDT. Mr. President, I think I realize now why we are having this difference of opinion. Both of us are, of course, anti-Communist. However, we seem to be apart on this matter.

The Senator is discussing almost exclusively the problems of the cold war.

Mr. DODD. That is what we are in.

Mr. MUNDT. And he is discussing the long term techniques of how to try to bring humpty-dumpty back together again and get the world on the basis of mutual accommodations. And when the Senator talks about trying to get the intellectuals on our side and trying to influence free men in the cold war, that is very fine. However, my amendment deals with a different kind of war.

I am talking about our actual shooting war in Vietnam, where 100 boys probably have died during the course of this col-

loquy. It has no relationship and nothing to do with the cold war. When this war is over, I will go along on any kind of reasonable program to get people together, but only when the war is over.

I am talking about a shooting war that is now in its fifth year, with over 100,000 casualties, plus more than 20,000 deaths, with no change in direction, policy, or tactics, but only a continuation of encouragement to American profiteers to ship additional stuff to the Soviet bloc so that they can expand and escalate their shipment of death-dealing weapons to our stubborn enemy in Hanoi. That is what I am talking about. This is something that we cannot wait for a long time to accomplish.

The Senator and I both stood in a pretty thin, white line the other day when Secretary Rusk appeared before our Foreign Relations Committee. We agreed that we could not accept defeat in North Vietnam, turn tail and run, and turn the whole area over to the Communists. However, we must do something different. We must try to shut off the capacity of the enemy to endure and fight. And our amendment is an effort—and an effective one—at least to tell the free world that we are all through with the profiteering aspects of this war, so that we can win some realistic support from them.

It is an effective way of letting American exporters and shippers know that we look askance on anybody that puts profits before patriotism in the fifth year of this war.

It is a good way to diminish, although we cannot stop them entirely, the kind of selective purchases the Soviets are making by which they bolster their sagging economy so that they can increase the arsenal of weapons and supplies they are shipping all over the world.

Look at what they did in Egypt. The war almost broke out again the other day between Jordan and Israel. Jordan got its guns out of the same stockpile that the Johnson administration has encouraged Russia to build by providing the aluminum and the machinery and the gearmaking machines, and the trucks that are so essential to any economy, but more particularly when that economy emphasizes military escalation.

Mr. DODD. Does the Senator differentiate or isolate the war in Vietnam from the cold war?

Mr. MUNDT. In this way only, that I think we have to have a priority.

The Senator was present when I had my only real serious difficulty with Secretary Rusk the other day, when I kept insisting on knowing the administration's priority between the war on poverty and the war in Vietnam.

Mr. DODD. I am talking about the cold war.

Mr. MUNDT. I am answering the question in my own way and on my own time.

I said it troubles me that we are running out of money. And that is what the tax bill is all about. After 5 years, and after having spent about the same amount of money in the cold war as in the war on poverty, and not having won either one, if we are compelled to slacken off on either one to avoid a fiscal collapse, I wanted to know which was the more important priority—to get on with the war in Vietnam or to get on with the war on poverty?

The answer was to the effect that the record speaks for itself and that the administration cannot and will not name a priority.

I make a priority between the cold war and the shooting war. I give greater urgency to the shooting war in Vietnam than to the cold war. I do not think they are on a parallel. Ending one is more urgent than the other. I have established a priority.

I have answered the Senator's question.

Mr. DODD. I appreciate that. I do not comprehend it.

Mr. MUNDT. It will look more logical when the Senator reads it in cold print.

Mr. DODD. Please do not be frivolous with me.

Mr. MUNDT. I am not being frivolous.

Mr. DODD. I appreciate the Senator's mental capacity and respect it greatly, as he knows.

I do not think that it is possible to isolate the war in Vietnam from the cold war.

Mr. MUNDT. Not isolate it, but we have to establish a priority.

Mr. DODD. That is a military priority.

Mr. MUNDT. No. It is a necessary priority between two altogether different types of conflict.

Mr. DODD. I have grave differences with the Senator on this matter. Although I am not a military person, it seems to me, as a layman, that we ought to shut off the Port of Haiphong.

I do not know how we can fight a war like this with supplies pouring into that port. I think we can do something like that, although I know the arguments against it.

Mr. MUNDT. In a sense, this amendment goes up the direction of shutting off the supplies to Haiphong, because the amendment is intended to discourage the quantities of supplies emanating from the Soviet sources. In a way, we are speaking in the same sense there.

Mr. DODD. That is correct. However, we do not tend to go in different directions very often. What bothers me about the amendment, and I do not know how to get it over to the Senator, is that it is all one situation, as I see it. That is where we differ.

Mr. MUNDT. That is what troubles the Senator, that he thinks it is all one situation.

Mr. DODD. The Senator is correct. When the Senator referred to the situation in the Mideast, I think he was right. I think that has an organic connection with the war in Vietnam. I think if trouble occurs someplace in Africa, South America, or elsewhere, it will have the same connection. I see it as all one thing. And I think I am right about it.

What is our task if we see it that way? Is it not to break up the enemy camp to cause them to lose their allies, their suppliers? If we can gain ground in any way, we ought to do it.

What does the Senator say to that?

Mr. MUNDT. I agree with that objective.

We get on different wavelengths, however, when I try to point out that I believe this amendment is one way to break them off, to discriminate between certain hard-core Communist nations that persist in supplying every weapon that they need in Vietnam to shoot at us and prolong the war and feed the fires of stubborn refusal to negotiate, and other nations—Communist or non-Communist—which do not supply arms to our shooting enemy.

I believe one way that can be done is by making it more difficult for those Communist countries to get the supplies they desperately need from us, which are shipping supplies to Hanoi, and to make it easier for Communist countries who do not ship our enemy supplies to do business with us.

Mr. DODD. The Senator says, "If you do this, then this will follow." I am suggesting that, instead, we should say, "Wait a minute. Let us talk about this and straighten it out as diplomats can." I suppose that is our difference. I had not thoroughly comprehended it beforehand.

I suppose I have the worst reputation around here as being a hard-core anti-Communist. It is not a very popular stance, and I am well aware of it. But I believe that this kind of thing feeds the Communist empire, in a way. They say, "See what they want to do to you. They want to subjugate you. They want to convert you into economic principalities."

I believe we should avoid that, for the reasons I tried to state earlier. I do not believe our colloquy will settle anything, except that I had hoped to get the Senator to see another point of view.

I believe his amendment is too restrictive. It is dangerous for us. In a military place, in Vietnam, I am for all these things. But outside of that, inside the cold war, I believe we have to use other tools.

Mr. MUNDT. I appreciate the Senator's expressing his viewpoint. I always value his judgment. I am hopeful that, when he reads the full discussion of this afternoon in the RECORD, he will realize that there is a real difference between the tactics of the cold war and the tactics of the hot war.

Mr. DODD. That is exactly my point.

Mr. MUNDT. That they are entirely separate at this time, one from the other; that we had better get on with the first priority—bringing an early, enduring, and satisfactory end to this war. Then we may have time to continue with the cold war, to shut it off, and gradually bring back friends and develop associations and contacts which will lead to an enduring peace.

But I place my emphasis—and this is where I hope the Senator will reflect on this matter tonight, where I am sure the Senator feels it needs to be placed—on doing something different, after 5 frustrating years in Vietnam, except sending over always another 50,000 boys and bringing back an increasing number of casualties, without always relying solely on our military might and never, never, but never, using the great economic superiority we have. We never use our leadership in commerce and diplomacy, but just continue with the needle stuck in the groove and do more of the same thing in a costly military venture.

I would like to see the Senator from Connecticut and other Senators at least try something different. It cannot possibly have any worse effect than to inconvenience some exporter who either would have to quit his traffic in blood or would have to pay the 20-percent tax, or it would become unprofitable.

Mr. DODD. Does the Senator believe that we should blockade the harbor of Haiphong?

Mr. MUNDT. I have consistently, throughout my position on the war—as I believe the Senator realizes because he is associated with me in the Committee on Foreign Relations—refused to imagine that I am a military expert and a tactician in the strategy of war. So when I am asked whether I would bomb or not bomb, would I have hot pursuit or not hot pursuit, do I think Khesanh is important or not important, I say, "Look how utterly ridiculous I would sound expressing an opinion on that. That is a military decision to be made by trained military experts."

I do not know whether we should bomb it. I do not know whether we should blockade it. I do not know whether we should follow what has always seemed to me the very simple device of sinking a lot of merchant ships in the channel so the enemy ships cannot get through.

But I am sure that we should curtail the supplies the Communists are getting from abroad, because if we do that, we can win the war without any more serious loss of life. The enemy cannot shoot without ammunition. They cannot move their machinery without petroleum.

I should like to get this administration concentrating on a way to end the war, not escalate it, to shut off the supply of weapons to the enemy so that they cannot continue to fight. Then we can sit down at the negotiating table and say, "We want to be fair and reasonable. Let us have a civilized peace."

I believe the administration is totally wrong in permitting as much material to come through Haiphong Harbor as it does.

Mr. DODD. Then, the Senator is a military man.

Mr. MUNDT. I am not a military man.

Mr. DODD. The Senator confuses me. He says that he is not a military man and therefore he does not wish to answer the question as to whether or not we should blockade Haiphong.

Mr. MUNDT. I did not say blockade it. Let me repeat.

I said the administration—I will say it as clearly as I can—is totally wrong in permitting as much material to come through Haiphong Harbor as it does, period.

Mr. DODD. How much?

Mr. MUNDT. Any amount. There should not be any. My proposal is that we curtail it now in a nonmilitary way, in a nonrisk way, in a way that does not in any way encourage some other country to get into the fray.

Mr. DODD. How can it be done?

Mr. MUNDT. Simply by shutting off our supplies to Russia, so she has to start limiting her supplies, and then getting a chain reaction by getting the other free countries of the world to do the same.

I believe we come into the court of world opinion with the dirtiest hands of any American administration in the history of world conflict, when we ask others please not to ship material to Haiphong and then encourage our profiteers to do exactly that by routing it through Russia.

That is the purpose of this amendment—to move in the direction of curtailing those supplies going to Hanoi.

Mr. DODD. I do not wish to prolong this matter.

I believe that this administration has tried desperately to do that, and it has not worked very well in my opinion. But I am confused.

EXHIBIT 1

CZECHS' CONCERN OVER BLOC RISING—WRITERS AND ARTISTS VOICE FEAR ABOUT PRESSURES

(By Henry Kamm)

PRAGUE, March 26.—Concern and criticism over pressure put on Czechoslovakia by her Communist allies broke into the open this evening, accompanied by signs of official embarrassment and apparent efforts to suppress the news.

The sensitivity of the new Czechoslovak leaders to this issue was further demonstrated tonight by a move by Alexander Dubcek, First Secretary of the Communist party. He took the unusual step of giving an interview to the official press agency to calm fears.

BLOC PARLEY AT ISSUE

The Czechoslovaks' concern over pressure from other members of the Soviet bloc was voiced by 134 writers and artists in a letter to the Presidium of the Communist party. The letter raised questions concerning the outcome of the bloc meeting last Saturday in Dresden, East Germany.

In the mildest version published, which appeared in the out-of-town editions of some of tomorrow's Prague newspapers, the letter, whose text did not become available, declared:

"The communique of the Dresden meeting gave the impression that if we paid heed to other countries it could influence our own development."

In versions broadcast at 7 P.M. on radio and television, the signers appeared to criticize more directly, indicating fear that Czechoslovakia's delegation had not stood firmly enough against pressure over her internal liberalization.

Efforts to obtain texts of the broadcasts from the stations and from the press agency, C.T.K., were unsuccessful. Callers were told that none were available. Later broadcasts failed to mention the foreign policy aspect of the letter.

The letter is to be published later this week in Literarny Listy, weekly of the liberal writers, it was announced on television. Its signers included one of the principal figures of the new leadership, Eduard Goldstucker, president of the Union of Writers.

DUBCEK CONFIRMS WORRIES

In his interview, Mr. Dubcek disclosed what most Czechoslovaks had uneasily suspected since the Dresden conference, but had not been told. He said that "certain worries were expressed at the meeting, mainly to the effect that antisocialist elements would take advantage of the democratization process."

The party chief tried to calm fears by declaring that the leaders of all the bloc countries present had given accounts of the activities of their parties. The only bloc member absent was Rumania, which refuses to take part in discussions of internal affairs of other Communist countries.

A high member of the Czechoslovak Government indicated in conversation that economic pressure had been put on Czechoslovakia to restrain her internal liberalization and to hold the Soviet-bloc line in foreign policy.

Well-informed observers said that the nerves of Czechoslovaks would be tested in the days to come. So far, according to these observers, Prague has made no serious concessions to her sharpest critics, believed to be East Germany and Poland, with considerable Soviet Support.

The Prague leaders were said to have scored a success at the Dresden conference by resisting a plan by the Warsaw Pact, the East European counterpart of the North Atlantic alliance, to hold military maneuvers in Czechoslovakia soon. This might have put Soviet and East German troops on Czechoslovak soil at a critical juncture.

MILITARY GAMES OPPOSED

Meanwhile, the party presidium, the highest authority in the country, pressed ahead with reform programs. A number projected organizational changes in the state apparatus were announced today, a day after the presidium met under Mr. Durcek.

The announcement laid stress on calling the Government "the supreme body of state power." This is a principle enunciated by all Communist countries, although in fact the party reigns supreme in each.

Three main spheres of governmental activity were outlined. They were: the development of the rights and freedoms of citizens; foreign policy and defense, and reform of economic management.

A number of changes in economic and financial bodies were proposed. The principal transformation is to be the creation of a coordinative Economic Council. A State Price Bureau and Ministries of Labor and Social Welfare and of Technology are envisaged.

Two major events will dominate the rest of the week. On Thursday, the Central Committee will meet to consider the new leaderships program. The presidum of the National Assembly today filed Saturday as the date for the election of a new president to replace Antonin Novotny, ousted from the post last Friday.

Mr. SMATHERS. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. SMATHERS. What is the pending amendment?

The PRESIDING OFFICER. The amendment submitted by the Senator from South Dakota.

Mr. SMATHERS. Has any agreement been entered into with respect to a time limitation?

The PRESIDING OFFICER. No agreement has been entered into with respect to a time limitation.

Mr. DODD. Mr. President, I believe the Senator from South Dakota had yielded to me. I have, however, allowed the interruption.

The PRESIDING OFFICER. Does the Senator from South Dakota yield?

Mr. DODD. He has already yielded, Mr. President, and I was interrupted. I do not believe that is parliamentary order. I abided by it and let it pass. I should like the attention of the Senators.

Mr. WILLIAMS of Delaware. They are trying to work out an agreement.

Mr. DODD. I understand that, but I would be grateful for their attention.

Mr. MUNDT. Mr. President, before continuing the colloquy with the Senator from Connecticut—I appreciate his interest and concern about these problems, which we all share—I intend to place in

the RECORD some information, so that Senators, when reading the RECORD in the morning, will have some idea of the kind of fateful exports from America we have been talking about, figures from the Department of Commerce, to show the American people the magnitude and the serious nature of shipments involved.

I have two pages here of some 20 I have thus far collected. I wish to place in the RECORD these two sample pages and call attention to some of the items we are now permitting American exporters to ship to Russia:

Cobalt metal granules.

Aluminum oxide for the production of aluminum.

Over $3 million worth of gear-manufacturing machines, as vital to a military wartime economy as anything we could possibly produce—a genuine bonanza to the Russian Communist war machine with its ever-present critical shortage of modern machine tools.

There is also included in the list mine shuttle car parts and all kinds of sophisticated mining machinery because they have to run their plants around the clock 24 hours to keep up with the manufacture of munitions and this requires great quantities of coal—much of which is mined with the help of American equipment.

There is also included on the list diethylene glycol which is an important ingredient in the making of solid rocket propellants. We are selling and sending it to them. Do not tell me that we do not stand with the hands of Judas with our 30 pieces of silver when we do that. Whose boys are being killed by the rockets? American boys are being killed and everybody in the Senate knows it.

There is also included on the list ball bearings. That is scarcely like a thimble or some other item of homeware. There is included one industrial chemical after another. There are over 50 different types.

Mr. President, I ask unanimous consent to have printed in the RECORD the two pages of the list of strategic commodities exported to Communist destinations.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

STRATEGIC COMMODITIES EXPORTED TO EUROPEAN DESTINATIONS

[Unless otherwise indicated, the U.S.S.R.]

Date	Description	Value
Jan. 4, 1967	Phosphate and coal mining spare parts	$4,884
Feb. 10, 1967	do	2,479
Mar. 3, 1967	Phosphate and coal mining machinery spare parts	3,500
Apr. 10, 1967	Phosphate and coal mining machinery parts	8,400
Do	do	21,860
Feb. 9, 1967	do	1,500
Mar. 14, 1967	Phosphate and coal mining machinery spare parts	75,000
Nov. 27, 1966	Continuous mining machinery parts (potash)	150,025
Apr. 6, 1966		186,510
June 10, 1966	Mine shuttle car parts	171,535
Aug. 5, 1966	Diethylene glycol	527,50
Aug. 11, 1966	Shuttle car parts for mining installations	30,668
Aug. 16, 1966	Diethylene glycol	176,250
May 9, 1967	Polyvinly butyral	268,975
May 4, 1967	Chemical woodpulp	2,387,000
June 15, 1967	Synthetic fiber manufacturing machines and parts	1,230,250

STRATEGIC COMMODITIES EXPORTED TO EUROPEAN DESTINATIONS—Continued

[Unless otherwise indicated, the U.S.S.R.]

Date	Description	Value
June 21, 1967	Ball bearing (replacement parts for iron ore mining equipment)	$1,106
Do	Diagonal deck concentrating tables for tin ore concentrating	330,750
July 14, 1967	Industrial chemicals	463,050
July 13, 1967	do	220,050
July 24, 1967	Construction machinery parts	170,000
July 25, 1967	Twin bore parts for potash mining equipment	57,500
Do	Galvanometer driver amplifier	244
July 26, 1967	Varityper (for computers)	25,920
July 28, 1967	Telegraph equipment	23,378
July 31, 1967	Instrument for testing physical properties of materials	2,223
July 27, 1967	Technical data for a benzene plant	(1)
Aug. 4, 1967	Telegraph equipment parts	702
Do	Electronic computer components (Czechoslovakia)	56,032
Aug. 8, 1967	Chemical analysis equipment for research in organic compounds chemicals	34,682
Do	Chemical analysis equipment (Poland)	2,395
Aug. 10, 1967	Gas chromatograph parts	510
Aug. 11, 1967	Industrial chemicals	113,700
Do	Computer parts	4,800
Aug. 14, 1967	Cobalt metal granules (Poland)	83,774
Aug. 15, 1967	Synthetic resins	183,649
Aug. 18, 1967	Semiconductors	75
Do	Electronic computer parts (Rumania)	30,360
Aug. 21, 1967	Digital electronic computer system	269,443
Aug. 23, 1967	Vanadium pentoxide (Czechoslovakia)	53,800
Do	Prime mercury (Poland)	182,000
Do	Sodium borate concentrates (Poland)	14,800
Aug. 22, 1967	Aluminum oxide for the production of aluminum	1,512,000
Do	Digital electronic computer system parts	239,662
Aug. 16, 1967	Computer parts (Czechoslovakia)	8,400
Do	Computer parts (Czechoslovakia)	50,390
Aug. 24, 1967	Convertor and accessory parts	29,898
Do	Chemical analysis equipment and parts (Czechoslovakia)	6,900
Do	Electronic equipment components (Czechoslovakia)	42,814
Aug. 25, 1967	Electronic computer components and parts (East Germany)	14,928
Do	Magnetic computer tape (Hungary)	4,560
Aug. 28, 1967	Construction machinery and parts to be used for gold mining	1,171,000
Do	Electronic computer components and parts (East Germany)	17,427
Aug. 29, 1967	Laboratory and scientific instruments for biochemical research (Czechoslovakia)	49,623
Do	Synchronous motor (Czechoslovakia)	247
Do	Petroleum drilling equipment (Rumania)	46,905
Aug. 30, 1967	Spectrometer	180,575
Do	Spectrum measuring instruments	21,911
Do	Gear manufacturing machines	3,081,305
Aug. 31, 1967	Percussion rock drills and parts for mining operation (Bulgaria)	304,919
Do	Petroleum drilling and production equipment (Poland)	105,000
Sept. 1, 1967	Varityper machine parts (computers)	389

[1] No value.

Mr. MUNDT. If anybody wants more evidence of just what this policy is going to mean to this country if we let it go unchecked and lose this opportunity to curb, that evidence can be supplied. You may be sure I shall be adding to it in other presentations before this year is over.

If the language of the amendment is not quite satisfactory, the technicians can take care of it. At any rate, let the record of history show the evidence is in the record of what this American wartime traffic means as to the loss of American blood on the battlefields of North Vietnam.

Mr. THURMOND. Mr. President, will the Senator yield?

Mr. MUNDT. I would like to yield the floor, as I have held it now for well over 3 hours.

Mr. DODD. I thought the Senator had yielded to me.

I am confused by the Senator. I discern what I think is a change of position. The Senator and I serve on the Committee on Foreign Relations. He was a hardliner on Vietnam and then, in the hearings, he seemed to change position.

Mr. MUNDT. In what way?

Mr. DODD. In this way. If we are wrong, we should get out and run.

Mr. MUNDT. Just a moment. Find me one place where I ever even remotely intimated that we should accept defeat and get out. I am simply saying we should stop Russian arms from getting into Vietnam; not that we should surrender and get out.

Mr. DODD. I am afraid I misunderstood the Senator.

Mr. MUNDT. The Senator did. The Senator misunderstands my amendment, if he believes that.

Mr. DODD. I certainly did.

Mr. MUNDT. I am glad the matter has been straightened out.

Mr. DODD. Mr. President, this administration has made mistakes about the war, and I am the first person to say so. However, I do not believe this amendment will help us, and I am the first to say so.

Mr. THURMOND. Mr. President, I compliment the able and distinguished Senator from South Dakota for offering this amendment along with the able and distinguished Senator from Virginia. I also would like to congratulate the distinguished Senator from South Dakota for the magnificent address he has just made.

I do not intend to take the time of the Senate now to make an address on this subject. I think the matter has been well covered by the able Senator from South Dakota. However, I do wish to associate myself with his position and his remarks.

Mr. President, I hold in my hand a letter which I just received from a prisoner at Leavenworth, a Federal prison, which I wish to read to the Senate:

DEAR SENATOR THURMOND: I am enclosing a label which shows the purchase of bristles from the U.S.S.R for the manufacture of brushes in the brush factory of the U.S. Penitentiary at Leavenworth, Kansas.

We are presently engaged in a war against North Vietnam which has been supplied with vast amounts of war materiel by the U.S.S.R. Purchases of goods from Russia, even though they may be non-strategic, help Russia to help our enemies.

We know, too, that the balance of payments, support of the dollar and the gold drain are major problems today. Strong measures are being considered to combat these problems. Do not purchases from Russia, however small, aggravate the above problems and do they not help Russia in her efforts to gain needed foreign exchange? Cannot this bristle be purchased in the Western World, especially Latin America?

Would you say that the Justice Department and Federal Prison Industries are actually working against the interests of the United States by making the purchases of bristle from Russia?

Mr. President, I shall not give the name of the prisoner who wrote the letter for fear of some reprisal that might be taken with respect to him. However, here is a man in prison who has the

vision to see the danger of trading with the enemy.

I am amazed that the United States is buying goods from the Soviet Union which is the enemy of the United States and the free world. It is unnecessary for me to repeat that the Soviet Union is the main backer of the war in Vietnam. This war in Vietnam could not last unless the Soviet Union backed it. Eighty-five percent of the supplies, the equipment, the weapons, and goods going to fight the war come from the Soviet Union.

At the same time we are making purchases from the Soviet Union, we are causing a further gold drain and allowing our dollars to be spent to build up the Soviet Union, when we could make those purchases elsewhere. This is in line with what the Senator from South Dakota has been talking about.

I have seen the list of equipment we have been sending to Communist countries. The list includes precision instruments and materials, much of it from a strategic standpoint. It is inconceivable to me that our Government would take such a position.

I am very glad that this amendment has been offered and I shall be pleased to support it. I certainly feel sure that Members of the Senate will want to support an amendment of this kind, which merely imposes a tax on a taxpayer who, during the taxable year, has been engaging in trade with Communist countries which are supplying material to the Communist government in North Vietnam.

This proposal would not impose a tax on the taxpayer if he were merely trading with Communist countries. I would be willing to go that far. However, the amendment calls for a tax if the taxpayer is trading with a Communist country which is supplying material to the Government of North Vietnam.

Who are we fighting in this war? We are at war with North Vietnam and we are at war with the country which is trying to destroy the freedom of South Vietnam, which we are trying to preserve.

This proposal would try to discourage people in this country from selling to Communist countries which trade with North Vietnam.

Is that a request that would help to prevent the loss of more life and the wounding of more soldiers? It certainly is. Up until March 16 of this year we have had killed in Vietnam 20,096 men. We have had wounded 121,000 men. Since March 16 other men have been killed and wounded. The South Vietnamese have had 56,888 men killed and our allies have had 1,947 men killed.

If to stop the sending of these goods to a Communist country, which in turn supplies the material to North Vietnam, which enables some person here to make a profit, would save one life or save one person from being injured, I would say that to cut that off would be worthwhile.

I compliment the Senator from South Dakota for the excellent presentation he has made.

Mr. MUNDT. Mr. President, I thank the Senator from South Carolina for his contribution. The Senator from South Carolina is one Member of Congress who can make claim to being a military expert. He might be able to give some background experience on fighting tactics in the war which most of us are unable to do because he is a distinguished general in his own right.

Mr. President, I shall now ask unanimous consent to have printed in the RECORD a policy statement issued by Young Americans for Freedom. Young Americans for Freedom is the largest collegiate student national organization in the country. It is comprised of the current generation of students in most of our leading colleges and universities. It has launched what they call the "National Campaign Against East-West Trade," with headquarters at 1221 Massachusetts Avenue, NW., Washington, D.C. They have issued a most interesting pamphlet which I am sure anyone can get by writing to them. It contains pictures and a lot of factual information.

By the way, I see that a great many Members of Congress are advisory board members. I am especially happy to see that my good friend from Florida [Mr. HOLLAND] is a member of the advisory board, as is the Senator from South Carolina [Mr. THURMOND] and the Senator from Texas [Mr. TOWER], together with perhaps two dozen House Members. I am glad to see them associated with this fine organization.

Young Americans for Freedom—YAF—have issued a policy statement on East-West trade. I think it would be most informative, certainly, for all advisers of the YAF, and for the country generally; but to the members of the YAF particularly, because after all, who has a better right to talk about East-West trade than the young men in college and out who are about to go off to war? They have a special right, it seems to me, to bear testimony as to what they want.

Perhaps we Senators have the right to confuse ourselves by technicalities and minor objections among ourselves, but here, those boys will soon go off to war. I would therefore like to bring to the witness stand the testimony of the future veterans of the war in Vietnam, those who probably will be in the war in 6, 8, or 12 months time if it lasts that long. They are talking to us now.

They have already heard from us, who have prepared the call to arms and put them into uniform and they will go. So, they have a right to be heard. It is now their turn and right to speak to us. Does not their opinion carry some weight?

Who can better appraise the effectiveness of the weapons which will be used against them because of the cupidity of certain American corporations than those who will have to duck, dodge, or die as a result of the material that will be shipped by these corporations to the enemy in Russia and there be transformed into weapons sent on to Hanoi to kill and maim these selfsame young Americans?

The YAF statement is headed "East-West Trade Is Committing National Suicide." It begins with a quotation which I have read before and I read it now and put the rest of the statement in the RECORD. It quotes from Lenin as follows:

"The capitalist countries of Western Europe and America will grant us credits, which will fill the coffers of the Communist organizations in their countries while they enlarge and improve our armaments industry by supplying all kinds of wares, which we shall need for future and successful attacks against our suppliers"—V. I. LENIN.

I ask unanimous consent to have this YAF policy statement on East-West trade printed in the RECORD.

There being no objection, the statement is ordered to be printed in the RECORD, as follows:

YAF POLICY STATEMENT: EAST-WEST TRADE IS COMMITTING NATIONAL SUICIDE

"The capitalist countries of Western Europe and America will grant us credits, which will fill the coffers of the Communist organizations in their countries while they enlarge and improve our armaments industry by supplying all kinds of wares, which we shall need for future and successful attacks against our suppliers"—V. I. LENIN.

It should be self-evident that aid to the USSR is inimical of U.S. interests; by selling wheat to the Soviet Union, we subsidize their armies (who "travel on their stomachs," after all); by selling them other goods we have made the Soviets more powerful, not more friendly. Communist sources reveal that the Soviet economy has lowered the percentage of consumer goods from 13.1% in the last Seven-Year Plan to 11.9% in the current Five-Year Plan, while trade with the West has allowed them to plan an increase in industrial production of 55%. Since 1963 the U.S. has built 15 fertilizer plants in the USSR, and now Soviet fertilizer is a major item of war aid to North Viet Nam. Computers are vital to Soviet ballistic missiles, yet the U.S. is approving IBM licenses for up-to-date computers to the Red bloc . . . the list is endless.

But, what about trade with the satellite countries of Eastern Europe—in the hope that exposure to our products and ideas will draw them away from the Soviets? The experience—especially of the last 10 years—has been the reverse: American trade, military and economic, has cemented shaky Communist leaders in power and helped the Soviet Union to fuel the world Communist enterprise.

Young Americans for Freedom urges all Americans to study the foreign policy issues raised by East-West trade, assess their effects on our generation and participate in political action that will bring about their end.

INTERNATIONAL FINANCIAL ARRANGEMENTS AND U.S. FISCAL POLICY

Mr. GORE. Mr. President, earlier this month we witnessed a last minute, cliff-hanging rescue of the international monetary machinery. The solution announced, a two-level price for gold, is a temporary, stopgap arrangement which may give us about 6 months to get our domestic house in order and to make some basic changes in U.S. policies. We have not solved our gold outflow and balance-of-payments problems. We have gained a little time. This does not mean we can wait 6 months to begin taking corrective action. We must begin now.

We had a lot of time in 1961. We had a lot of time in 1964. We had a little time in 1966. But with the fiscal and monetary policies of former Secretary of the Treasury Douglas Dillon, and his ineffectual disciple, the present Secretary Fowler, we have failed miserably to come

to grips with our problems in the field of international finance.

In a sense, there is no point in replowing the ground I and others have tried to cultivate since 1961 and earlier. But in another and very real sense, there is a need, for the American people and the Congress must understand how we got into our current unhappy situation, with the dollar, the currency of the strongest, most virile and soundest economy in the world, on the defensive. We must understand this if we are to take the apparently unpopular steps necessary to restore sound, progressive economic policies.

Mr. President, we are threatened today with nothing less than a collapse of the international monetary system which has served to carry the entire free world to heights of economic progress not dreamed possible a few years ago. This system, which was agreed upon at Bretton Woods in 1944, is based on the U.S. dollar, with other national currencies pegged in price to the dollar and allowed to fluctuate only within the narrowest of ranges. But the dollar, in turn, has been pegged to gold, and the cornerstone of the whole arrangement has been the willingness of foreigners to hold dollars because dollars were as good as gold, and could be proved so at any time by actual exchange for gold.

So long as dollars were accumulated abroad in moderate amounts, neither the dollar nor gold was under pressure. But over the years, it has become obvious that the United States was unwilling to do what was necessary to slow down the too rapid accumulation of dollars abroad. In other words, we were not willing to do what was necessary in order to bring our international payments into reasonably near balance.

On top of this, the deepening U.S. involvement in the Vietnam war has shocked world confidence in the quality of present U.S. leadership. Many authorities doubt there is a real excess in liquidity internationally. In fact, many knowledgeable persons believe that in the near future there must be an increase in liquidity in order to handle the ever expanding volume of international trade. But many foreigners holding dollars seem to doubt that the present system will longer work because there are more dollars than gold to back them, and our continuing large balance-of-payments deficits give no indication of a slowdown in the movement of dollars overseas. They seem to believe that if present conditions, particularly the threatened escalation in Vietnam, prevail, the balance-of-payments deficit will be worse during the next year or two.

But whether we regard our problem as phychological or real, the actions required to arrive at a solution are the same. And those actions are the ones which are designed to, and which will, reduce our balance-of-payments deficit. The same actions will also improve our domestic fiscal problem.

I would hope that out of this step which has been taken by the gold pool nations will soon come the further and more basic step of a complete international demonitization of gold. We long ago demonitized gold domestically. It is not needed to back up our currency. And it should not be needed internationally. But to demonitize it, some new mechanism must be inaugurated. Perhaps the special drawing rights mechanism now developing within the International Monetary Fund will work.

But in the meantime, the United States, if any rational system is to become and remain viable, must bring its international payments into near equilibrium.

Now, our present crisis is not comparable to that of 1931. Today's underlying strength and vitality, together with institutions developed since 1931—despite their sometimes improper use—make a repetition of 1931 highly unlikely.

But let us not push our luck too far. Let us not tempt the fates. Let us act responsibily. We have the power, if we will but use it, to put our house in order.

It is easy to be nationalistic, to say that we are strong, and that we are righteous in our strength. Perhaps we could go it alone. But that would mean a repudiation of everything we have tried to do toward creating a world in which international cooperation is maximized and the more selfish, extremist, and chauvinistic aspects of aggressive nationalism are minimized. But we are in danger of allowing our righteousness to become self-righteousness. We will be showing signs of stupidity if we allow our own rationalism to prevent our doing what must be done for our own good and for the good of the entire free world.

So, let us buckle down and do what must be done—what we in the Congress should have been doing long ago, even without proper administration leadership or support.

There are several factors which are operating strongly against equilibrium in our international payments. Most of them have been operating for several years. They have their roots in the past. But that is no excuse for failure to correct them this year, or for not having corrected them last year, or earlier, for that matter.

U.S. fiscal and monetary policies have been unrealistic. The massive tax reductions have contributed as much as any one thing, other than the war in Vietnam, to our troubles. Mismanagement of our financial affairs, failure to take corrective action, at least partially, in 1966 when it was obvious that corrective action was clearly indicated, is the second strongest indictment against the Johnson administration. With the highest interest rates since Abraham Lincoln, the loss of confidence in the U.S. dollar, the inbalance in international payments and consequent loss of U.S. gold, the unprecedented deficit in our budget and the erosion of the U.S. position of economic and political leadership in the free world. Congress simply must proceed to act forthrightly. The national interest urgently requires it.

The war in Vietnam, the principal cause of our troubles, has been miserably mishandled. I am not now going to discuss the aspects of the war which have been under discussion for so long. I am a member of the Senate Foreign Relations Committee, and, have taken an active part in questioning the war in Vietnam from the point of view of the damage it has done to our international relations, to the Vietnamese people, and to our own domestic values and goals. But I speak now as a member of the Finance Committee, concentrating on the economic aspects of this war. The economic adjustments necessary to put the country successfully on a war footing have not been made.

Positive programs and laws that encourage outflows of capital continue to be supported by the administration and by the Congress. Our tax laws are much too favorable toward foreign investment, and as if this were not bad enough, the administration continues to press for more—the Canadian Automotive Agreement, more funds for soft loans by the Latin American Development Bank, new soft loan money for the fledgling Asian Bank, tax treaties containing the investment credit gimmick for foreign investment, to mention a few recent specifics. One wonders at the ability of the domestic economy to function at all when it is so beset.

The solution of our difficulties lies in an immediate tax increase, early tax and other reforms, and deescalation with a negotiated settlement of the war in Vietnam as soon as practicable. It may be that we will also need some temporary crash programs in addition.

We need an increase in personal and corporate income tax rates. In the interest of speed, we can probably best do this through the surtax. I would like to see some real tax reform, but reform measures take time. Furthermore, past experience lends little hope of real reform under present leadership in the White House and the Treasury.

It has been obvious to me since early in 1966 that a more active use of fiscal policy to curb inflation, pay for the war in Vietnam, take the pressure off monetary policy, and assist in reducing the balance-of-payments deficit was indicated. Expenditures, particularly for the war in Vietnam, were mounting, despite apparent efforts to hide from the public the skyrocketing cost of the war. But the administration provided no consistent leadership. It backed and filled and failed.

We could, of course, go back and review the mistakes we made in cutting taxes. What we needed then was reform. What we needed was a judicious use of microeconomics. What we got was more unsound, unjustified tax favoritism and larger deficits.

If it were not so serious, it might be amusing to go back and read some of the things said at the time the Congress and the administration were so anxious to grant tax windfalls to high-bracket individual taxpayers and to corporations. Particularly intriguing at that time were the ramblings of those who insisted that reduced taxes would lead to increased revenue and reduced Federal spending.

And the tax cut was going to improve our balance of payments. It was going to make our goods more competitive in world markets. How ridiculous. In 1964, the excess of exports over imports of merchandise was $7 billion. by 1967, it had dwindled to about $4 billion.

Well, this is all past history, but I hope a review will help some to understand how we got into our present predicament. Insufficient revenues have contributed materially to balance-of-payments problems, as well as hurting the domestic economy and inhibiting social progress.

Let us look at our present situation. Pressure is again on monetary policy. We are faced with a fresh inflationary outbreak. We must slow down the flow of dollars overseas. The individual savings rate is exceptionally high. Corporations are highly liquid and corporate profits are again rising—they were running at an annual rate of $85.4 billion in the last quarter of 1967, and the Treasury predicts 1968 corporate profits of $87 billion.

Capital spending is running strong—at an annual rate of $62.7 billion. Employment is high, and the average work week in manufacturing increased almost one-half hour last month over the January figure. Retail sales jumped $400 million in February, on top of a January rise of nearly $600 million. Business failures in January were the lowest for that month since 1953.

All these indicators point to the need for a tax increase.

I cannot leave this field without mentioning the investment tax credit. This ought to be repealed outright. It was a mistake in the first place. It has proved harmful to the economy, while doing nothing to solve the ills of the ghetto.

Tax reforms are badly needed, but they must wait for a more opportune time and circumstances.

What we need to act about right now is the economics of our war in Vietnam. Shall our gallant fighting men be alone in making a sacrifice for the war. Though unwise, the war must be paid for.

Mr. President, it is impossible to fight a war without backing up the military effort with the appropriate economic adjustments. The bills are now coming due. They must be paid.

A war economy is a qualitatively different kind of economy. It is not merely different because of quantitative differences in production, purchasing power, government, and deficits.

The foreign exchange cost of our military involvement in Vietnam and elsewhere is shocking. The balance-of-payments effect of Vietnam went up last year by some $500 million. It is now running between $1.5 billion and $2 billion per year. Keeping our troops in Germany carries a foreign exchange tag of $800 million per year. Our total military activities around the world cost us over $4 billion in foreign exchange each year.

A tax increase is strongly indicated. Furthermore, more directly effective tax adjustments relating to the balance of payments, which I shall discuss next, would provide immediate assistance.

One direct and immediately helpful action we could take to stem the flow of dollars overseas is to change those provisions of our faulty tax laws which continue to lend active encouragement to foreign investment and discourage the repatriation of profits. I have spoken on this many times, but perhaps the events of recent days may lend sufficient urgency to arouse more interest in doing something about this problem which has been recognized, and given lipservice but never any real push.

After World War II, the economy of Europe was a shambles, and it was the conscious policy of the United States to transfer dollars overseas to put Europe back on its feet. It was necessary at that time to promote international trade and to help restore some semblance of a world market. The restoration of Europe ranks as one of the alltime great economic miracles.

But by the 1958 to 1960 period it was obvious that there were enough dollars in Europe, and all who were knowledgeable in the field agreed that dollar outflows through continued deficits in the balance of payments should be drastically slowed.

Several steps could have been taken, but high on the list should have been changes in tax laws which would assist in righting the balance-of-payments problem, and which would promote tax equity at the same time.

A basic tax requirement is that all U.S. taxpayers be treated alike insofar as practicable, whether they do business in Germany or in Detroit. All should be taxed under the same rules. Some exceptions may be in order, but they should be held to a minimum.

But there are definite tax advantages to doing business overseas:

First. Taxes paid to foreign governments are credited, rather than allowed as items of expense, when computing Federal income taxes.

Second. Taxes due the Federal Government are not paid, generally speaking, until the foreign investor chooses to bring his profits home in the form of dividends, interest or royalty payments. This delay in taxation is highly profitable under some circumstances.

Third. U.S. companies doing business abroad may hire American personnel at a reduced salary because the Federal Government exempts from taxation up to $25,000 per year of income earned abroad by U.S. citizens. This amounts to a subsidy paid by U.S. taxpayers to the corporations who choose to hire young men and send them across the border to work.

Now, as if this were not enough, in addition to these general tax rules which are of such benefit to foreign as opposed to domestic operations, there are several specific gimmicks which have been used to lure or push dollars abroad.

Consider the Canadian Automotive Agreement. I do not understand what my colleagues had in mind when they approved it. Last year, in addition to the damage this unwise agreement did to our domestic economy, it directly worsened our balance of payments by some $118 million over 1966. I have tried to get the law underpinning this agreement repealed, but thus far without success. I shall try again soon.

We continue to pour money into the so-called Latin American Development Bank. Last year we gave $800 million to it for soft loans. These are supposed to be loans, but, in reality, they are grants because we never get our money back. Our balance of payments suffers from this also. Another administration bill is now pending for another $400 million for the so-called bank, which is no bank at all but just another form of aid.

Then we have pending before the Foreign Relations Committee several tax treaties which would extend the investment credit to investments in certain foreign countries, thus providing further incentive for outflow of capital.

And, to top that, we have the Asian Development Bank. We have given it hundreds of millions of dollars. It has made only one comparatively small loan. Yet we are asked to give another $200,000,000 to it.

Taking our statistics at near face value, and our statistics are poor, it would appear that U.S. corporations have invested some $50 billion in new plants and equipment through direct investment abroad since 1960. This investment is now so large that it becomes questionable even from a narrow point. As a matter of fact, during the past 2 years there has been a decline in income from investments in Western Europe despite further buildup of assets there. The President's Economic Report bears this out on page 170.

A lot of foreign investments are not paying off. I often think fashion plays a part in the mad rush of U.S. corporations seeking to become worldwide concerns. In 1967, for example, Chrysler wrote off some $11 million in two foreign investments because of "unfavorable operating results"—Wall Street Journal, February 13, 1968.

Administration spokesmen have pointed up the problem, but nothing has been done. Back in 1965 former Secretary Dillon stated:

> The problem is that our capital outflows are simply growing too fast in relation to the inflows they generate, and in relation to the improvements we have been making in the other areas of our balance of payments. While we are waiting for the return flows to mount, we look abroad and see an ever rising tide of short-term liquid claims on us—a rise in claims that if allowed to continue will inevitably lead to further gold outflows.

How right the diagnosis, but how timid has been the attempt at remedial action.

In this connection, also, I want to call to the attention of my colleagues an address delivered last year by Assistant Secretary of the Treasury Winthrop Knowlton.

In the meantime cheating in connection with foreign operations is growing. This shows up in a variety of ways, from failure to report shipments of funds to misallocations among related domestic and foreign corporations. The Treasury and IRS try to do something through section 482, but this is difficult.

The Wall Street Journal of February 1968, had a very interesting article a few days ago about another form of cheating. This involves Liechtenstein trusts—and some Members of Congress thought the tax haven problem was dealt with in 1962. It was not, at least not adequately.

U.S. citizens working in the United Kingdom, for example, often receive only a part of their pay in Britain, and are taxed by the British only on this

part. The rest is deposited in a New York bank. Of course, when the U.S. tax is assessed, these taxpayers get the full $25,000 exemption granted by our tax laws. As a result, these fine, upstanding U.S. citizens pay no tax to speak of to anyone—Wall Street Journal, January 24, 1968.

And let me refer to our miserable statistics. Anyone glancing at our balance-of-payments statistics must be struck by the very large amounts usually included under "errors and omissions."

When this entry amounts to as much as a fourth of the deficit, how in the world are we supposed to know what really caused the deficit? I am convinced that our statistics regularly understate capital outflows for direct investment, and that much of the outflow that goes out initially as portfolio and short term is converted into permanent investment abroad. Here again, let me cite a Wall Street Journal article for May 4, 1967.

Mr. President, a first step we must take, and take now, is to increase taxes. Following a decision on a general tax increase, either by way of a surtax or rate increase, I shall discuss further tax changes we should make to alter directly the flow of investment funds overseas.

Pending amendments are not exactly to my liking. I would change them. But first things must come first. And from a financial standpoint the matter of highest priority is the soundness of our economy, the value of the dollar, the prevention of inflation.

ORDER FOR RECESS TO TOMORROW AT 11 A.M.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that when the Senate completes its business today it stand in recess until 11 o'clock tomorrow morning.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. MUNDT. Mr. President, I hope that Senators will think over these issues during the night, and that all Senators will read the RECORD tomorrow morning. We shall rest our case with the rollcall vote early tomorrow afternoon.

Mr. LONG of Louisiana. Mr. President, I would hope that we could vote about 1 o'clock tomorrow. I have discussed this matter with the Senator from South Dakota, the principal sponsor of the amendment. Personally, I would be inclined to vote for it. I am not wedded to all the details, but I think the Senator has a worthwhile purpose in mind.

I would certainly hope that the House would take as much of it as it could agree to. I should like to urge the House to accept it.

I discussed this matter with members of the committee prior to the time the Senator called up his amendment. I regret that I was not in the Chamber at the time. I was in the Chamber all day but had missed my lunch and I wanted to get a snack, and did so.

I had been under the impression that we intended to accept the amendment and would take it to conference. A misunderstanding arose, I understand, because the Senator wanted a rollcall vote. I would have had no objection to it.

UNANIMOUS-CONSENT AGREEMENT

With the understanding that we would have the yeas and nays ordered on the amendment when we vote on it, I would hope that we could agree, by unanimous consent, to a vote on the amendment to come at 1 o'clock tomorrow.

Mr. President, I so ask unanimous consent.

Mr. MUNDT. Mr. President, reserving the right to object, let me suggest to the Senator that he amend the consent request to read, "No later than 1 o'clock tomorrow." Perhaps we can save some time.

Mr. LONG of Louisiana. Yes. That will be fine.

Mr. MUNDT. That is because it will depend on the requests I get for time on my side of the argument, and what requests the Senator from Virginia [Mr. BYRD] receives, so that we may need that much time.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the vote come no later than 1 o'clock tomorrow, that there be a brief period for morning business, with statements limited to 3 minutes for each Senator when we meet tomorrow, that at the conclusion of the routine morning business, the amendment be made the pending business, and that the vote occur no later than 1 o'clock, with the time to be equally divided between the Senator from South Dakota and a Senator in opposition to the amendment, to be designated by the Senator in charge of the bill, the chairman of the committee.

Mr. MUNDT. Reserving the right to object—and I shall not object—I think the Senator should spell out the dimensions of that very elusive term, "brief period for morning business."

I would suggest that we have a period for the transaction of morning business of no longer than 15 minutes. I could get myself crowded out otherwise. Is that satisfactory?

Mr. LONG of Louisiana. That is fine. I accept that.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Louisiana? The Chair hears none, and it is so ordered.

The unanimous-consent request was subsequently reduced to writing, as follows:

Ordered, That the Senate proceed to vote not later than 1 p.m. on March 28, 1968, on the Amendment by the Senator from South Dakota, numbered 671, as modified, to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Provided further, That there be a 15-minute period for the transaction of routine morning business after approval of the Journal, and that the remaining time before 1 p.m. be equally divided and controlled by the Senator from South Dakota [Mr. MUNDT] and the Manager of the bill [Mr. LONG] or someone designated by him.

Mr. MUNDT. Mr. President, I should like to express my appreciation to the assistant majority leader. I am fortified by the fact that I know he will be a member of the conferees. I am further gratified by his support of this approach. The Senator from Virginia [Mr. BYRD] and I recognize that this is not a perfect answer. However, I think the time has come to establish a policy and to let the world, our fighting men, their mothers and fathers—all of us as Americans—know where we stand on the basic priorities of this cruel war.

Because of the great legislative architect that the Senator from Louisiana [Mr. LONG] is, I am sure language can be written in conference which will achieve the job and answer the technical criticisms we have had pointed out to us today. I shall be happy to cooperate toward that objective.

I thank him for his support.

Mr. President, I yield the floor.

RECESS UNTIL 11 A.M. TOMORROW

Mr. LONG of Louisiana. Mr. President, if there be no further business to come before the Senate, I move, under the order previously entered, that the Senate stand in recess until 11 o'clock tomorrow morning.

The motion was agreed to; and (at 6 o'clock and 27 minutes p.m.) the Senate took a recess until tomorrow, Thursday, March 28, 1968, at 11 o'clock a.m.

WITHDRAWAL

Executive nomination withdrawn from the Senate March 27, 1968:

POSTMASTER

The nomination sent to the Senate on October 3, 1967, of Mr. John P. Hanley to be postmaster at Wilmette in the State of Illinois.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 27, 1968

Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. WILLIAMS of New Jersey to amendment numbered 662 proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: On page 35, after line 2, insert the following new section:

SEC. . DEDUCTION OF EXPENSES FOR MEDICAL CARE OF INDIVIDUALS WHO HAVE ATTAINED AGE 65.

(a) Section 213 (a) (relating to allowance of deduction for medical, dental, etc., expenses) is amended to read as follows:

"(a) ALLOWANCE OF DEDUCTION.—

"(1) IN GENERAL.—There shall be allowed as a de-

duction the following amounts, not compensated for by insurance or otherwise—

"(A) the amount by which the amount of the expenses paid during the taxable year (reduced by any amount deductible under subparagraph (B)) for medical care of the taxpayer, his spouse, and dependents (as defined in section 152) exceeds 3 percent of the adjusted gross income, and

"(B) an amount (not in excess of $150) equal to one-half of the expenses paid during the taxable year for insurance which constitutes medical care for the taxpayer, his spouse, and dependents.

For purposes of this paragraph, amounts paid for the medical care of an individual with respect to whom paragraph (2) applies for the taxable year shall not be taken into account.

"(2) INDIVIDUALS WHO HAVE ATTAINED AGE 65.—There shall be allowed as a deduction the amount of the expenses, not compensated for by insurance or otherwise, paid during the taxable year for the medical care of—

"(A) the taxpayer and his spouse, if either of them has attained the age of 65 before the close of the taxable year, and

"(B) a dependent who (i) is the mother or

father of the taxpayer or his spouse, and (ii) has attained the age of 65 before the close of the taxable year."

(b) Section 213 (b) (relating to limitation with respect to medicine and drugs) is amended by adding at the end thereof the following new sentence: "The preceding sentence shall not apply to amounts paid for the care of—

"(1) the taxpayer and his spouse, if either of them has attained the age of 65 before the close of the taxable year, or

"(2) any dependent described in subsection (a) (2) (B)."

(c) The amendments made by subsections (a) and (b) shall apply to taxable years beginning after December 31, 1967.

Amdt. No. 674 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. WILLIAMS of New Jersey to amendment numbered 662, proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 27, 1968

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Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 27, 1968

Ordered to lie on the table and to be printed

AMENDMENTS

Intended to be proposed by Mr. MONRONEY to the amendment numbered 662 proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz:

On page 27, strike out the table following line 14 and insert the following:

"Calendar year	Percent	
	Individuals	Corporations
1968	3.375	4.5
1969	2.25	2.25".

On page 28, line 1, strike out "10 percent" and insert "4.5 percent".

On page 35, after line 2, insert the following new sections:

Amdt. No. 676

"SEC. 14. INCREASE IN TAX ON DISTILLED SPIRITS.

"(a) TAX INCREASE.—Section 5001 (a) (relating to rate of tax on distilled spirits) is amended by striking out '$10.50' each place it appears therein and inserting in lieu thereof '$15.50'.

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on April 1, 1968.

"SEC. 15. INCREASE IN TAX ON CIGARETTES.

"(a) TAX INCREASE.—Section 5701 (b) (relating to tax on cigarettes) is amended—

"(1) by striking out '$4 per thousand' in paragraph (1) and inserting in lieu thereof '$5 per thousand'; and

"(2) by striking out '$8.40 per thousand' in paragraph (2) and inserting in lieu thereof '$10.50 per thousand'.

"EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on April 1, 1968.

"SEC. 16. REIMPOSITION OF CERTAIN EXCISE TAXES.

"(a) RETAIL TAXES.—There is hereby imposed upon articles sold at retail which were taxable under—

"(1) subchapter B of chapter 31 (relating to furs), and

"(2) subchapter C of chapter 31 (relating to toilet preparations),

as such provisions were in effect on the day before the date

of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(b) MANUFACTURERS TAXES.—There is hereby imposed upon the sale by the manufacturer, producer, or importer of articles which were taxable under—

"(1) subchapter C of chapter 32 (relating to entertainment equipment), and

"(2) part II of subchapter D of chapter 32 (relating to photographic equipment),

as such provisions were in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(c) ADMISSIONS AND CLUB DUES.—There is hereby imposed on amounts paid which were taxable under subchapter A of chapter 33 (relating to admissions and club dues) as such provision was in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(d) OCCUPATIONAL TAXES.—There is hereby imposed on each activity which was taxable under—

"(1) subchapter B of chapter 36 (occupational tax on coin-operated devices), and

"(2) subchapter C of chapter 36 (occupational tax on bowling alleys, billiard and pool tables),

as such provisions were in effect on the day before the date

of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(c) EFFECTIVE DATE.—This section shall take effect on April 1, 1968.

"(f) REGULATIONS.—The Secretary of the Treasury or his delegate shall prescribe such regulations as may be necessary to carry out this section."

Amdt. No. 676 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENTS

Intended to be proposed by Mr. MONRONEY to the amendment numbered 662 proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

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DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY; NOT TO BE QUOTED OR CITED)

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For actions of March 28, 1968
90th-2nd; No. 52

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HIGHLIGHTS: House subcommittee approved poultry inspection bill. House committee reported Kerr Memorial Arboretum bill. Rep. Hamilton introduced and discussed family farm loan bill. Senate struck public-works moratorium from tax bill.

SENATE

1. TAXATION; EXPENDITURES. Continued debate on H. R. 15414, the tax adjustment bill (pp. S3525-94, ~~S3484~~, ~~S3487~~, ~~S3503~~, S3511-12). Agreed to, 42-37, the Randolph amendment to strike out the public-works moratorium (pp. S3562-78), after agreeing to, 79-5, a modified version (presented by Sen. Williams, Del.) of the moratorium (pp. S3568-73). Agreed to, 48-25, a Dominick amendment to deny gold sales to nations behind in debt repayments to the U. S. (pp. S3582-91). Agreed

to, 50-32, a Ribicoff amendment to end tax-exempt status of industrial development bonds beginning in 1969 (pp. S3547-62). Rejected, 38-44, a Mundt-Byrd (Va.) amendment to impose a 20% surtax on taxpayers trading with Communist countries supplying North Vietnam (pp. S3526-44). Rejected, 13-62, a Monroney amendment to lower the proposed income-tax surcharge, increase the tax on liquor and cigarettes, and reimpose certain excise taxes (pp. S3578-82). Prior to the vote on the public-works moratorium, Sen. Magnuson inserted an amendment which he had intended to propose, to exempt forest roads and trails from the moratorium (p. S3546). Sen. Long, La., said he was considering offering an amendment to delete the surtax provisions from the Williams-Smathers substitute and to insert, in their place, a direct increase in individual and corporate income tax rates and the capital gains rate (pp. S3591-2). Sen. Hruska said he had considered offering as an amendment the language of S. 1588, to "improve the quota system on the import of meat and meat products," but had concluded that "this is neither the time nor the place to get that job done" (pp. S3592-3) In discussing the Williams-Smathers substitute, Sen. Williams, Del., reviewed his discussion with the Budget Director and said: "Mr. Zwick...made it clear that the administration is unalterably opposed to the package...They said they would like to have a tax increase, but they are unalterably opposed to each and every section...which has any connection at all with controlling expenditures, not only the section with respect to public works, but the one with respect to controlling employment as well" (p. S3565).

2. TRANSPORTATION. The Commerce Committee voted to report (but did not actually report) S. 913, to provide for the recording of trust agreements and other evidences of equipment indebtedness of water carriers. p. D262

3. ATTORNEYS' FEES. Sen. Tydings announced a hearing on Apr. 5 before a Judiciary subcommittee on S. 1351, to provide for the payment of reasonable costs, expenses, and attorneys' fees to defendants in actions by the U. S. for the condemnation of real property after determination of the amount of just compensation, or after abandonment of such actions by the U. S. p. S3484

4. CONSUMER CREDIT. Sen. Proxmire stated a FTC study shows "the poor are being charged substantially higher prices on consumer credit transactions" and announced for this reason subcommittee hearings will be conducted on the report on Apr. 19. p. S3484

5. OCEANOGRAPHY; FISHERIES. Sen. Kuchel inserted his speech, "Man Against Man Against the Sea," in which he stated the sea is a vast treasure hoard only now beginning in the providing of food, fresh water, recreation, etc. pp. S3490-91

6. DAIRY IMPORTS. Sen. McGovern discussed his plans to get legislation to protect the dairy farmers against "unchecked imports" of dairy products acted upon. pp. S3505-6

HOUSE

7. POULTRY. A subcommittee of the Agriculture Committee approved for full committee consideration H. R. 15146, amended, to amend the Poultry Products Inspection Act. p. D264

vide for the progression of workers to better paying and more responsible positions based upon merit and ability to learn, rather than being "dead ends" where an individual will perform the same work indefinitely with no possibility for advancement.

To some extent, that amendment which Senator SCOTT and I offered to the Emergency Employment Act in last year's poverty bill attempted to meet these objections. You will recall that this amendment lost by four votes. The present bill contains some improvements, primarily in the areas of giving States and local groups more authority in the planning and administration of these programs. I am confident, however, that further improvements can be made in this area when the bill is considered by our Subcommittee on Employment, Manpower, and Poverty.

I should also point out, Mr. President, that the bill just introduced also provides for an examination and evaluation of all Federal manpower and training programs by the Comptroller General of the United States and the General Accounting Office. This, of course, is based upon a similar amendment of mine which I was successful in having enacted as part of the 1967 amendments to the Economic Opportunity Act.

During my years in the Senate, I have continually spoken out against the incredible waste of time and effort under these programs and have called for independent and objective evaluations designed to promote effective and economical coordination of manpower programs by reducing and eliminating overlap and duplication in such efforts funded by the Federal Government. While the GAO study approach may not be the only way to achieve this objective, I believe that it is a giant step in the right direction.

The bill just introduced by the senior Senator from New York calls for these programs to be added as new titles to the Manpower Development and Training Act. I believe that other changes in MDTA are necessary and have reserved the right to offer additional amendments before our subcommittee. Nevertheless, I am in complete sympathy with the overall objectives of MDTA and, last December, introduced a bill to extend MDTA on behalf of the distinguished chairman of our subcommittee, and senior Senator from Pennsylvania, and myself.

In bringing my remarks to a close, Mr. President, I should emphasize that when I speak of providing meaningful jobs and job training for the hard-core disadvantaged citizens of our Nation, in either the public or private sectors of our economy, I include the need to provide remedial and vocational education and other supportive services in fields such as health and social services. In so combining the services offered by different agencies and departments, we must be doubly on guard against the vices of duplication, fragmentation and administrative overlap. Nevertheless, I am convinced that it is only through the proper administration of these combined programs that we can ever hope to solve on a lasting basis our manpower training and poverty problems.

Because manpower training is so intimately connected with programs in the field of education and the war on poverty, it would be inappropriate to discuss this subject without pointing out that insufficient emphasis is being given to implementing these programs in the rural areas of our country. No one can deny the need to help the hard-core disadvantaged in our major urban areas where high concentrations of such individuals make the need readily apparent. But the necessity for assisting the hidden poor in our rural areas is just as great where the percentages of unemployed and unskilled may be as great or greater as in our cities, although less obvious because of their lack of concentration. Also, if the problems of our cities are to be eventually solved, it will be necessary to allocate these programs in a much more substantial manner than has heretofore been done to rural areas suffering from serious problems of outmigration.

Mr. President, it is my fervent desire to see this Congress enact constructive and creative programs in the fields of both private and public employment. However, I equally believe that the direction given by this bill must be primarily in terms of private enterprise, particularly in the long run, and that we must recognize that the community employment provisions are basically to meet a present emergency and that they should be phased out to the extent possible in the future.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

ORDER OF BUSINESS

Mr. GRIFFIN. Mr. President, will the Senator yield?

The PRESIDING OFFICER. The time is under the control of the Senator from South Dakota. Who yields time?

Mr. MUNDT. For what purpose does the Senator wish to be recognized?

Mr. GRIFFIN. Mr. President, I ask unanimous consent that I may proceed for 5 minutes, and that the time not be computed in the time limitation or in determining the time to vote on the amendment of the Senator from South Dakota.

Mr. MUNDT. That would have to be done by a different kind of unanimous-consent request, which I will be happy to pose in the Senator's behalf, if he has no objection.

Mr. GRIFFIN. I thank the Senator.

Mr. MUNDT. I have no objection that the Senator be recognized for 5 minutes. The maximum hour at which we would vote on the amendment would be extended from 1:30 p.m. to 1:40 p.m.

The PRESIDING OFFICER. Is there objection?

Mr. MONDALE. I have no objection.

The PRESIDING OFFICER. The Senator requested 5 minutes, and the Senator from South Dakota has extended the hour to vote by 10 minutes.

Mr. MUNDT. Mr. President, I have made that request in order to pick up the 5 minutes we just lost to the Senator from New York.

The PRESIDING OFFICER. Is there objection to the request of the Senator from South Dakota? The Chair hears no objection, and it is so ordered.

The Senator from Michigan is recognized for 5 minutes.

THE AUTO EXCISE TAX BILL

Mr. GRIFFIN. Mr. President, for several days now we have had before the Senate the bill, H.R. 15414, the principal purpose of which is to extend the auto excise tax.

The debate we have heard has been lengthy. It has been illuminating. It has touched on a great many issues and matters of grave importance to the country.

Numerous amendments have been offered. A few have been adopted and a number have been rejected.

But in all the debate, Mr. President, very little has been said about the legislation before us. If I may, I should like to direct my remarks to the bill itself.

History has taught the people of Michigan that "nothing is so permanent as a temporary tax."

Mr. President, the existing 7 percent excise tax on automobiles is inequitable and arbitrary. It unfairly singles out and burdens the principal industry of my State. I suspect that the pending bill proposes to continue this discriminatory exaction because it represents a quick and easy way to raise some of the revenue which is desperately needed.

When this issue arose last year, in a different context, I remarked that it was not easy for a Senator from Michigan to swallow such a pill—especially when one considers that the tax was proposed originally as a temporary, war-time measure. The bill before us today is no more palatable.

For 15 years, since the Korean war, Congress has continued and extended this "temporary" tax which hits hardest at State of Michigan. It represents a stubborn relic. Everyone agrees that the tax is unfair. Nobody professes to like it—but the tax lingers on—and on.

I have no doubt that Congress will approve the pending bill. Under the circumstances, I must admit that we have little choice.

Our fighting forces are heavily engaged in Southeast Asia—and they must be supported.

Our fiscal affairs are in disarray—and we must find ways to reduce the deficits which have brought us to a state of fiscal crisis.

But, Mr. President, there are other important considerations which should be weighed. We should take time to consider what forms of taxation are fair and equitable—instead of jumping to extend taxes simply because they are quick and easy to collect.

In his message to the Congress on May 17, 1965, President Johnson called for excise tax reductions and said his program would "end an unfair burden on many businesses and worker who produce the commodities which are singled out for excise taxation.

The auto excise tax is an unfair burden. That statement by President Johnson was true then—and it is true now.

In this connection, it should be recalled that the President's 1965 proposal to reduce excise taxes brought the automobile industry the shortest tax relief on record. I believe it lasted just 12 days.

Mr. President, one redeeming feature in the present bill is that, at least, we are promised once again that the automobile tax will eventually be eliminated.

Under existing law, the 7-percent tax has been scheduled to drop to 2 percent on April 1, 1968; to 1 percent on January 1, 1969; but then to continue in effect at 1 percent thereafter.

Under the bill before us now, the 7-percent tax would be reduced to 5 percent on January 1, 1970; to 3 percent on January 1, 1971; to 1 percent on January 1, 1972; and finally it would be repealed on January 1, 1973.

From the standpoint of the automobile industry, its workers and its consumers, I believe that the pending bill represents something of an improvement.

Under the existing act, the auto excise tax was destined by law to continue indefinitely. The bill before us now at least promises eventual removal of the tax.

Furthermore, the sharp drop from 7 percent to 2 percent scheduled for this year was not very realistic; such a reduction would have involved too great a revenue loss to be absorbed at one time. On the other hand, the more gradual reduction scheduled in this bill—by steps of 2 percent at a time—will stand a better chance of surviving.

Mr. President, I want to commend the House Committee on Ways and Means and the Senate Committee on Finance for writing into the pending bill the provision which calls for the ultimate elimination of this discriminatory tax.

I believe that this provision should be looked upon as a binding contract between Congress and the people of my State—and I fully intend to do all I can to see that it is carried out.

Mr. MUNDT. Mr. President, I understand that the leader on the other side wants to make a statement now. I rise only to ask unanimous consent on behalf of the Senator from Virginia [Mr. BYRD] and myself that we be permitted to modify our amendment to read as follows:

On page 2 delete the language on lines 1 through 6 and insert the following:

"(B) The tax imposed by subsection (a) shall apply for any taxable year only to taxpayers who have been granted a license to export or who have filed an export declaration with customs at the port of shipment and who fail to file a statement with their tax return that they have not engaged during the taxable year in trade with any Communist country which is supplying material to the Government of North Vietnam".

The PRESIDING OFFICER. Without objection, the amendment is modified accordingly.

Mr. MUNDT. Mr. President, I do that simply because in colloquy on yesterday, it was brought out that many taxpayers would have to check a blank in their income tax form as a disclaimer. In conference with people downtown this morning, and those in charge of this kind of export business, so far as we could spell by the two statements and all the people involved, the rest of the taxpayers would not have to make that check. Thus, we obviate that extra difficulty for the taxpayers.

Now, Mr. President, I am happy to yield to the Senator from Minnesota.

The PRESIDING OFFICER. How much times does the Senator from Minnesota yield himself?

Mr. MONDALE. Mr. President, I yield myself 10 minutes.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for 10 minutes.

Mr. MONDALE. Mr. President, I rise to oppose the pending amendment offered by the Senator from South Dakota [Mr. MUNDT]. If this amendment were to be adopted, there would be celebrations in the Kremlin because we would be helping the Russians to hang on to their rebellious satellites.

The pending amendment is intended to limit the Eastern Europeans' ability to assist North Vietnam wage war, by discouraging American trade with Eastern Europe.

It would do nothing of the sort. There are many, many other sellers only too willing to step in and take our markets and supply the nonstrategic foodstuffs and goods we sell to Eastern Europe. This amendment would not prevent Eastern Europe from participating in world trade—those countries would only turn to other suppliers.

Mr. President, what are we doing here? I think it is terribly important to understand the serious, substantial, and fundamental character of the pending amendment. Many people compare it with past restrictions which have been imposed by Congress, in one way or another, on trade with Eastern Europe. Some of the restrictions have applied to extension of Export-Import Bank credits. Some of them have conditioned the extension of American aid, in one way or another, to seeking a reduction of help from Eastern Europe to the Communist side in North Vietnam. Those restrictions have had an effect—but a modest one—on East-West trade.

This is entirely different. This is using a different tool, the tax tool, to raise what I regard to be an insuperable barrier to any kind of trade between an American taxpayer and Eastern Europe. It would eliminate somewhere between $200 million and $400 million in beneficial cash sales from this country to Eastern Europe. Thus, it would not have a modest effect. It would be a fundamental prohibition effectively limiting any trade of any kind.

In the process, we would lose desperately needed exports. Even worse, we would throw these nations on the mercy of the Russian giant they are struggling to escape.

The amendment would succeed only in giving business to our competitors. It would make the countries of Eastern Europe more dependent on the Soviet Union. It would completely frustrate the original purpose of the bill.

American businessmen have cultivated the markets in Eastern Europe because these markets are growing, becoming more consumer-oriented. The customers are ready and willing to buy; the French or other Western Europeans will be delighted to have the business we throw away if this amendment becomes law.

In the past few weeks we have watched several of the Eastern European countries strain even harder against the ties binding the Communist bloc. The front page of this morning's New York Times reports "growing estrangement between Czechoslovakia and her partners" spurred by "Czechoslovak democratization." I ask unanimous consent that the article be placed in the RECORD at this point in my remarks.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

PRAGUE PROTESTS TO EAST GERMANY—SCORES MEDDLING—VOICES OBJECTION TO SPEECH BY IDEOLOGIST CRITICIZING CZECHOSLOVAK REFORM—ESTRANGEMENT GROWS—PRAGUE PARTY PAPER URGES SEPARATE FOREIGN POLICY ON GERMAN PROBLEM

(By Henry Kamm)

PRAGUE, March 27.—Czechoslovakia protested to East Germany today over interference in her affairs. The action was the most dramatic development in the growing estrangement between Czechoslovakia and her partners.

Foreign Minister Vaclav David summoned the East German ambassador, Peter Florin, to inform him of objections to the speech yesterday by a member of the East German party's ruling Politburo.

The East German ideological expert, Kurt Hager, criticized Czechoslovak democratization. He contended that it served the West German goal of loosening the links between Communist countries, particularly Czechoslovakia and East Germany.

SEPARATE POLICY URGED

The Czechoslovak party newspaper, Rude Pravo, said today that there was no reason why Czechoslovakia should pursue the same policy toward West Germany as does East Germany.

Rude Pravo said Czechoslovakia was simplifying the situation by following the East German lead instead of trying on her own to influence developments in West Germany that might lead to normal relations between the two countries.

The newspaper called on the Government to find the courage to develop a specifically Czechoslovak initiative on the issue of Germany.

It also demanded that the atmosphere of the Foreign Ministry be transformed so as to encourage fearless expressions of opinion and the honest consideration of alternatives.

SMRKOVSKY SINGLED OUT

Yesterday's East German criticism by Mr. Hager singled out the speeches of Josef Smrkovsky, a principal figure in the new Czechoslovak leadership, as particularly useful to the West German press in attacks on East Germany.

Organizations and protest meetings at various institutions rallied strongly on behalf of Mr. Smrkovsky, who is one of the most popular of the new leaders. The protests were prominently reported by newspapers, radio and television.

The Union of Anti-Fascist Fighters charged that the East German had attacked not only Mr. Smrkovsky but also the "revolutionary process in our society." It continued:

"We extend our full support to all comrades, especially Smrkovsky. We are convinced that our view is shared by all patriotic Czechoslovaks."

CRITICISM BY HUNGARIAN

The Czechoslovak press also reported criticism from a member of the Hungarian Politburo, Zoltan Komocsin, who declared in a

radio interview yesterday that developments in Czechoslovakia were accompanied by "anti-Socialist rightist efforts of an incorrect tendency."

The party newpaper Rude Pravo, besides urging an independent Czechoslovak policy on German, also criticized the Soviet attitude toward the present reform movement.

Rude Pravo complained that the Soviet Union and the other Communist countries gave inadequate news of the Czechoslovak events to their peoples.

"Some think this means they do not approve," the party organ remarked pointedly.

Rude Pravo linked the Soviet information policy to what it called "one of the old bad habits" of Communist countries.

The Soviet press has carried only bland, brief reports about the Czechoslovak changeover as if the replacement of Mr. Novotny by Alexander Dubcek represented a change only in leaders and not also in orientation.

Rude Pravo charged that because of this policy people in Socialist countries knew more about developments in Africa than in neighboring countries.

"About them they receive one-sided, incomplete and therefore nonobjective views," the newspaper complained.

In any event, Rude Pravo declared pointedly, whatever information the Communist nations publish about Czechoslovakia, the decisive issue is "that these countries must strictly respect our sovereignty and not interfere in our internal affairs."

The article continued:

"We therefore respect the right of these countries to give information about our development as they consider fit and do not force ourselves on them, especially as we are only at the beginning. Let us show that we are calm, that we have national pride, that we are modest.

"And let us concentrate all our efforts to insure that the seeds of democracy sown in the spring of this year bear fruit as soon as possible. Even then, we shall leave it to everyone to decide for himself what he can and what he wants to use fom the Czechoslovak contribution to the forming of a new model of socialism."

The reference to a specifically Czechoslovak form of socialism suitable for adoption by other countries was considered significant here as a declaration of independence from ideological allegiance to anyone else.

The same note was struck in a broadcast by the Moscow correspondent of the Prague radio. He, too, criticized the inadequacy of Soviet news coverage, but declared ironically that Soviet listeners got the news from Western radio stations.

SECOND SPEECH BY EAST GERMAN

(By David Binder)

BERLIN, March 27.—Prof. Kurt Hager, the East German ideologist, attacked a Czechoslovak Communist party reformer by name last night in a second criticism of the reform movement in two days.

His new reproach, published today in Nerees Deutschland, the party newspaper, twice censured Josef Smrkovsky, the Minister of Forestry, who has become a spokesman for the liberalization of Communism in Czechoslovakia.

Speaking at the final session of a congress of 1200 Marxist philosophers in East Berlin, Professor Hager hinted that Mr. Smrkovsky and his fellow reformers were allied with "militarist and revanchist circles in West Germany.

It was the sharpest aspersion against the new Czechoslovak leadership yet made by a member of the East German regime, which for two weeks has treated the Czechoslovak developments as a threat to its security.

Professor Hager said:

"West German propaganda centers . . . zealously quote the remarks of Forestry Minister Smrkovsky. They report at great length the attacks of journalists and writers upon the leading role of the party, the Central Committee and its apparatus, on leading members of the government."

He accused West Germany and other "imperialist powers" of aiming "to soften up Socialist countries from within, to split them and especially to isolate the German Democratic Republic."

He added that "the performance of Smrkovsky and others fills them with hope."

Mr. MONDALE. Mr. President, Czechoslovakia, Poland, and Rumania join Yugoslavia in seeking a government which puts national interests ahead of Communist cooperation. The countries of Eastern Europe are beginning to care about the quality of their life. For quality goods, they must turn to Western markets.

Our trade with them is one of the best political tools we have. If we cut off all trade with Eastern Europe, we drive our new-found customers back into the hands of the Soviets, whom they are trying to escape.

It strikes me that this amendment makes the tax bill we are considering go in two directions at once.

Why, when we are so desperately in need of obtaining a favorable balance of trade, should we cut off exports? We are told that one of the reasons for seeking a tax increase is to straighten out our balance-of-payments position. This amendment will not gain any additional tax revenue; it is intended as a prohibitive tax—and it will prohibit trade, cutting out the sales gains on our side of the ledger.

The tax increase proposal is designed to appeal to those countries now trying to help us by refraining from exchanging dollars for gold. It is supposed to show that we intend to improve our balance-of-payments position. But the Mundt amendment nullifies that effort.

The Senate makes a tragic mistake if it chooses to limit our favorable trade with countries struggling to free themselves from Soviet control. We are mistaken also if we think American business has been aiding North Vietnam by trading with the nations of Eastern Europe. Our exports to Eastern Europe are primarily agricultural commodities. Of a total of $198 million worth of goods shipped from the United States in 1967 to Eastern Europe, $175 million was in agricultural commodities.

These figures are very important, because they show the kind of trade with them and the ease with which other countries will be able to pick it up if we inflict upon ourselves this restriction.

I ask unanimous consent that there be inserted at this point in my remarks in the RECORD tables showing the commodities and dollar amounts in trade from the United States to Eastern Europe.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

The 82d Quarterly Report, 4th Quarter, 1967, Export Control

TABLE C.—U.S. EXPORTS TO EASTERN EUROPE BY PRINCIPAL COMMODITIES, 1964, 1965, AND 1966

[In thousands of dollars]

Commodity	Total to Eastern Europe			Eastern Europe excluding U.S.S.R.[1]			U.S.S.R.		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
Exports, total	339,923	140,009	198,005	195,370	94,848	156,280	144,553	45,161	41,725
Meat and preparations	1,328	22	114	1,328	22	114			
Dairy products [2]	9,922	3,962	631	9,922	3,962	631			
Wheat	179,573	3,166	8,925	69,155	3,166	8,925	110,418		
Rice	10,360			2,974			7,386		
Barley	3,157	2,506	1,601	3,157	2,506	1,601			
Corn	6,401	5,847	23,560	6,401	5,847	23,560			(3)
Rye	973			973					
Grain sorghums	5,414	13,583	28,709	5,414	13,583	28,709		(3)	
Wheat flour [2]	1,146	1,567	2,067	1,146	1,567	2,067			
Fruit and vegetables [2]	1,109	1,455	1,746	1,109	1,455	1,744			2
Feedstuffs for animals	4,470	7,922	7,907	4,470	7,922	7,907			
Lard and other prepared edible fats [2]	1,161	68	(3)	1,161	68	(3)			
Food, other [2]	2,479	496	509	2,474	494	414	5	2	95
Tobacco and manufactures	4,204	2,334	3,440	4,204	2,298	3,392	(3)	36	48
Hides and skins, except fur skins, undressed	4,537	12,433	30,330	3,306	6,263	14,770	1,231	6,170	15,560
Oilseeds, nuts, and kernels	8,322	16,879	3,873	8,322	10,505	3,871		6,374	2
Rubber, synthetic	2,090	1,219	1,925	2,064	1,219	1,925	26		(3)
Pulp and waste paper	1,949	2,595	7,412	979	609	2,147	970	1,986	5,265
Cotton, unmanufactured	25,451	2,217	10,207	25,140	2,217	10,207	311		
Manmade fibers and waste	1,988	1,519	2,404	1	166	1	1,987	1,353	2,403
Crude materials, other	1,864	1,687	2,004	1,845	1,668	2,001	19	19	3
Coal, coke, and briquettes	4,185	2,414	2,531	4,185	2,414	2,531			
Oils, fats, and waxes [2]	30,313	29,612	13,509	22,060	12,119	5,910	8,253	17,493	7,599

Footnotes at end of table.

TABLE C.—U.S. EXPORTS TO EASTERN EUROPE BY PRINCIPAL COMMODITIES, 1964, 1965, AND 1966—Continued

[In thousands of dollars]

Commodity	Total to Eastern Europe			Eastern Europe excluding U.S.S.R.[1]			U.S.S.R.		
	1964	1965	1966	1964	1965	1966	1964	1965	1966
Organic chemicals	4,995	5,428	3,606	1,448	1,062	804	3,547	4,366	2,802
Inorganic chemicals	922	669	824	159	665	397	763	4	427
Medicinals and pharmaceuticals[2]	1,441	1,325	2,003	1,278	1,012	1,825	163	313	178
Plastic materials	1,261	815	788	560	289	266	701	526	522
Insecticides and similar preparations	2,757	449	978	1	63	96	2,756	386	882
Chemicals, other	1,151	646	2,043	1,024	511	1,971	127	135	72
Wood manufactures	575	548	485	575	542	472	----------	[3]	13
Paper, paperboard, and manufactures	78	714	1,033	78	689	1,026	----------	25	7
Textile yarn and thread	957	529	136	957	513	129	----------	16	7
Iron and steel	175	156	1,892	175	147	1,103	----------	9	789
Metal manufactures	216	246	1,187	200	221	906	16	25	281
Agricultural machinery	76	178	611	51	73	331	25	105	280
Office machines and parts	295	506	2,763	274	491	2,711	21	95	52
Textile and leather machinery	613	628	1,402	168	143	844	445	485	558
Construction and mining machinery	1,580	1,395	1,213	28	287	994	1,552	1,108	219
Heating and cooling equipment	324	186	3,823	302	178	3,536	22	8	287
Pumps and centrifuges	140	810	2,142	31	749	1,836	109	61	306
Mechanical handling equipment	818	1,249	1,135	287	776	701	531	473	434
Taps and similar appliances	32	154	923	31	149	922	1	5	1
Nonelectric machinery, other	2,089	2,000	4,388	1,130	1,624	3,053	959	376	1,335
Electric power machinery and switchgear	435	406	1,366	57	54	1,321	378	352	45
Electric measuring and controlling instruments	457	553	2,197	344	517	2,081	113	36	116
Electrical machinery, other	202	490	1,294	82	430	1,011	120	60	283
Transport equipment	854	2,179	1,298	121	107	1,134	733	2,072	164
Clothing, except of fur[2]	524	480	713	465	395	666	59	85	47
Professional, scientific, measuring, and controlling instruments and apparatus	489	742	960	343	655	869	146	87	91
Printed matter	322	292	1,148	285	235	1,087	37	57	61
Unspecified commodities for relief	1,661	938	466	1,640	938	466	21	----------	----------
Other and unspecified domestic exports	1,509	1,433	1,516	916	945	1,084	593	488	432
Reexports	579	362	268	570	318	211	9	[3]	57

[1] Includes exports to Estonia, Latvia, and Lithuania.
[2] Includes relief shipments.
[3] Less than $500.

TABLE 1.—U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1965, 1966, AND JANUARY–SEPTEMBER 1967

[Thousands of dollars]

Commodity	1965	1966	January–September 1967
TRADE WITH BULGARIA			
Exports, total	3,613	3,631	2,816
Baby chicks	31	16	20
Grain sorghums	483	17	101
Soybean oilcake and meal	1,460	1,207	1,786
Meat and fish meal, inedible	296	345	----------
Tobacco, unmanufactured	----------	19	29
Cattle hides, undressed	8	90	----------
Clay, including calcined	----------	----------	17
Seeds for planting	15	1	11
Tallow, inedible	213	----------	----------
Coal tar and other cyclic intermediate acids	123	----------	----------
Fungicides	22	----------	----------
Polychlor insecticides	16	----------	57
Organic chemicals, other	1	17	----------
Antibiotics, bulk	----------	101	86
Vitamins and fish liver oils, for retail	102	90	84
Medicaments, other	193	414	168
Medicinal and pharmaceutical products, other	9	54	15
Plastic resins	39	182	15
Plastic materials, other	----------	----------	20
Chemicals, other	1	20	3
Paper and paperboard	11	4	----------
Card punching and auxiliary machinery	----------	----------	11
Textile machinery and parts	----------	375	61
Pulpmill machines, new	----------	348	----------
Paper cutting and paper products manufacturing machinery	----------	----------	109
Glassworking machinery and parts	384	----------	25
Fruit and vegetable processing machines	----------	----------	32
Heating and cooling equipment	2	30	----------
Gas compressors	----------	21	----------
Pumps, centrifuges, and parts, other	----------	20	3
Taps, cocks, valves, and similar appliances	----------	----------	30
Electric circuit apparatus	----------	----------	29
Electronic navigational aids	55	122	----------
Telecommunications apparatus, other	38	19	1
Electric measuring and controlling instruments and apparatus	4	7	13
Machinery, other	6	26	37
Professional, scientific, measuring, and controlling instruments and apparatus	16	42	16
Fountain pens	45	----------	----------
Pen nibs and nib points	9	15	3
Other domestic exports	30	29	34
Reexports	1	----------	----------
Imports, total	1,666	2,529	2,326
Cheese	426	451	392
Nuts, edible	45	45	8
Plums, prunes, and prunelles, dried	6	4	44
Onions, dehydrated	22	45	48
Molasses, inedible	----------	----------	656
Paprika	559	914	409
Fennel	3	6	20
Wild pig and hog skins	----------	72	----------
Hare fur, undressed	----------	24	----------
Mustard seeds, whole	----------	33	----------
Silk, raw	----------	84	40
Crude animal materials	13	11	5
Plants and parts used in perfumery, pharmacy, or insecticides	61	70	34
Crude materials, other	20	17	20
Beeswax, not bleached	----------	----------	15
Drugs and medicinals derived from benzenoid chemicals and products	----------	----------	23
Organic chemicals, other	----------	----------	15
Medicinal and pharmaceutical products	----------	52	----------
Rose oil	272	370	317
Fur skins, dressed	21	----------	----------
Wood manufactures, except furniture	10	20	8
Carpets, carpeting, and rugs	17	53	72
Glass	----------	44	25
Glassware	100	112	70
Motorcycles	2	3	32
Stamps	50	31	18
Works of art and collectors' items, other	16	2	5
Manufactured goods, other	23	22	29
Other imports	----------	[1] 44	[1] 21
TRADE WITH CZECHOSLOVAKIA			
Exports, total	27,685	37,336	16,619
Barley	2,506	----------	----------
Corn, except seed	3,277	8,889	----------
Seedcorn, except sweet seedcorn	45	54	67
Grain sorghums	12,214	15,435	4,026
Navy beans, dried, except seed	----------	----------	90
Hops	171	878	182
Soybean oilcake and meal	74	1,332	849
Tobacco, unmanufactured	255	46	34
Cattle hides, undressed	1,592	2,531	955
Calf and kip skins, undressed	48	39	63
Fur skins, undressed	14	12	55
Peanuts, shelled, green	----------	345	293
Soybeans	3,425	2,095	1,481
Rubber, synthetic	121	397	130
Woodpulp	82	261	281
Sulfur, crude	798	539	202
Asbestos, crude	28	19	59
Vanadium ores and concentrates	295	504	276
Tantalum ores and concentrates	----------	----------	59
Crude materials, other	45	57	13
Tallow, inedible	----------	283	----------
Toluene diisocyanates	----------	----------	135
Organic chemicals, other	66	95	151
Carbon black	189	7	11
Pigments, paints, and related materials	67	112	82
Antibiotics, bulk	121	20	2
Medicinal and pharmaceutical products, other	64	64	48
Regenerated cellulose and chemical derivatives	----------	----------	86

TABLE 1.—U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1965, 1966, AND JANUARY-SEPTEMBER 1967—Continued

[In thousands of dollars]

Commodity	1965	1966	January-September 1967
TRADE WITH CZECHOSLOVAKIA—Continued			
Plastic materials, other	52	23	52
Gum and wood resins	162	74	32
Prepared culture media	44	61	36
Chemicals, other	28	93	16
Pencil slats	501	394	183
Paper and paperboard	17	339	310
Nonferrous base metals		4	55
Tractors, tracklaying		99	26
Typewriters	37	83	
Electronic computers, digital		277	1,881
Electronic computers, other	2	236	1
Card punching and auxiliary machinery	64	65	142
Parts for electronic data processing machines	8	83	1,330
Office machines and parts, other	46	56	63
Sawing machines, metalcutting			151
Rolling mill machinery and parts			419
Gas operated welding, cutting, and similar machines and parts	4	5	945
Metalworking machinery, other	68	1	3
Textile and leather machinery and parts	72	85	8
Paper, pulp, and paper processing machinery and parts	54	84	3
Construction and mining machinery and parts	86	19	78
Glassworking machinery and parts	4	27	225
Air conditioners, self-contained	48	4	23
Underground mine loaders		44	
Trucks, industrial, electric		13	100
Mechanical handling equipment other	63	103	66
Metal treating and metal powder molding machines	69	41	37
Nonelectric machinery, other	100	221	73
X-ray apparatus and parts		24	55
Electric measuring and controlling instruments and apparatus	50	143	52
Resistance welders	67		
Electric machinery, apparatus, and appliances, other	65	85	79
Professional, scientific, measuring, and controlling instruments and apparatus	77	139	96
Developed motion-picture film	14	18	62
Musical instruments, sound recorders, reproducers, and parts	102	130	71
Manufactured goods, other	183	124	118
Other and unspecified domestic exports	52	29	87
Reexports of sewing machines and parts			44
Reexports, other	49	96	67
Imports, total	16,741	27,695	20,345
Canned cooked hams and shoulders	937	987	978
Meat and preparations, other	141	230	101
Sugar confectionery and other sugar preparations, except chocolate	126	121	150
Chocolate and preparations	60	83	67
Alcoholic beverages	60	75	67
Wild pig and hog skins, undressed	89	387	36
Marten fur, undressed	18	58	11
Mink fur, undressed	49	127	42
Rabbit fur, undressed	215	126	124
Angora rabbit hair	171	16	560
Textile fibers and waste, other	41	70	9
Feathers and down, crude	62	48	37
Crude materials, other	57	65	17
Organic chemicals	73	237	176
Inorganic chemicals	67	49	41
Explosives and pyrotechnic products	115	268	217
Chemicals, other	18	34	52
Pig and hog leather		121	
Wood manufacturers, except furniture	56	86	63
Fabrics of vegetable textile fibers, except cotton and jute	102	125	89
Made-up textile articles	219	213	210
Textile yarn, fabrics, and related products, other	67	79	60
Drawn or blown glass, unworked, in rectangles	413	388	215
Glass, other	55	24	19
Imitation gemstones, except beads	822	1,134	977
Beads, bugles, and spangles of glass	773	923	557
Articles of glass beads, bugles, and spangles	93	95	98
Glassware, other	1,025	1,242	877
Pottery	208	192	163
Pig iron		2,218	
Bars, rods, angles, shapes, and sections of iron or steel	193	5	7
Nails, screws, rivets, and similar articles	223	164	18
Chains and parts of iron or steel	109	99	76
Metal manufactures, other	86	104	72
Tractors, agricultural, wheeled, except garden		2	254
Typewriters	385	459	403
Drilling machines, metalworking	69	181	142
Milling machines	67	775	534
Boring machines and vertical turret lathes	521	2,964	2,850
Lathes, other	458	1,520	844
Grinding machines, metalcutting	120	349	134
Metalworking machinery, other	23	24	109
Textile machinery and parts	212	255	128
Printing machinery and parts	414	339	143
Metalworking machine tool parts	58	1,900	1,036
Nonelectric machinery, other	63	158	261
Electric power machinery and switchgear	(2)		54
Electric measuring and controlling instruments and apparatus	94	16	5
Motorcycles and parts	569	552	186
Bicycles	271	215	189
Bicycle parts	686	674	589
Lighting fixtures and fittings	712	825	658
Furniture	309	394	351
Travel goods, handbags, and similar articles	34	51	58
Hats of felt, fur, and fur felt	212	170	193
Clothing, except of fur, other	111	31	41
Fur clothing and fur articles	1	47	
Footwear, leather	2,571	3,474	3,349
Professional, scientific, measuring, and controlling instruments and apparatus	75	56	52
Musical instruments, sound recorders, reproducers, and parts	199	183	112
Printed matter	756	891	673
Glass Christmas tree ornaments	87	98	59
Nonmilitary firearms	220	89	80
Toys, games, and sporting goods, other	45	65	52
Works of art and collectors' items	43	147	145
Jewelry and wares of precious metals	153	111	60
Artificial fruit and flowers	59	34	24
Manufactured goods, other	99	138	135
Articles for exhibition		49	
Other imports	1 302	1 266	1 253
TRADE WITH EAST GERMANY			
Exports, total	12,413	24,864	22,435
Meat, fresh, chilled, or frozen		50	1,040
Butter	1,226		
Wheat	2,607		
Barley			844
Corn, except seed	2,517	11,215	11,627
Grain sorghums	883	5,091	887
Oranges, fresh	636	387	652
Lemons, fresh	236	323	318
Grapefruit, fresh			117
Grapefruit juice, canned, not frozen			315
Fruit and vegetable juices, other			280
Navy beans, dried, except seed	173		
Lentils, dried, except seed	217		
Tobacco, unmanufactured	1,423	2,773	2,194
Tobacco manufactures		51	211
Calf skins, undressed		214	306
Soybeans	500		517
Wood, shaped or simply worked		44	
Cotton linters	386	958	677
Coal, bituminous	1,298	1,610	868
Organic chemicals		(2)	53
Paper and paperboard		138	229
Finished structural parts and structures of iron or steel		21	35
Agricultural machinery and implements	5	42	84
Electronic computers, digital		1,516	685
Card punching and auxiliary machinery	92	4	10
Pulp and paper mill machines and parts	1		80
Printing machines and parts	6	30	
Air conditioners, self contained			33
Heating and cooling equipment for treatment of food products			33
Wrapping, packaging, filling, and similar machines and parts		48	
Tobacco processing machines and parts			54
Metaltreating and metal powder molding machines		30	1
Nonelectric machinery, other	26	34	50
X-ray apparatus		94	
Nuclear radiation detecting and measuring instruments	30	5	35
Electric measuring and controlling instruments and apparatus, other		38	71
Recording magnetic tape and wire		77	34
Manufactured goods, other	47	47	58
Other domestic exports	42	20	27
Reexports	2	4	
Imports, total	6,537	8,194	4,519
Canned cooked pork	26	58	
Hops			100
Alcoholic beverages	38	5	1
Horse and mule hides	32		
Wild pig and hog skins	91	56	
Mink fur, undressed	804	800	395
Fur skins, undressed, other	5	27	
Cryolite or kryolith			115
Crude materials, other	17	21	3
Montan wax	378	365	268
Nitrogenous compounds			25
Carbon black and similar carbons	57	76	92
Potassium ferricyanide	25	36	39
Cresylic acid, crude	52		
Xylenois, crude	24	118	69
Chemicals, other	18	19	38
Pig and hog leather	71	334	36
Drawn or blown glass, unworked, in rectangles	26	11	21
Glassware	274	305	253
Pottery	153	146	66
Pig iron	2,727	3,236	1,344
Plates, sheets, and strip of brass		40	
Metal manufactures	3	22	8
Typewriters	269	280	50
Adding machines	32	52	
Office machines and parts, other	8	73	
Drilling machines, metalworking		51	12
Milling machines, metalworking		104	17
Boring machines and vertical turret lathes, metalworking	16	240	319
Lathes, metalworking, other		24	64
Textile machinery and parts	55	70	68
Printing presses and parts	155	258	25
Bakery machinery and parts	60	38	46
Radio-phonograph combinations	76	173	179
Telecommunications apparatus, other	46	6	18
Machinery, other	35	49	42
Bicycle parts	59	231	34
Furniture	35	1	1
Binoculars, microscopes, and other optical instruments	39	34	2
Photographic cameras and parts, except motion picture	316	305	302
Professional, scientific, measuring, and controlling instruments and apparatus, other	39	53	65
Musical instruments, sound recorders, reproducers, and parts	123	87	40

Footnotes at end of table.

TABLE 1.—U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1965, 1966, AND JANUARY–SEPTEMBER 1967—Continued

[In thousands of dollars]

Commodity	1965	1966	January–September 1967
TRADE WITH EAST GERMANY—Continued			
Printed matter	15	36	21
Artificial fruit and flowers	155	158	95
Manufactured goods, other	75	69	109
Returned goods	17	25	5
Other imports	[1]100	[1]102	[1]100
TRADE WITH HUNGARY			
Exports, total	9,327	10,053	4,958
Beef and pork livers, fresh or frozen		44	124
Corn, except seed		286	
Seedcorn, except sweet seedcorn	8	10	20
Grain sorghums	3	2,785	
Soybean oilcake and meal	2,777	1,815	1,982
Meat and fish meal, inedible	19		
Cattle hides, undressed	706	495	27
Calf and kip skins, undressed	299	951	153
Sheep and lamb skins undressed	89	131	217
Soybeans	3,550	996	
Rubber, synthetic	1	35	93
Seeds for planting	5	35	
Crude materials, other	18	3	14
Tallow, inedible	533	173	
Coal tar and other cyclic intermediate acids	32	57	
Coal tar and cyclic chemical intermediates, other	32	60	
Rubber compounding chemicals, cyclic	102		
Herbicides		230	68
DDT	104		
Acids and anhydrides			68
Organic chemicals, other	6	36	10
Carbon black			32
Potassium compounds	284		
Carbide abrasives	21		
Pigments, paints, and related materials	22	34	65
Antibiotics, bulk	89	1	
Hormones, bulk		464	68
Medicinal and pharmaceutical products, other	29	24	33
Herbicidal preparations	63		
Chemicals, other	7	10	26
Leather		154	170
Paper and paperboard	92	144	186
Agricultural machinery and implements	5	7	59
Electronic computers		135	139
Card punching and auxiliary machinery	122	47	261
Parts for electronic data procession machines		57	3
Milling machines, metal cutting			320
Textile machinery	15	8	81
Paper, pulp, and paper processing machinery and parts	44	1	
Printing machines and parts	2		28
Power cranes, draglines, shovels, and parts, excavator type			95
Refrigerating units, centrifugal		18	
Nonelectric machinery, other	19	109	53
Telecommunications apparatus	20	56	18
Electromedical apparatus and parts, except X-ray	4	23	35
Nuclear radiation detecting and measuring instruments	6	44	91
Electric measuring and controlling instruments and apparatus, other	25	59	86
Electric machinery, apparatus, and appliances, other	10	23	18
Professional, scientific, measuring, and controlling instruments and apparatus	56	89	132
Musical instruments, sound recorders, reproducers, and parts	4	12	57
Printed matter	1	256	4
Articles and manufactures of carving or molding materials	5	41	12
Manufactured goods, other	53	72	56
Other domestic exports	7	17	21
Reexports of hydrocortisone, bulk	34		
Reexports of works of art and collectors' items			30
Reexports, other	3	6	3
Imports, total	2,092	2,985	2,860
Cheese		23	45
Vegetables and preparations	14	44	19
Paprika	114	113	237
Food, other	13	16	10
Alcoholic beverages	94	190	132
Wild pig and hog skins	53	14	
Hides and skins, except fur skins, undressed, other		14	
Fur skins, undressed	18	3	
Feathers and down, crude	37	86	60
Plants and parts used in perfumery, pharmacy, or insecticides	70	61	58
Cinchona bark alkaloids and salts	17	108	
Nicotine and compounds		16	16
Hormones, bulk	5	7	20
Medicinal and pharmaceutical products, other	12	22	7
Essential oils, perfume, and flavor materials	20		3
Chemicals, other	10	20	5
Fabrics of vegetable textile fibers, except cotton and jute	112	180	168
Regalia for religious use	7	6	22
Textile yarn, fabrics, and related products, other	34	42	61
Glass		10	28
Glassware	82	159	174
Pottery	103	63	75
Structural steel	46		
Metal manufactures	1	17	10
Metalworking machinery		2	89
Printing presses, letter			135
Electronic tubes, except X-ray and television picture tubes			32
Machinery, other	2	3	14
Motorcycles and parts	47	173	45
Bicycles	140	238	290
Bicyle parts	82	91	94
Furniture	1	7	16
Fur clothing and fur articles	22	32	24
TRADE WITH HUNGARY—Continued			
Footwear	13	1	2
Professional, scientific, measuring, and controlling instruments and apparatus	13	8	25
Musical instruments, sound recorders, reproducers, and parts	24	38	16
Printed matter	63	121	169
Toys and games	21	14	24
Firearms and parts	13	5	
Stamps	196	204	18
Works of art and collectors' items, other	90	172	143
Jewelry and wares of precious metals	17	13	[2]
Brooms and brushes	123	173	132
Baskets and bags of unspun vegetable materials	209	314	199
Wigs and other human hair manufactures	55	50	20
Manufactured goods, other	29	45	55
Other imports	[1]70	[1]67	[1]92
TRADE WITH POLAND			
Exports, total	35,417	52,988	48,795
Nonfat dry milk [3]	912	629	1,352
Butter [3]	1,818		
Wheat	559	8,925	
Rice			4,671
Barley		1,601	2,940
Corn, except seed		3,105	7,847
Grain sorghums		5,380	2,575
Wheat flour [3]	1,567	2,067	584
Cornmeal [3]	137	175	100
Rolled wheat [3]	79	71	21
Lemons, fresh			423
Tea			162
Cotton seed oilcake and meal	142		
Soybean oilcake and meal	2,646	3,079	3,558
Linseed oilcake and meal		127	378
Food, other [3]	221	68	259
Cigarettes	617	487	465
Cattle hides, undressed	1,723	4,015	1,143
Kip skins, undressed	16	84	54
Sheep and lamb skins, undressed	153	81	152
Peanuts, shelled, green	121	24	92
Soybeans	2,850	93	5,318
Flour and meal of oilseeds, oil nuts, and kernels		212	82
Rubber, synthetic	1,088	1,462	614
Cotton pulp	132		78
Cotton, raw, except linters	1,831	9,206	5,047
Manmade fiber staple	164		
Seeds for planting	363	301	392
Crude materials, other	56	89	160
Petroleum products	2	6	82
Tallow, inedible	8,500	3,151	1,589
Soybean oil, refined [3]	2,480	2,294	1,318
Cottonseed oil, refined [3]	244		
Fats and oils, hydrogenated, except soybean and cottonseed			267
Coal tar and other cyclic intermediate acids	33	134	61
Plasticizers, cyclic			1,270
Butyl alcohol	207		
Acids and anhydrides	[2]	1	131
Organic chemicals, other	293	73	413
Carbon black	134	250	183
Inorganic chemicals, other	11	74	150
Antibiotics, bulk	170	2	
Hormones, bulk	22	328	775
Medicinal and pharmaceutical products, other [3]	139	159	87
Plastic materials	129	34	33
Chemicals, other	128	141	229
Kraft paper and paperboard	442		
Paper, paperboard, and manufactures, other	123	399	314
Rayon or acetate spun yarn	359		300
Yarn and thread of manmade fibers, other	152	122	
Iron and steel	139	87	170
Power generating machinery, except electric	34	95	32
Tractors, tracklaying			128
Office machines and parts	77	139	43
Gearcutting machines, metalworking	85	247	
Metalworking machinery, other	85	162	95
Textile and leather machinery	24	218	12
Food processing machines and parts	33	81	34
Boring and drilling machines, except well drilling			218
Well drilling machines, rotary type			272
Parts for well drilling machines	2	6	92
Glassworking machinery and parts	59	370	1
Machines for special industries and parts, other	56	85	56
Pumps, centrifuges, and parts	283	26	59
Lifting and loading machinery and parts	109	1	6
Trucks and tractors, industrial, and parts	118		2
Spraying machinery	94	10	
Tire recapping and repairing machines and parts		121	
Metal treating and metal powder molding machines	28	147	64
Taps, cocks, valves, and similar appliances	80	4	4
Nonelectric machinery, other	136	288	150
Electric measuring and controlling instruments and apparatus	316	168	97
Electric machinery, apparatus, and appliances, other	212	236	139
Clothing, except of fur [3]	377	647	352
Professional, scientific, measuring, and controlling instruments and apparatus	448	195	211
Developed motion-picture film	162	81	52
Printed matter	225	235	141
Manufactured goods, other	295	341	333
Unspecified commodities for relief	928	453	224
Other and unspecified domestic exports	63	32	78
Reexports	186	64	56

Footnotes at end of table.

TABLE 1.—U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1965, 1966, AND JANUARY-SEPTEMBER 1967—Continued

[In thousands of dollars]

Commodity	1965	1966	January-September 1967
TRADE WITH POLAND—Continued			
Imports, total	65,861	82,948	71,350
Horses, live	6	73	132
Canned cooked hams and shoulders	25,409	27,986	26,413
Pork, prepared or preserved, other	7,475	8,197	7,551
Meat and preparations, other	213	146	131
Cheese	18	272	362
Eggs		305	
Cod blocks, frozen	541	2,754	2,112
Fish and preparations, other	100	69	88
Blueberries, except fresh	570	353	110
Strawberries, frozen	242	392	270
Chicory roots, crude	110	234	114
Fruit and vegetables, other	93	32	108
Sugar		255	242
Molasses, inedible	179	1,315	
Caraway seed	118	159	203
Fish and whale meal	30	215	268
Food, other	114	171	126
Alcoholic beverages	117	182	138
Calf and kip skins, undressed	443	92	97
Wild pig and hog skins, undressed	967	933	377
Fox fur, except silver and black, undressed	1,462	3,181	1,655
Mink fur, undressed	1,251	1,369	405
Fur skins, undressed, other	107	103	31
Poppyseed	222	282	223
Rags, bagging, and sugar sack fabric	170	65	9
Feathers and down, crude	701	648	505
Bristles	180	108	36
Crude materials, other	130	103	92
Peat moss, fertilizer grade	227	200	156
Drugs and medicinals derived from benzenoid chemicals and products	1,290	920	1,030
Ethyl alcohol		768	
Trichloroethylene		83	234
Organic chemicals, other	46	193	108
Inorganic chemicals	96	304	389
Synthetic organic dyestuffs and color lakes	72	148	127
Antibiotics, bulk	239	1,066	604
Casein	579	2,416	1,325
Gelatin, inedible, and animal glue	79	158	106
Chemicals, other	77	61	115
Calf and kip leather	111	133	51
Pig and hog leather	1,373	945	151
Wood garment hangers		281	345
Wood manufactures, except furniture, other	504	301	225
Building board	288	308	167
Cotton fabrics, woven	107	217	41
Woolens fabrics, woven	227	195	69
Fabrics of vegetable textile fibers, except cotton and jute	3,255	4,263	2,787
Textile fabrics, woven, other	143	268	62
Textile yarn, fabrics, and related products, other	279	507	705
Drawn or blown glass, unworked, in rectangles	205	302	309
Cast or rolled glass unworked, in rectangles	362	524	298
Glass, other	9	33	141
Glassware	737	756	556
Pottery	295	298	343
Wire rods of iron or steel	1,466	78	361
Bars and rods, except wire rods, of iron or steel	2,766	3,705	3,749
Angles, shapes, and sections of iron or steel	372	202	628
Universals plates, and sheets of iron or steel	1,531	1,991	2,819
Tubes, pipes, and fittings of iron or steel	906	829	728
Aluminum, unwrought, not alloyed			248
Zinc, unwrought, not alloyed		1,452	2,173
Cadmium, unwrought, not alloyed	29	112	
Barbed wire	4	69	148
Wire mails, 0.065 inch or over in diameter, of iron or steel	751	683	827
Nails, screws, and similar articles of iron or steel, other	919	735	864
Handtools and tools for machines	176	605	564
Domestic utensils of base metals	93	82	128
Boring machines and lathes, metalworking	30	225	679
Metalworking machine tools, other	56	162	151
Sewing machines and parts	29	118	88
Metalworking machine tool parts	23	54	131
Machinery, other	70	139	95
Bicycles and parts	247	301	140
Transport equipment, other	43	121	3
Lighting fixtures and fittings	127	109	42
Bentwood furniture and parts	455	629	441
Folding chairs and wood	540	398	56
Furniture, other	369	575	469
Clothing, except of fur	128	360	781
Footwear	237	236	134
Musical instruments, sound recorders, reproducers, and parts	71	98	49
Glass Christmas tree ornaments	511	521	515
Used rifles	141		
Toys, games, and sporting goods, other	158	209	115
Stamps	130	158	82
Brooms and brushes	216	151	205
Baskets, bags, and handbags of willow	932	1,237	1,028
Articles of plaiting materials, other	271	328	181
Manufactured goods, other	319	372	321
Other imports	1 177	1 262	1 165
TRADE WITH RUMANIA			
Exports	6,385	27,057	12,440
Baby chicks		80	150
Potatoes, fresh		134	124
Meat and fish meal, inedible	487		
Yeast and baking powder	114	9	
Cattle hides, undressed	1,523	5,515	1,502
Calf and kip skins, undressed	94	495	
Soybeans		108	3
Woodpulp	389	1,878	1,194
Cotton, raw, except linters		43	

Commodity	1965	1966	January-September 1967
TRADE WITH RUMANIA—Continued			
Florida phosphate hard rock and land pebble		383	302
Crude materials, other	5	12	36
Coal	521	921	131
Coke of coal, lignite, or peat	596		
Petroleum coke	88		
Tallow, inedible	99	9	27
Animal fats and oils, inedible, other	49		
Benzene			277
Rubber antioxidants, cyclic	(2)	56	144
Herbicides		5	323
Glycerine			41
Methyl ethyl ketone			38
Organic chemicals, other	25	41	6
Antibiotics, bulk	16	44	56
Hormones, bulk	41	23	
Blood derivatives for human use			39
Vaccines, except poliomyelitis, for human use			139
Medicinal and pharmaceutical products, other	17	36	26
Essential oils, perfumes, and flavor materials	48		
Explosives and pyrotechnic products		62	54
Plastic materials	66	24	24
Herbicidal preparations		96	111
Catalysts, compound, except nickel		1,305	24
Chemicals, other	31	125	83
Paper and paperboard			74
Oil pipe, seamless, carbon steel			1,326
Oil pipe, seamless, alloy steel, except stainless		380	653
Tubes, pipes, and fittings of iron or steel, other		633	362
Finished structural parts and structures of iron or steel	2	287	2
Containers for storage of iron or steel, 80 gallons or more	41		
Cutting tools for materials other than metal	72	395	467
Handtools and tools for machines, other	17	36	60
Metal manufactures, other	52	70	48
Steam generating power boilers and parts		113	754
Steam engines, turbines, and parts		28	76
Internal combustion engines, not for aircraft, and parts	1	86	3
Harvesters, field forage	4		197
Tractors, wheel and garden	9	46	
Agricultural machinery and implements, other	31	52	16
Metalworking machinery		22	37
Textile and leather machinery	32	131	9
Parts for printing machines		41	1
Flour mill and gristmill machines and parts			274
Food processing machines and parts, other			175
Power cranes, draglines, shovels, and parts, excavator type	40	569	76
Ditchers and trenchers, self-propelled		55	
Well drilling machines and parts	92	260	48
Construction and mining machinery and parts, other	43	40	9
Machines for treatment of food products involving a change in temperature	1	145	182
Material processing equipment and parts involving a change in temperature, other	48	3,183	18
Heating and cooling equipment and parts, other	6	40	5
Pumps for liquids and parts	417	596	259
Pumps, centrifuges, and parts, other	37	1,166	155
Oil and gas field equipment and parts	484	441	199
Mechanical handling equipment, other		99	43
Motorized handtools and parts, nonelectric	187	137	57
Ball and roller bearings		41	11
Plastics working machines and parts	90		
Taps, cocks, valves, and similar appliances	87	894	126
Mechanical power transmission equipment and parts, except for motor vehicles and aircraft	80	8	8
Nonelectric machinery, other	25	276	43
Electric power machinery		295	43
Electric circuit apparatus	2	935	222
Insulated wire and cable and electric insulating equipment		268	37
Telecommunications apparatus		67	20
X-ray apparatus and parts		37	
Waveform measuring and analyzing instruments		296	
Geophysical and mineral propsecting instruments		824	308
Physical properties testing and inspecting instruments	74	87	32
Electric measuring and controlling instruments and apparatus, other	11	411	378
Electric machinery, apparatus, and appliances, other	6	37	42
Passenger cars	14	35	1
Trucks	8	59	
Power cranes, draglines, and shovels, wheel or truck mounted		129	118
Trucks, with drilling equipment, new			54
Special purpose nonmilitary vehicles, other		780	
Truck trailers and parts	27	49	
Professional, scientific, measuring, and controlling instruments and apparatus	51	389	254
Printed matter	(2)	391	25
Manufactured goods, other	23	213	122
Other domestic exports	19	41	44
Reexports	43	40	63
Imports, total	1,836	4,655	4,633
Horses	19		
Cheese	133	482	497
Walnuts, shelled	62		28
Plums, prunes, and prunelles, dried			66
Mushrooms, dried	92	11	78
Coriander	25	118	55
Fox fur, except silver and black, undressed	8	30	
Hare fur, undressed	11	19	
Fur skins, undressed, other	26	6	
Poppyseed	86	321	220
Iron and steel waste and scrap			286
Feathers and down, crude	2	27	83
Plants and parts used in perfumery, pharmacy, or insecticides	32	77	6
Petroleum, crude			513
Xylene		517	

Footnotes at end of table.

TABLE 1.—U.S. TRADE WITH PRINCIPAL COUNTRIES OF EASTERN EUROPE, 1965, 1966, AND JANUARY-SEPTEMBER 1967—Continued

[Thousands of dollars]

Commodity	1965	1966	January-September 1967
TRADE WITH RUMANIA—Continued			
Silicofluoride			25
Rubber tires and tubes	31	1	3
Wood manufactures, except furniture	14	31	37
Textile fabrics, woven, except cotton		19	6
Made-up textile articles		43	102
Carpets, carpenting, and rugs	8	81	46
Drawn or blown glass, unworked, in rectangles	325	286	252
Glassware	159	130	123
Pig iron		956	
Machinery	(2)	15	28
Bentwood furniture and parts	112	107	67
Chairs, wood, including folding	102	237	297
Furniture, other	2	48	31
Clothing, except of fur	2	11	104
Footwear, leather	278	736	1,211
Stamps	82	188	179
Sculptures or statuary, original	140		12
Baskets and bags of unspun vegetable materials	24	65	50
Manufactured goods, other	20	55	39
Returned goods	2	(2)	141
Other imports	[1] 39	[1] 38	[1] 48
TRADE WITH U.S.S.R.			
Exports, total	45,161	41,725	45,393
Cattle, beef, for breeding		93	
Cigarettes	36	48	245
Cattle hides, undressed	6,088	15,313	15,556
Calf and kip skins, undressed	81	246	966
Sheep and lamb skins, undressed			1,077
Soybeans	6,374		
Woodpulp	1,986	5,250	3,629
Manmade fiber staple and tow	1,353	2,403	5,258
Tallow, inedible	17,492	7,599	
Coal tar and other cycle intermediates	15	171	425
Rubber accelerators, cyclic	25	59	
Rubber antioxidants, cyclic	756	1,041	27
Herbicides	1,010	372	14
Chlorinated hydrocarbons			112
Butyl alcohol	2,403		
Alcohols and polyhydric alcohols, other		364	665
Acids and anhydrides			1,250
Organic chemicals, other	157	795	1,062
Aluminum oxide			2,624
Sodium carbonate, except natural			177
Inorganic chemicals, other	1	427	506
Synthetic organic dyestuffs and color lakes	118	1	2
Medicinal and pharmaceutical products	313	178	205
Plastic materials	526	522	774
Herbicidal preparations	385	881	1,426
Chemicals, other	21	72	109
Cattle hide and kip side leather			605
Fur skins, dressed			110
Rubber tires and tubes	111	33	
Textile yarn, fabrics, and related products	57	53	36
Plates and sheets of iron or steel		329	77
Tubes and pipes, seamless, carbon steel		445	
Finished structural parts and structures of iron or steel		263	
Power generating machinery, except electric	76	17	165
Agricultural machinery and implements	105	280	283
Electronic computers and parts	5	2	604
Office machines and parts, other	10	50	38
Gear cutting machines, metal cutting			1,202
External cylindrical grinding machines, metal cutting		23	937
Honing and lapping machines, metal cutting			221
Metalworking machinery, other	1		319
Laundry and drycleaning equipment, commercial, and parts	168	129	187
Leatherworking machinery	52	6	
Textile and leather machinery, other	265	423	504
Printing and bookbinding machinery and parts	1	57	116
Food processing machinery and parts, except domestic	57	377	52
Coal cutting and continuous mining machinery	924		
Parts for construction and mining machinery	183	157	344
Construction and mining machinery, other		61	4
Mineral crushing, sorting, and similar machinery parts		107	110
Metal processing and heat treating furnaces			127
Heating and cooling equipment for treatment of food products	2	233	1
Heating and cooling equipment, other	6	54	18
Pumps and centrifuges and parts	61	306	64
Underground mine loaders and parts	401	48	80
Conveying equipment and parts	40	335	178
Mechanical handling equipment, other	32	51	42
Parts for metalworking machinery			81
Wrapping, packaging, filling, and similar machines and parts	25	127	37
Ball and roller bearings and parts	117	36	31
Plasticsworking machines and parts		1	74
Rubber processing and products manufacturing machines and parts		420	
Mechanical power transmission equipment and parts, except for motor vehicles and aircraft	67	52	7
Nonelectric machinery, other	38	120	203
Electric power machinery and switchgear	352	45	138
Telecommunications apparatus	5	244	31
Physical properties testing and inspecting instruments	12	24	634
Electric measuring and controlling instruments and apparatus, other	24	92	236
Electric machinery, apparatus, and appliances, other	55	39	43
Special purpose nonmilitary vehicles	1,757		
Parts for motor vehicles and tractors	286	157	271
Clothing, except of fur	85	47	32
Precision measuring tools for machinists	1		99
Professional, scientific, measuring, and controlling instruments and apparatus, other	86	91	117
Developed motion picture film	13	57	9
Printed matter	57	61	41
Construction plastic products			295
Manufactured goods, other	234	162	250
Live animals, not for food	181	194	179
Other domestic exports	25	25	29
Reexports	44	57	17
Imports, total	42,592	49,414	32,530
Lobster, fresh and simply preserved	183	92	61
Scallops	157		37
Shrimp, unshelled	10	487	546
Fish and preparations, other	181	66	22
Mushrooms, dried or preserved	35	65	3
Alcoholic beverages	20	33	48
Sheep and lamb skins, undressed	158		
Persian lamb and caracul fur, undressed	2,105	1,975	762
Sheep and lamb fur, undressed, except Persian and caracul	115	6	
Sable fur, undressed	2,697	2,517	1,916
Squirrel fur, undressed	1,023	1,264	287
Fur skins, undressed, other	236	540	119
Wool and other animal hair	16	94	55
Cotton linters	1,169	1,150	674
Cotton waste	71	161	5
Manmade fiber waste		113	113
Chrome ore	4,373	6,323	5,058
Aluminum waste and scrap	1,002	473	
Ash and residues bearing nonferrous metals		266	914
Bristles	166	793	598
Sausage casings	174	112	120
Licorice root	543	564	588
Crude materials, other	43	26	17
Cottonseed oil			1,523
Pyridine			98
Arsenic trioxide	[3]		123
Chromium oxide green		135	
Sodium chromate and dichromate	282	725	262
Inorganic chemicals, other	342	348	220
Creosote oil	70		
Essential oils, perfume, and flavor materials	206	147	141
Chemicals, other	52	32	29
Drawn or blown glass, unworked, in rectangles	683	931	739
Diamonds, cut but unset	1,422	3,425	4,204
Emeralds, cut but unset	4	109	94
Precious and semiprecious stones, natural, unset, except diamonds		7	172
Pig iron	1,039	5,567	
Platinum	7,024	1,720	433
Iridium		261	
Palladium	12,530	13,920	6,382
Rhodium	3,165	3,408	3,037
Nickel			507
Magnesium		241	832
Molybdenum waste and scrap		353	
Titanium	158	447	1,116
Cadmium	103		
Metal manufactures	12	45	9
Musical instruments, sound recorders, reproducers, and parts	59	29	18
Printed matter	144	125	155
Stamps	159	101	41
Works of art and collectors' items, other	140	144	49
Manufactured goods, other	76	156	171
Returned goods	66	6	116
Other imports	[1] 110	[1] 173	[1] 116

[1] Includes an estimate of low-value shipments of $250 or less each on informal entry shipments and under $100 each on formal entry shipments.

[2] Less than $500.

[3] Includes relief shipments.

Mr. MONDALE. Mr. President, during my recent trip for the International Finance Subcommittee into Western and Eastern Europe to explore the problems and possibilities of trade, I also learned a good deal about the extent of trade between American business subsidiaries in Europe and the nations of Eastern Europe. This trade, which may run as high as $300 or $400 million a year, returns profits to American shareholders who are taxpayers in this country.

The Mundt amendment would require us to try to prohibit this trade as well, thus worsening our balance-of-payments situation. In fact, the President's balance-of-payments efforts specifically include increasing the returns from these businesses to the United States. The Mundt amendment would decrease these returns in addition to damaging the expansion of these business efforts.

These American subsidiaries are contributing to the winds of change which are sweeping Eastern Europe. The Mundt amendment would tell these nations that we do not want to encourage this change. There will be celebrations in the Kremlin if we pass this amendment. We will

have helped the Russians hang on to their rebellious satellites.

In turn, the Eastern European countries trade only to a very limited extent with North Vietnam.

The figures are important. There is no question that the rhetoric coming out of Eastern Europe is in support of North Vietnam. There is no question that those countries supply some aid. But in many of those countries, such as Rumania, it is a vestigial type of pro forma commitment designed to diminish the embarrassment in the Communist world, and it is not a fundamental, or in a substantially material way, a commitment to North Vietnam.

The Eastern European countries provide only token military assistance. In nonmilitary items, the total comes to $25 million—in small industrial equipment, transportation items, food, and fertilizer—sent from the countries of Eastern Europe excluding Russia. The Soviet Union supplies an additional $75 million worth of trade items. I ask unanimous consent that there be inserted at this point in my remarks in the RECORD tables from the Export Control Quarterly Report showing the items and amounts sent from Eastern Europe to North Vietnam.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

TABLE 8-A. TRADE OF FREE WORLD, COMMUNIST AREAS IN EASTERN EUROPE, AND CUBA WITH NORTH VIETNAM, 1963–66

[In thousands of dollars]

Group and areas	1963	1964	1965	1966
Exports to North Vietnam, total	91,502	75,978	127,965	
Free world, total [1]	12,775	12,535	14,744	[2] 12,544
COCOM countries, total	9,699	8,564	8,801	9,502
United States	None	None	None	None
Canada	[3]	[3]	[3]	[3]
Japan	4,316	3,372	3,853	5,649
European COCOM countries, total	5,383	5,192	4,948	3,853
Belgium-Luxembourg	2	2	1,685	515
France	2,542	2,551	2,124	2,290
Germany, Federal Republic of	322	1,108	136	212
Italy	2,207	1,274	633	399
Netherlands	167	144	93	302
United Kingdom	102	101	202	104
Other European COCOM countries	41	12	75	31
United Arab Republic (Egypt)	140	200	370	53
Cambodia	580	1,188	2,161	[4] 947
Hong Kong [5]	162	88	162	83
Malaya, States of	1,296	1,288	2,799	None
Singapore				1,858
Other free world countries	898	1,207	451	[2] 101
Eastern Europe and Cuba, total	78,727	63,443	113,221	[6]
Czechoslovakia	5,695	4,445	9,700	13,800
Germany, Soviet Zone of	3,596	2,857	4,857	16,500
U.S.S.R.	56,666	47,666	74,888	68,200
Other Eastern Europe	11,738	7,475	15,076	[6]
Cuba	1,032	1,000	[7] 8,700	[7] 1,800

Group and areas	1963	1964	1965	1966
Imports from North Vietnam, total	80,390	80,617		
Free world, total [1]	24,803	23,374	23,425	[2] 20,477
COCOM countries, total	18,507	16,350	16,692	12,977
United States	[3]	[3]	[3]	None
Canada	[3]	[3]	[3]	[3]
Japan	10,255	9,842	11,457	9,651
European COCOM countries, total	8,252	6,508	5,235	3,326
Belgium-Luxembourg	1,514	767	604	19
France	3,600	3,740	3,021	2,643
Germany, Federal Republic of	191	236	215	147
Italy	593	278	485	143
Netherlands	2,276	1,312	573	112
United Kingdom	73	165	333	255
Other European COCOM countries	5	10	4	7
United Arab Republic (Egypt)	12	386	55	37
Cambodia	1,409	1,266	1,979	[4] 1,382
Hong Kong	3,304	3,792	2,660	3,032
Malaya, States of	1,434	1,434	1,859	179
Singapore				1,614
Other free world countries	137	209	180	[2] 1,256
Eastern Europe and Cuba, total	55,587	57,243	[6]	[6]
Czechoslovakia	4,862	5,000	7,200	5,600
Germany, Soviet Zone of	2,756	2,691	6,072	5,000
U.S.S.R.	35,333	34,777	30,553	25,300
Other Eastern Europe	11,547	14,775	[6]	[6]
Cuba	1,089	[3]	[3]	[3]

[1] Excludes Cuba.
[2] Preliminary and incomplete.
[3] Not reported in the source.
[4] January–November.
[5] Figures are for domestic exports only, Hong Kong reexports to North Vietnam are as follows (in thousands of dollars) for 1963–66: 1,892, 1,598, 285, and 178.
[6] Not available.
[7] Partly estimated.

Note: Figures are compilations of unadjusted data as reported by free world and Communis areas in Eastern Europe, Imports reported by Czechoslovakia, Soviet Zone of Germany, U.S.S.R. and some other countries are valued f.o.b., and therefore are not comparable with c.i.f. values reported by most countries.

TABLE 8-B.—TRADE OF FREE WORLD AND OF U.S.S.R. WITH NORTH VIETNAM, BY PRINCIPAL COMMODITIES, 1963–65

[In thousands of dollars]

Commodity and commodity group	Free world [1]			U.S.S.R.		
	1963	1964	1965	1963	1964	1965
Exports to North Vietnam, total	12,775	12,535	14,744	56,666	47,666	74,888
Food and beverages	1,442	1,803	1,759	692	521	483
Wheat flour	919	324	[2]	264	126	148
Corn	438	842	[2]	[1]	[1]	[3]
Food and beverages, other	85	637	1,759	428	395	335
Crude materials	1,590	2,299	3,207	[3]	1,574	1,592
Crude rubber	885	817	1,876	[3]	[3]	[3]
Textile fibers	552	1,088	900	[3]	1,574	1,592
Crude materials, other	153	394	431	[3]	[3]	[3]
Petroleum products	[2]	[2]	[2]	4,103	4,554	5,322
Fats and oils	435	573	1,203	[3]	[3]	[3]
Chemicals	2,696	1,143	3,834	2,459	1,564	2,403
Manufactured fertilizers	2,003	450	2,136	1,477	1,011	1,543
Chemicals, other	693	693	1,698	982	553	860
Machinery	501	1,543	795	28,637	21,207	39,147
Metalworking machinery	106	769	100	389	301	460
Machinery, other	395	774	695	28,248	20,906	38,687
Transport equipment	1,058	233	123	5,115	3,896	6,960
Trucks	359	1	5	1,199	219	2,261
Ships	[2]	[2]	[2]	1,223	542	788
Aircraft	[2]	[2]	[2]	701	402	189
Transport equipment, other	699	232	118	1,992	2,733	3,722

Commodity and commodity group	Free world [1]			U.S.S.R.		
	1963	1964	1965	1963	1964	1965
Manufactured goods, other	4,512	4,766	3,494	14,397	13,125	16,476
Leather and manufactures	490	514	386	[3]	[3]	[3]
Textile yarn, fabrics, and manufactures, except clothing	2,918	3,171	1,825	3,632	3,991	4,543
Base metals and manufactures	540	699	1,028	8,400	6,907	8,556
Manufactured goods, other	564	382	255	2,365	2,227	3,377
Other and unspecified merchandise	541	175	329	1,263	1,225	2,505
Imports from North Vietnam, total	24,803	23,374	23,425	35,333	34,777	30,555
Food, beverages, and tobacco	2,945	3,321	2,722	4,305	6,047	7,305
Crude materials	1,088	970	1,517	2,425	939	948
Jute and other vegetable fibers	[2]	[2]	[2]	1,192	269	376
Crude materials, other	1,088	970	1,517	1,233	670	572
Coal, coke, and briquets	17,193	13,709	12,598	[3]	[3]	[3]
Chemicals	443	112	326	250	79	88
Manufactured goods, other	2,999	4,894	5,775	26,210	26,790	20,475
Cement	2,027	2,462	1,954	[3]	[3]	[3]
Wood manufactures	6	15	20	6,626	5,514	5,116
Clothing	[2]	[2]	28	15,734	16,711	10,507
Footwear	1	[2]	[2]	1,381	1,399	1,357
Manufactured goods, other	965	2,417	3,773	2,469	3,166	3,495
Other and unspecified merchandise	135	368	487	2,143	922	1,739

[1] Excludes Cuba.
[2] None or negligible.
[3] Not reported in the source.

Note: Figures are compilations of unadjusted data as reported by free world countries and the U.S.S.R.

Mr. MONDALE. Mr. President, none of the items sent from Eastern Europe to North Vietnam contain any strategic materials originating in the United States. Our Export Control Act prevents that. The Export Control Act prevents American sellers from supplying any strategic item to Communist countries. Nevertheless, scare stories about what the U.S. Government allows persist. The Department of Commerce, the agency which administers the Export Control Act, released several statements setting the record straight. I ask unanimous consent that these releases and an excerpt from testimony prepared for the Foreign Affairs European Subcommittee by the Department of State be inserted in the RECORD at this point in my remarks.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

LICENSING OF GRAVITY METER TO POLAND

U.S. DEPARTMENT OF COMMERCE,
BUREAU OF INTERNATIONAL COMMERCE, OFFICE OF EXPORT CONTROL,
Washington, D.C.

Considerable public interest has developed respecting the issuance of a license by the Department of Commerce for the export of a gravity meter to Poland. To satisfy this interest, the salient facts surrounding the transaction and the Department's action are set forth in this brief statement.

Several months ago, the Department of Commerce received an application for a license to export a land-based gravity meter with accessories, valued at $10,200, to the Polish Institute of Geodesy and Cartography in Warsaw, Poland, for the stated purpose of conducting geological research and geodetic measurements. It was learned through a field check that this instrument was to be used to complete the geodetic mapping program sponsored by the International Association of Geodesy, of which the United States is a member. The Soviet meter which the Polish Institute had been using was considered too heavy for use in the mountainous terrain of southern Poland; for this reason the more portable United States meter was desired.

Gravity meters are used to measure variations in the intensity of the earth's gravity. Such measurements are made for various purposes. The primary use of the data relates to geophysical prospecting for petroleum and other mineral deposits, scientific studies to determine the shape of the earth, and geophysical research of the earth's structure. Over 95 percent of the United States production of the meter sought by the Poles has been used to develop data for these purposes. Gravity data obtained by the use of all types of gravity meters are also used by the military to establish gravity values at each launch site to calibrate the acceleration of the inertial guidance system and to prepare a network of gravity information for trajectory improvement. The Communist countries of Eastern Europe have, however, already collected a large amount of land gravity data; consequently, their primary requirement today so far as ballistic and military purposes are concerned is for data respecting the vast areas of the earth covered by water. To conduct gravity surveys over water, a specially designed seaborne meter is needed. The land-based meter desired by Poland cannot be used for this purpose.

Production and technology of the various types of land gravity meters are not confined to the United States. For several years a meter of this type has been produced in Canada with features and capabilities equal to the American instrument. The production and calibration of this type meter are thus not limited to American technicians. Other meters whose accuracy and sensitivity for military end use are comparable to the subject meter are also available to Communist countries from capable instrument manufacturers in West Germany and Sweden. These land gravity meters are not subject to international control by the group of countries that maintain an embargo on the shipment of strategic commodities to Communist countries. In the past few years non-United States producers have sold more than a hundred land gravity meters to Communist countries.

For these reasons, and taking into account that only a single instrument was involved, the Department concluded that issuance of a license was appropriate. Subsequently, the applicant/licensee informed the Department that he was terminating his interest in the transaction and asked that the license be cancelled. This has been done.

STATEMENT ON HENRY J. TAYLOR SYNDICATED COLUMNS ON LICENSING OF U.S. GOODS TO EASTERN EUROPE

Considerable public interest has been aroused by two articles written by Henry J. Taylor in October and December 1966, mentioning a number of commodities and data that had been licensed for export or reexport to Eastern Europe.

To deal with this interest, the Department of Commerce (Office of Export Control) has prepared a brief statement of the salient features of each case cited by Mr. Taylor. Where his descriptions were precise, the Department has been able to identify its licensing actions and to be specific in its statement. When the commodities have been described in vague or general terms, only general comments could be made.

In issuing these licenses, the Department considered a variety of factors to assure that the export in question would not make a significant contribution to the military or economic potential of these countries that would prove detrimental to the national security and welfare of the United States. Prominent among these factors are: the nature of the commodity, its normal usage, and its strategic potential; the intended end-use of the commodity and the likelihood that it may be diverted from peaceful uses to strategic uses; the availability to Eastern Europe of comparable equipment in other free world countries that could render any denial of a U.S. license ineffective; and the significance of any advanced technology that might be extractable from the commodity. Consultation with other interested agencies of the government is undertaken on policy problems and on significant specific export license applications.

FERTILIZER PLANTS

Technical Data for Ammonia, Nitric Acid, Ammonium Nitrate, and Urea Plants Various licenses for U.S.S.R.

The Department of Commerce has issued licenses authorizing the export to the Soviet Union of both quotation and substantive data for fertilizer plants to produce ammonia, nitric acid, ammonia nitrate, and nitrogen solutions. (A license for quotation data does not cover specific design and technical data required to build and operate a plant. It covers only the information necessary to permit the submission of a bid.) In most cases quotation licenses have not been followed up with applications for licenses to provide technical data for the plants. The countries of Eastern Europe, including the Soviet Union, have been buying a substantial number of fertilizer plants and there is keen competition among the various Western countries capable of supplying them.

METAL CUTTING MACHINES

Licensed 9–15–66 for Bulgaria

This license authorized the shipment to Bulgaria of three machines for the precision grinding of ball tracks on the inner races of ball bearings with bore diameter of 0.75 inch to 4.5 inches. Actual export was not made because the licensee lost the order and returned the license unused. In general, ball bearings comprise three basic components: the ball assembly, an outer race, and an inner race. Each component must be processed through an intricate sequence of machining, grinding, honing, cleaning, and other operations that require a number of different types of machines. The quality of the finished ball bearings depends on how well all of the machines perform all of these operations. The precision grinders covered by this license perform only one of these operations on one component. They are not used in the manufacture of miniature, sub-miniature, or very large bearings. Denial of U.S. exports would not have been effective in preventing Bulgaria from obtaining quality grinding machines for its bearing plant, since precision grinders are available in several West European countries. These countries do not consider such grinding machines to be strategic and readily allow exports to Eastern Europe.

ELECTROLYTIC TINNING LINE

Technical Data licensed 4–4–66 for Bulgaria

Data for construction of an electrolytic tinning line, for annual production of 50,000 metric tons tinned steel strip and sheet. A main use of tinned steel is for making tin cans, and primary uses are civilian oriented. Comparable technology is available abroad.

RAW MATERIALS FOR DYNAMITE

Bulgaria

There is no record of licensing commodities to Bulgaria for use in making dynamite.

CONTINUOUS STEEL STRIP GALVANIZING LINE

Technical Data Licensed 8–8–66 for Bulgaria

Data for a galvanizing line to produce 100,000 metric tons per year of zinc coated steel strip 28''–60'' wide. Galvanized steel has a variety of civilian uses, including roofing, siding, eve troughs, metal lath, garbage cans, etc. Comparable technology and equipment are available from foreign sources.

TURBINE AND GENERATOR

Technical data licensed 1–19–66 for Bulgaria

Data for quotation, installation, maintenance, and repair of a subcritical steam turbine and generator of 200 MW capacity, to be manufactured in Japan using U.S. technology. Manufacturing data will not be reexported from Japan to Bulgaria. The relatively small capacity indicates public utility use. West European firms and the U.S.S.R. make this size equipment with no U.S. technology.

AIRBORNE RADAR EQUIPMENT, AIRBORNE NAVIGATION EQUIPMENT & DEVICES

Various licenses for Hungary and Bulgaria

The Department has, over the past several years, licensed a variety of airborne navigation, communication, and radar equipment for export to East European destinations, when necessary for air safety. For example, the equipment we licensed under the general heading of "airborne radar equipment" was air traffic control radar beacon systems. This is a limited ranage system permitting the air traffic control center on the ground to interrogate each aircraft within the airport's traffic control pattern and receive an automatic response identifying the aircraft. We have also licensed the necessary related ground equipment and test instruments to support the airborne equipment.

Licenses for such equipment are issued only when the airborne equipment will be used on civil aircraft of East European countries, the related ground equipment and test instruments are required for servicing and maintaining civil aircraft in Eastern Europe, the equipment is within the range of International Civil Aviation Organization recommended standards, and the number, type, and characteristics of the equipment are reasonable for the stated end use.

The U.S. has a valid interest in seeing that all civil aircraft using the same airspace and airports as U.S. and other free world planes are equipped for the safest possible operation. To further this goal, the U.S. supports the efforts of the ICAO to secure, on a worldwide basis, the highest practicable degree of uniformity in the provision of radio navigation aids and communication facilities. Failure of any civil aircraft in international service to conform with ICAO standards would cause an unnecessary hazard to passengers, other aircraft, and persons on the ground.

VACUUM GAUGES

Licensed 8–10–66 for Hungary

These were vacuum gauges for general laboratory use, of a type that has been commonly available for about 30 years. This license covered 4 vacuum gauges. This equipment is also available from U.K., France, Germany, Japan, Italy, and Sweden. The license was returned unused and cancelled 10–13–66.

RAILWAY EQUIPMENT

Various reexports from Sweden to Hungary

These shipments consisted of replacement parts for maintenance of 20 diesel electric locomotives manufactured in Sweden with some U.S. components and shipped to Hungary about 3 years ago. The parts that have been authorized are considered appropriate for normal maintenance of these locomotives. Comparable locomotives containing no U.S. components are readily available abroad.

RADIATION DETECTION AND MEASURING EQUIPMENT

Various licenses for Hungary and Czechoslovakia

The use of nuclear radiation detection and measuring equipment, especially isotope scanners, has become a well-established method for medical diagnosis. The machines are used in conjunction with radio isotopes to map areas of the body for studies of pathological conditions and for planning surgery. Practically all exports of nuclear radiation detection and measuring instruments have been to medical and biological research institutes, hospitals and clinics, for the purposes described above. In addition, there have been a few exports of nuclear measuring instruments for such uses as determination of moisture in soils and newly-laid concrete or asphalt roads. The market for all such apparatus is highly competitive. Equipment comparable to U.S. products is available from the United Kingdom, France, West Germany, Netherlands, Sweden, and Japan. Such equipment does not involve advanced technology and has no important strategic use.

HYDROGEN PLANT

Technical data licensed 2–17–66 for Czechoslovakia

Technical data for erection of a relatively small (14 million cubic feet per day) hydrogen plant at a refinery in Syria. License was necessary because primary contractor is Czechoslovakian and would have access to U.S. technology. U.S. does not have effective unilateral control over such data. The data were to be reexported from Holland to Syria.

MILL FOR MANUFACTURING ALUMINUM TUBING AND COILS

Licensed 9–8–66 for Czechoslovakia

One complete mill for producing aluminum tubing from ¾'' to 4¾'' outside diameter. Capacity would vary from 40 to 250 feet per minute depending on size of the tubing being produced. Included is one complete slitting line for aluminum coils. The mill would produce light gauge aluminum tubing for irrigation pipe and furniture manufacture. The mill cannot roll aluminum alloy tubing to aerospace tolerances and cannot be employed feasibly to roll stainless steels, the refractory metals, or other hard strategic materials. Comparable equipment is available from foreign sources.

NONMILITARY PYROTECHNICAL ROCKET ENGINES

Licensed 5–24–66 for Czechoslovakia

These "rocket engines" were 300 toy propellant devices valued at 25¢ each. They consisted of a mixture of potassium nitrate, sulphur, and charcoal sealed in a rolled paper tubing. Average size of each device was 2½'' x ¾''. Three rockets would be sealed in a waterproof paper container about 9'' x 1¼''. The devices were taken to Czechoslovakia by U.S. citizens for display and demonstration at an international rocketry meet. Any devices not expended in demonstration were to be returned to the U.S.

DATA PROCESSING SYSTEMS, ELECTRONIC COMPUTERS, AND PARTS

Various licenses for East Germany and Czechoslovakia

The Office of Export Control has licensed a number of computers to various countries in Eastern Europe, after careful scrutiny of applications to assure that the computers were types normally used only for peaceful purposes and would not make a significant contribution to a military or other strategic program even if they were diverted to such use. The licenses that have been issued have been for computers that normally are used in such commercial operations as banking, inventory control and economic planning. In each instance, equivalent computers have been available from non-U.S. sources, so that rejecting the application would not have been effective in preventing the export of an equivalent computer. The Office of Export Control also has approved the use of U.S. components and peripheral equipment in foreign-built computers under conditions similar to those for which U.S. computers are approved.

VIRGIN MERCURY

Licensed 4–27–66 for East Germany

This was prime virgin mercury of Mexican origin, entered into the U.S. under Customs bond. This mercury is for use in production of chemical products and is not considered strategic. Grounds for denial on short supply basis did not exist in this case as the mercury was of foreign origin and had not entered into the commerce of the U.S.

ROTARY COMBUSTION ENGINES

Technical data licensed 5–12–66 for East Germany

The engines are small horsepower types suitable for outboard motors, small automobiles, and other light equipment. They are not suitable for aircraft use. The basic design of the engine is foreign. The U.S. technology applies only to modifications and applications developed by the U.S. firm.

STEEL AND COPPER MILL TECHNOLOGY

Various licenses for East Germany and Rumania

Technical data for a twin stand tandem temper mill and a single stand reversing cold strip rolling mill were licensed for reexport from the U.K. to East Germany. Similar data have been licensed for export to Rumania, as well as data for blooming mills, slabbing mills, slitting and shearing equipment, and finishing lines. Much of this equipment can be used in an integrated steel mill, but the United States has not licensed complete integrated mills. We also have authorized the export of data for a copper rod mill. Copper rods are usually drawn into copper wire, which, along with steel sheet and strip, is widely used in all sectors of the economy. Because similar data and equipment for steel and copper mills are available abroad, licenses were issued to enable U.S. firms to bid against foreign competition. Few of these licenses actually resulted in transactions, however, because West European and Japanese firms have been able to offer better pricing, financing, and delivery.

CHEMICAL ANTIOZONANT FOR SYNTHETIC RUBBER

Licensed 8–8–66 for Rumania

Antiozonants are used to counteract the deteriorating action of ozone on rubber, which results in cracking of the product and reduces the rubber's flexibility. Rubber so treated has a wide variety of uses in such products as flooring, sheeting, tires, and collapsible tanks for outdoor storage. Antiozonants are readily available from firms in Western Europe.

PIPELINE CENTRIFUGAL COMPRESSORS

Technical data licensed 4–8–66 for Rumania

Necessary data to permit French licensee to quote on two centrifugal compressors for a 20'' diameter gas pipeline in Rumania. Similar compressors are available from European firms, some of which were bidding against the French licensee. The compressors cannot be used for transmission of oil. The pipeline is considered reasonable and necessary to the civilian economy of Rumania, for supplying natural gas to homes and industry.

HORIZONTAL PRECISION BORING MACHINE

Licensed 9–23–66 for Rumania

One boring machine for manufacture of automobile pistons. Maximum size of the pistons that can be manufactured with this machine is 3¾'', which is about the size that was used in U.S. autos 10 years ago. The pistons would be distributed in Rumania and other European countries. The machine was to be partially tooled in the U.S., with final tooling to be completed in Western Europe. Similar equipment for producing pistons is available from many foreign firms.

RADIO COMMUNICATIONS RECEIVERS

Licensed 5–26–66 for Poland

One radio communications receiver was licensed for export to a telecommunications institute in Poland. The receiver was to be used in testing and monitoring telecommunications equipment. Suitable receivers for this use are readily available from foreign sources.

REFRIGERATOR COMPRESSORS

Technical data licensed 5–4–66 for Poland

Data for the manufacture of fractional horsepower electric refrigerator compressors. The data will be reexported from Italy. The compressors will be manufactured in Poland and sold on the Polish market for use in refrigeration equipment. Comparable data are available from foreign sources.

STYRENE PLANT

Data licensed 8-3-66 for Poland

The Department licensed technical data for construction of a styrene plant in Poland. The plant would produce 30,000 metric tons of styrene from ethylene and benzene. Styrene is used for a wide variety of plastic products such as foams, packaging, appliances, synthetic rubber, and phonograph records. Comparable data are commonly available from other sources.

OIL FIRED STEAM GENERATORS

Technical data licensed 1–19–66 for Poland

Data for construction of at least 12 subcritical oil-fired steam generators of relatively small 120 MW capacity. Data are to be reexported from the U.K. This equipment could be shipped direct to Poland from the U.S. under general license authorization. Comparable data and equipment are readily available from foreign sources.

GRINDING MACHINES

Technical data licensed 5–24–66 for Poland

Data relating to the manufacture of two models external cylindrical grinding machines. These are relatively simple, inexpensive, general purpose grinding machines, comparable to many models built in Eastern and Western Europe. Primary use of these machines is in job shops and tool rooms. They are not equipped with numerical control systems. These are not considered to be strategic, and are needed for the civilian economy of Poland. Manufacture of these machines in Poland would help that country to become less dependent on Czechoslovakia and the U.S.S.R. for such equipment.

TESTIMONY BEFORE FOREIGN AFFAIRS EUROPEAN SUBCOMMITTEE BY ANTHONY SOLOMON, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Question.—How can we be sure that United States trade with Eastern Europe is not indirectly helping North Vietnam? What about specific exports criticized in Congressional or public correspondence?

Answer.—Trade with the Communist countries of Eastern Europe is carried on under the Export Control Act of 1949, as amended, through the Security Control Regulations of the Department of Commerce. The Export Control Act provides that licenses are to be denied for exports that make a significant contribution to the military or economic potential of a Communist country, which would prove detrimental to the national security and welfare of the United States. Individual license applications are carefully reviewed and decided on the basis of this criterion.

The regulations identify certain obviously peaceful items that may be sold and shipped without specific license applications. Paper and wood products are examples. This list was expanded by some 400 items on October 12, 1966 in accordance with the President's announcement of October 7. Items to be exported to a Communist country that are not on this "general license" list must be individually licensed.

Of the latter group, items which have strategic significance, such as advanced computers and sophisticated scientific equipment having military applications, are not licensed.

Between these extremes of license-free trade and that which clearly cannot take place for security reasons, there is a wide spectrum of items that are examined with great care on a case-by-case basis before a license is approved or denied—for example, a computer that would normally be used for retail inventory control, but which might have less peaceful applications. Advanced plants, machinery and equipment, and advanced technology are more likely to require detailed review under the Export Control Act than, for example, consumer goods. However, if the products of any such item of equipment or of such technology pose no threat to the security and welfare of the United States, such equipment or technology can be licensed for export.

We expect that our export controls will continue to limit the war-making potential of other countries while permitting normal trade in goods with little if any military significance.

Following are comments on particular items whose export has been criticized in Congressional or public correspondence.

NITROCELLULOSE

There have been no shipments of nitrocellulose to the USSR. The commodity involved was chemical woodpulp, which is used chiefly by the chemical conversion industries for the manufacture of rayon yarn, plastics, transparent film, explosives, paints, lacquers, and paper products. The chemical woodpulp that was licensed was the dissolving grade used for the manufacture of tire cord and cellulose acetate for textiles. Nitrocellulose for explosives and solid rocket fuels is produced from cheaper grades of chemical woodpulp that are widely available in European countries, including the Soviet Union.

DIETHYLENE GLYCOL

This commodity is used almost exclusively in the production of civilian goods. In the United States, about 87 percent of our total consumption of diethylene glycol is in the manufacture of antifreeze for automobiles. The remainder is used mainly in the production of resins, plasticizers, products for lubricating fibers and textiles, and as a moisture-retaining substance in such goods as tobacco, ink, glue, cork, dyes, and cellophane. Only a minor fraction of the U.S. consumption of diethylene glycol is in the manufacture of some of the ingredients of explosives. In the process of explosives manufacture, however, several complex and expansive processing steps are required to convert diethylene glycol into a material having explosive characteristics. Diethylene glycol is not known to have direct or indirect use in the production of liquid rocket propellants.

POLYVINYL BUTYRAL

This chemical is used mainly in the manufacture of peaceful items. When in the form of film or sheeting, it is used as component of shatter-proof glass, which in turn finds its principal application in automobiles, trucks, busses and railway cars. Only a minor portion of this production is in the form of bullet resistant glass. The product that was licensed for export, however, was in the form of powder and was, moreover, of a chemical type that can not be processed readily into film suitable for use in the production of safety glass. Its principal application is in the formulation of paints, varnishes, and protective coatings for various types of consumer goods.

AIRBORNE RADAR NAVIGATION EQUIPMENT AND DEVICES

These types of equipment are shipped to European Communist countries to assure acceptable standards of air safety in civil aircraft. This is in accordance with the objectives of the International Civil Aviation Organization, of which the United States is a member. It is United States policy to encourage the purchase of safety equipment by foreign airlines, following a finding that the export would not make a significant strategic contribution to the importing country. Each case is subject to interagency examination.

ELECTRONIC COMPUTERS (AND PARTS)

Computers whose technical specifications do not exceed certain levels and which will be used for banking, inventory controls, economic planning, or other such peaceful purposes are exported ot European Communist countries. Such a computer is exported only when the United States believes it to be unlikely that the computer will be diverted to strategic uses.

FERTILIZER PLANTS

The Department of Commerce has issued licenses authorizing the export to the Soviet Union of both quotation and substantive data for fertilizer plants to produce ammonia, nitric acid, ammonia nitrate, and nitrogen solutions. (A license for quotation data does not cover specific design and technical data required to build and operate a plant. It covers only the information necessary to permit the submission of a bid.) In most cases quotation licenses have not been followed up with applications for licenses to provide technical data for the plants. The countries of Eastern Europe, including the Soviet Union, have been buying a substantial number of fertilizer plants and there is keen competition among the various Western countries capable of supplying them but most orders have gone to Western European companies.

GRAVITY METERS

The licensing of two land-based gravity meters for export to Romania is consistent with the policy of permitting exports that are determined to be reasonable and necessary to the Romanian civilian economy. Gravity meters are used to measure variations in the intensity of the earth's gravity. Such measurements are made for various purposes. The primary use of the data relates to geophysical prospecting for petroleum and other mineral deposits, scientific studies to determine the shape of the earth, and geophysical research of the earth's structure. Over 95 percent of the United States production of the type of meter exported to Romania has been used to develop data for these purposes. Gravity data obtained by the use of all types of gravity meters are also used by the military to establish gravity values at each launch site to calibrate the acceleration of the intertial guidance system and to prepare a network of gravity information for trajectory improvement. The Communist countries of Eastern Europe have, however, already collected a large amount of land gravity data. In contrast, there is a relative dearth of gravity data for the ocean areas. Thus, while there is a continuing need by the Communist countries for additional land data to complete and refine existing surveys, their primary requirement today so far as ballistic and military purposes are concerned is believed to be for data respecting the vast areas of the earth covered by water. To conduct gravity surveys over water, a specially designed seaborne meter is used. The land-based meters shipped to Romania cannot be used for this purpose.

Production and technology of the various types of land gravity meters are not confined to the United States. For several years a meter of this type has been produced in Canada with features and capabilities equal to the American instrument. The production and calibration of this type meter are thus not limited to American technicians. Another meter whose accurancy and sensitivity for military end use is comparable to the subject meter is also produced in West Germany. These land gravity meters are not subject to international control by the group of countries that maintain an embargo on the shipment of strategic commodities to Communist countries. In the past few years non-United States producers have sold a significant number of land gravity meters to Communist countries.

FOUR HUNDRED COMMODITIES PLACED UNDER GENERAL LICENSE FOR EXPORT TO EAST EUROPE

These commodities (as well as a large number of others placed under general license over the years) were placed under general license to East Europe (excluding the Soviet Zone of Germany) because the United States believes that they can be freely exported without risk to the United States national interest. Before the general license went into effect, a shipment of any one of these commodities to Eastern European countries other than Poland and Romania required an individual validated license. Placing them under general license merely reduces the administrative burden of American businessmen and of the Government.

It should be emphasized that it was not a case of changing the ratings of these items from strategic to non-strategic in one day. It was rather a change from validated license requirement to a general license.

Mr. MONDALE. Mr. President, the basis of the Mundt amendment is mistaken in fact—American business is not assisting the North Vietnamese. If we allow ourselves to be blinded by such stories, we hurt only ourselves—our balance of payments, our peaceful strategic trade, our attempts to understand and assist the nations of Eastern Europe in their attempt to break the monolithic position of the Communist bloc.

Mr. President, throughout Eastern Europe there are young, able, Communist leaders coming into their own who desperately desire to break loose from Soviet Union control. If they are going to be free to do so, they must first have a trade lifeline to the West. This proposal, if it were successful, would be playing totally and completely into the hands of Soviet strategy. But it will not be effective except to adversely affect our balance of payments and adversely affect the economy of this country, because it will sim-

ply shift this same trade to our competitors in Western Europe and elsewhere.

The proposal is at best a nullity, but it is far more than that. If it is adopted, as I said earlier, there will be great joy in Moscow and great joy by De Gaulle and others who wish to detract from the strength and vitality of this country. This amendment is not like some of the restrictions contained in the Export Control Act or in the Eximbank Act. This is a trade restriction act which would prevent all trade between us and Eastern Europe, and would be disastrous and a very dangerous thing for this country.

Mr. MUNDT. Mr. President, I shall be happy to yield 1 minute, or such time beyond the 1 minute as he may desire, to the distinguished Senator from Nebraska [Mr. HRUSKA].

Mr. HRUSKA. Mr. President, I rise in support of the Byrd-Mundt amendment. It is my intention to vote for it when that time comes.

On frequent occasions this Senator has discussed in some detail the matter of extending the benefits of U.S. actions, whatever they are, whether they are governmental, private, or a combination of the two, to Communist countries who are actively engaged in actions which make possible the continuance by North Vietnam of sustained warfare in South Vietnam.

Such benefits accrue when American firms sell and export to Communist countries who are supplying material, arms, and munitions to North Vietnam and to the Vietcong.

It seems very much in order to express disagreement with the idea that it is wise policy to engage in any program of building bridges to Communist countries. It is an expression of disagreement with the wisdom of entering into relationships with countries which are inconsistent with the direct efforts of such countries to support resistance to and defeat of U.S. military and other efforts and programs in Vietnam.

I wish to commend the Senator from South Dakota for having undertaken the authorship and the sponsorship of this amendment, in association with the Senator from Virginia. I repeat that it is my intention to support and to vote for the amendment.

Mr. MUNDT. I thank the Senator from Nebraska.

The PRESIDING OFFICER. Who yields time?

Mr. MUNDT. I yield myself 10 minutes.

The PRESIDING OFFICER. The Senator from South Dakota.

Mr. MUNDT. I thank the Senator from Nebraska for his very encouraging and helpful remarks, and for his customarily sound judgment in casting his vote against the encouragement of trading with the enemy in time of war.

I ask unanimous consent—on my time, Mr. President—that the clerk at the desk read section (a) as it appears in the amendment, because at the time Senator BYRD and I offered the amendment and called it up for action, we modified the first paragraph, section (a). I have called this to the attention of the Senator from Minnesota, but for the information of all Senators, it should be realized that this bill deals with export products only.

In fact, Mr. President, since the amendment is short, I ask unanimous consent that the clerk read the entire amendment in its present form.

The PRESIDING OFFICER. Without objection, it is so ordered.

The legislative clerk read as follows:

At the end of the amendment, insert the following new section:

SEC. —. Special 20 percent surtax on taxpayers trading with certain Communist countries

(a) In addition to any other tax imposed by the Internal Revenue Code of 1954, there is hereby imposed on every taxpayer who during the taxable year has engaged in export trade with any Communist country which is supplying material to the Government of North Vietnam, a tax equal to 20 percent of the taxable income of the taxpayer for the taxable year.

(b) The tax imposed by subsection (a) shall apply for any taxable year only to taxpayers who have been granted a license to export or who have filed an export declaration with customs at the port of shipment and who fail to file a statement with their tax return that they have not engaged during the taxable year in trade with any Communist country which is supplying material to the Government of North Vietnam.

(c) Terms used in this section shall have the same meaning as when used in the Internal Revenue Code of 1954.

(d) This special 2 percent tax shall cease to be applicable when the United States is no longer engaged in armed conflict with North Vietnam (whether or not there has been a declaration of war).

Mr. MUNDT. I thank the clerk for reading the amendment in its full text. This, for all Senators, will clear up any ambiguities which they might have had in mind. It is unfortunate that some errors were included in the original printed text, but the amendment is now before the Senate in the precise form in which it was offered and intended by the authors, the Senator from Virginia [Mr. BYRD] and myself.

I shall yield in a moment to the Senator from Virginia such time as he may desire, so that he may continue with the debate. I shall, later in the period allotted to me, respond to the statements just made by the distinguished Senator from Minnesota [Mr. MONDALE]. He has been called from the floor, as I am being called from the floor. I prefer, of course, to respond in his presence, if he has returned at the time I am able to obtain the floor again, but in any case, what he has said deserves analysis, consideration, and a reply.

Before yielding to the Senator from Virginia, I wish to point out one factual item which became a center of some discussion in our various colloquies yesterday.

I was asked several times yesterday if I would name the full list of Communist countries which are supplying weapons to our enemy in North Vietnam. I rather hesitated to do that from memory, because to name a partial list might exempt from consideration some other country which had not come to mind.

Today, before the Senate convened, I took the time to consult with the Internal Trade Analysis Division of the Department of Commerce. I told them that some of my colleagues thought this was information which should be in the legislative history. I said I had taken a river shot at it, and given a saddleback opinion yesterday as to four of them that I knew something about, but I would like to have the list in its entirety.

So I received it. This is for the year 1966: Czechoslovakia, East Germany, Hungary, Poland, Rumania, and the U.S.S.R.

I was advised that in previous years, Albania and Bulgaria have also been engaged in shipping supplies to the enemy; and, in the case of Bulgaria, at least some arms were shipped in 1966, and the Division believes some are being shipped now, but they have not yet been able to assimilate the figures to make them available.

So under the caveat of "let the seller beware," I suspect that this bill is going to apply to Americans exporting material of any kind to the following Communist countries supplying materials of all types, including weapons of war, to North Vietnam—I read the list again so that every Senator will have them in mind: Czechoslovakia, East Germany, Hungary, Poland, Rumania, the U.S.S.R., Albania, and Bulgaria.

I note with some gratification that while Yugoslavia is a Communist country, it is not engaged in the wicked business of shipping armaments to our enemy in Vietnam. So under that circumstance, unless it changes, there at least is one Communist country to which American traders can continue to export products without being subject to this special penalty tax being levied against those who make it more difficult for us to end the war, and make it more costly in terms of human life for those who fight the war. Our amendment is directed solely at that kind of export, the Communist countries engaged in that kind of bloody business in supplying the weapons which, even now, are prolonging a war which should long ago have been over; because every military expert we have talked with, the knowledgeable people of the entire area, have said that without this steadily growing, significant stream of armaments, guns, weapons, and petroleum from the Communist countries of East Europe, long ago the armies of Hanoi would have had to fold up, because you cannot operate a modern war without oil, and you cannot fight a modern war without planes and moving vehicles.

You have to have tanks, and you have to have helicopters; and while it is true that some may argue that Red China and Red Russia both are supplying arms to Red Vietnam we must remember that the Red Chinese are caught up in a cultural revolution, which is to say they are having a bloody civil war in China, and they need their own guns, their own planes, and their own tanks to maintain some semblance of order over there. So Russia and her East European satellites have become virtually the sole source of supply of all important weapons now being used by Hanoi to continue its war activities.

So we come face to face with the issue, as we vote on this matter in an hour or so: Do we want to take some legislative step, however small, to decrease the shipment of the weapons of war to North Vietnam which are responsible for the war continuing there, which everybody seems to want to stop—doves, hawks, and

eagles? Some want to stop it by running out. Earlier today, the distinguished deputy leader for the Democratic side made quite a speech as to why he did not think we should accept defeat and pull out.

Some favor just holing up and rotting away in the unsavory climate of the Orient, subjecting our soldiers to the continual ravages of tropical diseases and staying there endlessly, not fighting, but ducking and dodging and dying until the forces of attrition force us out.

Everybody wants to bring the conflict to an end. Those of us who believe we should bring it to an end successfully, as a prelude to an enduring peace, also want to bring it to an early end. We believe steps should have been taken through the diplomatic and economic processes years ago, but it is never too late to start trying.

The first opportunity this body will have to start an effective approach, by diminishing the flow of arms to Communist countries assisting North Vietnam, will be the rollcall vote on this amendment.

Mr. President, I yield such time as he may desire to the distinguished Senator from Virginia.

The PRESIDING OFFICER. The Senator from Virginia is recognized.

Mr. BYRD of Virginia. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. BYRD of Virginia. Mr. President, how much time remains to the Senator from South Dakota?

The PRESIDING OFFICER. The Senator from South Dakota has 20 minutes remaining.

Mr. MUNDT. Mr. President, may we have a division of all the time between now and the time fixed to vote? It is a little complicated, I know, to divide time that way.

The PRESIDING OFFICER. The Senator from South Dakota has 20 minutes remaining. The other side has 30 minutes remaining.

The Senator from Virginia is recognized.

Mr. BYRD of Virginia. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. Out of whose time?

Mr. BYRD of Virginia. Out of our time.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. BYRD of Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. SMATHERS. Mr. President, I yield 10 minutes to the distinguished Senator from Connecticut.

The PRESIDING OFFICER. The Senator from Connecticut is recognized for 10 minutes.

Mr. DODD. Mr. President, I will try to be as brief as possible. I hope that the Senator from South Dakota will be present because I am extremely anxious that he hear what I have to say.

The PRESIDING OFFICER. The Senator from Connecticut is recognized for 10 minutes.

Mr. DODD. Mr. President, I asked for this time in order to clarify my position with respect to the amendment offered by the Senator from South Dakota.

After reading over the RECORD and thinking the matter over again, I am not sure that I made my position altogether clear. I was present as much as possible to hear the debate.

The Senator from South Dakota enjoys a deserved reputation as a highly knowledgeable and effective opponent of communism. In most matters that have to do with our responses to communism and the cold war, I have found myself in agreement with him. Indeed, although we do have some important differences in the field of domestic policy, on foreign policy issues, unless my memory fails me, we have agreed about 98 percent of the time.

I understand what moves the able Senator to submit this amendment.

It is unquestionably true that Hanoi is receiving the bulk of its military supplies from the Soviet Union and the other Communist countries of Europe. Certainly, this has been the source of the radar-equipped antiaircraft systems that have thus far brought down 900 American planes over North Vietnam.

It is also true that, while this has been going on, we have been moving to expand our trade with the Soviet Union and the Communist bloc, rather than to restrict it. And, in doing so, I fear that we have encouraged other Western nations to follow our example. I do not see how we can be very effective in asking others not to do what we are doing.

Mr. MUNDT. Mr. President, will the Senator yield?

Mr. DODD. I yield.

Mr. MUNDT. The Senator is quite right. And it is one of the things that troubles me. The Senator speaks correctly when he says that we have joined together in so many efforts to do something about winning the cold war when it was only a cold war. One example of this was our cosponsorship of the Freedom Academy legislation.

I am sure that the Senator is as desirous as is any other Senator of trying to do something about shortening this war without defeat and without failure. I have heard the Senator express himself rather eloquently before the Committee on Foreign Relations.

Mr. President, I yield myself 2 minutes on my time.

The PRESIDING OFFICER. The Senator from South Dakota is recognized for 2 minutes.

Mr. MUNDT. Mr. President, I want to explain the reason why we came up with the pending amendment.

I gave a speech in Brussels, Belgium, about last Thanksgiving Day at the NATO Parliamentarian Conference, in which I, as a Republican, was stating before that distinguished body of parliamentarians from various countries—about 250 foreign parliamentarians being present from 15 countires—our American position in the war and defending the decision of our Democratic President not to accept defeat in that conflict. I felt it was my patriotic duty to do so.

I did my best. I pointed out that we could use at this time a little more friendliness from the NATO countries, that we were not asking for money or materials of war or for manpower. I pointed out that we were just asking that they not shoot us in the back by shipping supplies to Haiphong. My speech has twice been inserted in the CONGRESSIONAL RECORD by colleagues of mine who approved of my presentation.

I pointed out to them that there is not any victory that we could win over there that would not mean more to England, France, Belgium, and the other NATO countries than it would to us, and that there is not any defeat we face which would not mean more to them than to us. If they force us out, by surrender to defeat, we still have the bomb and our great system of defense. We could still defend ourselves for a while, even though it seems to me that in the end a greater cataclysmic holocaust might be expected.

They accepted that statement. But they said: "How can we explain that to our chiefs of staff when your country is encouraging your people to send supplies overseas and is also supplying the fighting men? We were not supplying men. Our boys are not being killed. And if you send men overseas and supply the materials to make the guns with which to kill your own boys, how can we convince our leaders that we should put a greater sanction on our exporters than you put on yours?" It was a question to which I could not provide a logical or a convincing answer.

That is one reason that we are trying to write a sort of sense-of-the-Senate measure with this tax amendment so that this kind of export business should be discouraged. That is about what we are trying to do.

Mr. DODD. Mr. President, I thank the Senator. He makes sense, as he always does. I would like to explain, if I may, a little more specifically what I was talking about.

I think this policy has been mistaken, as I have said on more than one occasion, but I think that the amendment proposed by the Senator from South Dakota will not be effective in dealing with the situation about which he rightly complains; and I also feel that it would be a political mistake to take an omnibus approach to all Communist countries, rather than differentiating between them.

In my remarks yesterday, I said that, in the case of the Soviet Union, we should restrict or liberalize our trade policies, depending on their conduct in world affairs. That is not a new position for us. The Senator from South Dakota and I have long held that position.

When we negotiated the big grain deal with the Soviet Union a few years ago I said that I was opposed to selling them grain. If the people were hungry, I said let us give it to them. But in return let us ask that they stop their subversion around the world.

I have taken the position that if they step up the cold war, as they are now doing in Vietnam and elsewhere, then we should cut back sharply. On the other hand, if they were to assist in terminating the Vietnam war on acceptable conditions, I would be in favor of letting them know in advance that we would be prepared to pay for this with substantial

trade concessions, including the granting of long-term credit.

But so long as the Soviet Union continues to serve as Ho Chi Minh's chief source of military supplies, so long as she does everything in her power to prevent a settlement of the Vietnam war, it is folly to push for an expansion of trade with the Kremlin.

In support of his remarks yesterday, my colleague from South Dakota inserted into the RECORD a long list of strategic commodities exported to European Communist destinations, primarily the Soviet Union. I share his view that this list gives evidence of a tragically mistaken policy and that, instead of seeking an extension of trade with the Soviet Union under present circumstances, we should sharply restrict the list of commodities whose export to the Soviet Union is now permissible.

The Senator rightly says that these supplies enhance the capacity of the Soviet Union and the other Communist countries to send war materials to Vietnam, and that some of these strategic items are probably transshipped directly to Vietnam.

I would like to put an end to this situation as much as he would.

His amendment, however, if it were enacted, would not materially affect the situation.

Exporters would still remain free to export the same list of strategic commodities to Communist countries; and the Communist countries would still continue to ship arms, and sometimes transship strategic commodities, to North Vietnam.

Mr. MUNDT. It would pretty well stop Americans from shipping arms to those countries, because the 20-percent tax on overall products is a severe penalty; and even with the great profitmaking prices the Soviet Union is willing to pay for supplies, I doubt whether many corporations would subject themselves to an overall war profits tax of 20 percent just for the privilege of shipping materials to the enemy. I believe it would curtail that.

Mr. DODD. I have thought about that. I still make the point—and I am sure the Senator agrees—that they still would be free to do it.

True, exporters would have to pay a penalty in the form of the 20 percent surtax proposed. But the exporters could, in many cases, pass this cost on to their Communist clients, while, in other cases, their Communist clients would probably purchase comparable equipment from other Western sources.

I want to ask the Senator how he arrived at the figure of 20 percent. If we want to stop it altogether by the tax instrument, why do we not make it 100 percent?

Mr. MUNDT. All the arguments that the Senator raises against 20 percent could be raised against 100 percent.

Mr. DODD. I do not particularly raise them against 20 percent.

The ACTING PRESIDENT pro tempore. The time has expired. Who yields time?

Mr. SMATHERS. I yield 5 minutes to the Senator from Connecticut.

Mr. MUNDT. I ask for 2 minutes.

Mr. SMATHERS. I yield 7 minutes.

Mr. MUNDT. The same arguments hold. If, in fact, the Communists are going to pay such fantastic rates that they absorb 20 percent, they will absorb 100 or 150 percent. There is no magic about the 20 percent.

We are trying to stigmatize this trade, to free ourselves from the curse of cupidity which is being leveled against us by all our foreign friends, to try to bring some unity in this country among the young people who cannot understand why they should be drafted to go to war while some corporations are making millions of dollars of extra profit by prolonging the war they are expected to fight.

It will not stop everything. But I believe the other countries of the world, the American forces now overseas, the parents of these servicemen, and the young members of YAF, who are petitioning Congress to do something about it, are entitled to have an expression from us that we stigmatize this trading with the enemy and are trying to discourage it.

Perhaps later, in a more deliberate time, we can take another step, but we have the opportunity to take a first effective step right now.

Mr. DODD. To deal with this situation effectively, as I see the matter, three measures are necessary.

The first thing we have to do is to let the Soviets know that, in view of the fact that their government remains the chief purveyor of military equipment to North Vietnam and the Vietcong, we are obliged, as a matter of elementary self-defense, to sharply restrict the list of commodities whose export to the Soviet Union is permitted.

The second thing we have to do is to embark on an all-out diplomatic campaign to bring about the cooperation of our allies and of other friendly governments in restricting the flow of strategic commodities to the Soviet Union.

And the third thing we ought to do is to close the Port of Haiphong. This is something that could easily be done by sinking a few overage freighters, loaded with concrete, athwart the narrow ship channel, 5 miles long and 100 feet wide, which leads into Haiphong.

I believe that we in the Senate have the responsibility to do everything in our power to persuade the administration to take these vital and long overdue steps.

The Senator from South Dakota said last night that he is not a military man, and that he did not want to pass on that. I say to him, with great respect, that he is overmodest. I am not a military man. I believe that all one needs—and the Senator from South Dakota has it in great abundance—is the commonsense to know that you cannot permit your enemy to get supplies through an open port, right in front of your eyes, day by day—the weapons and ammunition and other material with which to kill American boys.

I do not know why we do not stop it. It should be stopped.

That is what I believe we should do.

The Senator from South Dakota might argue, "You may be right about that, but let's try my proposal." I fear that in trying it, we will hurt ourselves. This is a difference of opinion between two men who generally agree on objectives.

In the case of the Communist countries of central Europe, I said yesterday that we should liberalize our trade policies if they show more independence or grant more freedom to their subjects, and that we should cut back sharply on trade, especially on the items they most desire, whenever they tighten the screws of Communist dictatorship and whenever the trend toward partial independence from Moscow is reversed.

I cited Czechoslovakia as an example of a Communist country which seems to be moving in the right direction, and Poland as an example of a Communist country that appears to be moving in the wrong direction. And I said that I was opposed to the Senator's resolution because it would make it impossible for us to differentiate in our trade policy between Czechoslovakia and Poland.

My distinguished colleague said in reply that he, too, was in favor of using trade as an instrument of diplomacy in our dealings with the Communist countries.

He said that our ambassador might tell the Czechoslovak Government, for example, that if they stop sending arms to our enemies, we will be prepared to make trade treaties with them.

The Senator's concept of diplomacy differs from my own.

In the first place, no Communist country is going to agree to stop sending arms to North Vietnam so long as the war continues. It is conceivable that, given a favorable conjuncture of circumstances, they may be willing to cooperate in bringing the war to an end. But that is an altogether different matter.

To offer them trade treaties only if they terminate all supplies to North Vietnam would be tantamount to an ultimatum. And ultimatums are the direct antithesis of diplomacy.

Before any Communist country agrees to stop shipping material to North Vietnam, it would have to become openly anti-Communist. This is a goal that may be desirable as a long-term objective, but it is certainly not an imminent practicality.

For the foreseeable future, the best that we can hope for, in the case of the Communist countries of central Europe, is that they will move, step by step, toward greater independence from Moscom, toward more personal freedom for their subjects and more political freedom for non-Communist elements in their society, and toward government that is responsive, at least in some degree, to popular will.

At every step along this difficult road, we should be prepared to use all the resources of our diplomacy and of our information services to encourage such Communist governments.

It would be the height of folly to postpone any such encouragement or assistance until these governments had traveled all the way to the openly anti-Communist posture which the Senator from South Dakota, if I understood his remarks yesterday, demands of them.

So let us not lump all Communist government together in a single undiffer-

entiated mass, as this amendment seeks to do.

Let us reserve some flexibility for ourselves.

But let us at the same time push for the strongest possible measures by the administration to restrict the flow of war material to North Vietnam from all sources, and to restrict the flow of strategic commodities to the Communist governments that are supplying Hanoi. And that means in the first place the Soviet Government.

The ACTING PRESIDENT pro tempore. The time of the Senator has expired. Who yields time?

Mr. MUNDT. Mr. President, I yield such time as he may desire to the distinguished Senator from Virginia, the coauthor of the pending amendment.

Mr. BYRD of Virginia. Mr. President, may I ask how much time the Senator from South Dakota has remaining?

The ACTING PRESIDENT pro tempore. The Senator from South Dakota has 17 minutes remaining.

Mr. BYRD of Virginia. I yield myself 4 minutes.

Mr. President, in discussing the Mundt-Byrd amendment, I am not one of those who see a Communist behind every tree or beneath every bush.

I doubt that our Nation can or should police the world and determine just what form of government each of the other nations should have.

So in supporting the Mundt-Byrd amendment to the pending legislation I do it not from the point of view of anti-communism, but from the belief that this could be a step—perhaps only a small one—in bringing to our Government a sense of urgency in ending the Vietnam war.

The Mundt-Byrd amendment would put a profiteering tax on those businesses and exporters which trade with the Communist nations, which in turn supply the North Vietnamese at whose hands the United States has suffered 140,000 casualties—with the casualty rate still rising.

For the first 12 weeks of 1968, U.S. casualties averaged 2,300 per week. This compares with 1,000 casualties per week during the 2-year period 1966 and 1967.

As I see it, when you are in a war, when your national honor is at stake, when your men are being shot at, when you are taking heavy casualties—I would think you would want to put all diplomatic and financial pressure on those helping the enemy—even if it means less business profits.

It was 3 years ago that the massive buildup of U.S. manpower in Vietnam began. During the past 3 years the number of troops has increased from 29,000 to 510,000. General Westmoreland has requested an additional 200,000 troops. I want to ask today what I asked on the floor of the Senate a year ago when the number of U.S. troops in Vietnam were substantially less than they are now: Are we going to continue to send more and more troops, suffer more and more casualties, and simultaneously do nothing to shut off the supplies going to the enemy, take no steps to put diplomatic and financial pressure on friend and foe alike—and have business as usual at home?

When the top U.S. military commander in the Pacific, Adm. U. S. G. Sharp, suggests that Haiphong harbor could be closed by sinking some old U.S. merchant ships in the channel, thus blocking the harbor without injury to ships of any other nation, we are told, "Oh, no; that cannot be done, because the Russians might not like it."

During 1967, 78 free world ships and 386 Communist ships carried cargo to North Vietnam. The Soviet Union announced yesterday it is stepping up its shipments to North Vietnam this year by 20 percent more than they sent last year.

The ACTING PRESIDENT pro tempore. The time of the Senator has expired.

Mr. BYRD of Virginia. Mr. President, I ask unanimous consent that I may proceed for 2 additional minutes.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

Mr. BYRD of Virginia. Mr. President, when U.S. Senators suggest that diplomatic and financial pressure should be put on the British to prevent ships flying their flag to carry cargo to and from Haiphong—as did 67 during the calendar year 1967—we are told, "Oh, no, we cannot do that, it might be hurtful to Harold Wilson, who is having a tough time holding his Socialist government in power."

And then, when it comes to the matter of bombs we are told, yes, it is true, the United States had dropped a greater tonnage of bombs during the Vietnamese war than were dropped on all of Europe during World War II, but that 85 percent of this tonnage was dropped on South Vietnam—Yes, on South Vietnam. "It is not wise to do much bombing of the enemy in North Vietnam," we are told, "because world opinion might get upset."

Now we come to today's pending amendment, the Mundt-Byrd amendment to put a special tax on war profiteers, profiteering by those who would export to Communist nations, which in turn ship to North Vietnam. "Oh, no, this should not be done," we are told, "because Czechoslovakia or Poland or Rumania or some other Communist country might be alienated."

So, Mr. President, I ask this question: How are we going to end this war?

Mr. President, in supporting and advocating the Mundt-Byrd amendment I stand on one broad principle, and that is, if we are going to keep 500,000 Americans in Vietnam—and consider sending even more there—then we must change our method of conducting this war, or else our casualties will continue to mount without our objective being achieved.

Certainly a good place to start, it seems to me, would be for the Senate to approve the Mundt-Byrd amendment so as to let the American public know that at least we in the Senate regard this war as a serious matter, that we look with disfavor upon those nations which trade with our enemy, and that we are prepared to slap a heavy tax on those American companies which export to nations which in turn supply our enemy.

Mr. President, the amendment offered by the Senator from South Dakota has an automatic termination date—whenever hostilities cease between the United States and North Vietnam. At that time this amendment ceases to be operative.

If a nation does not want the provision to apply to it they only need to cease trading with North Vietnam which is the nation with which the United States is at war.

I am glad to associate myself with the distinguished Senator from South Dakota in this endeavor in the hope that it will be one step, even though a small one, in bringing a sense of urgency to our Government.

The ACTING PRESIDENT pro tempore. The Senator's time has expired.

Mr. MUNDT. Mr. President, I appreciate the statement of the distinguished Senator from Virginia. The Senator has given an excellent, cogent, concise, and compelling argument which should bring a great vote of support for our amendment from an overwhelming number of Senators.

The emphasis by the Senator on the termination date is correct. It is really also a terminal date as far as taxpayers are concerned. All a taxpayer need do is refrain from reaching out for that little extra profit he might get from exporting supplies to the Communists which expand the capacity of our enemy in this most cruel war to prolong it even after 5 years of fighting.

The ACTING PRESIDENT pro tempore. Who yields time?

Mr. MUNDT. Mr. President, what is the division of time now?

The ACTING PRESIDENT pro tempore. The Senator from Florida has 15 minutes remaining; the Senator from South Dakota has 8 minutes remaining.

Mr. MUNDT. Mr. President, I stand by patiently waiting for the other side to use some of its time.

ORDER OF BUSINESS

Mr. SMATHERS. Mr. President, I yield 5 minutes to the Senator from Mississippi.

Mr. STENNIS. I thank the Senator, especially since this is not relevant to the subject matter but a matter that will greatly accommodate me at this time.

The ACTING PRESIDENT pro tempore. The Senator from Mississippi is recognized.

REPORT BY SELECT COMMITTEE ON STANDARDS AND CONDUCT

Mr. STENNIS. Mr. President, because of the late hour of the termination of the Senate session last Friday evening, I did not have the opportunity to present any summary or interpretative conclusions for the resolution that we agreed to.

With the completion of action by the Senate on Senate Resolution 266, it is appropriate to recognize and commend the interest and work of Senators in seeking to develop an effective set of standards of conduct.

During the 5 days of intensive debate here last week on the committee's recommendations, several beneficial revisions were made to the original resolu-

tion. The final product, as reflected by the almost unanimous vote of the Senate, represented the consensus of all of us, and is a workable and valuable addition to the body of senatorial ethics.

The Senate now has four special rules of conduct for the guidance of its Members, officers, and employees.

Rule 41 regulates the outside business or professional activity or employment of Senate officers and employees. There are two main provisions in the rule. First, each officer and employee must insure that his own outside activities are not in conflict with his responsibilities to the Senate. Second, the supervisors, who in most cases are Senators, must review the outside activities of their employees and take such remedial action as prudence and good judgment would indicate to avoid any conflict of interest or interference with the duties of the employees to the Senate. In making this review and in taking this action, a Senator will be acting in the discharge of his official duties and responsibilities.

The thrust of rule 41 is toward personal service type activity or employment—that is, jobs or services that entail the performance of work, whether occupational, managerial, creative, or professional. This rule represents a significant step to assure that employees of the Senate devote their principal attention to their positions on the various Senate staffs and, above all, to minimize conflicts of interest.

The financial activities of officers and employees also will be subject to review and inquiry, if necessary, through the operation of the financial disclosure rule that I will comment on later.

Rule 42 regulates the acceptance and use of contributions by a Senator or a candidate for Senator. The rule permits them to accept contributions from three sources: from a fundraising event, from an individual or organization, and from a political party. Before a Senator or a candidate may accept the proceeds of a fundraising event—a testimonial dinner, for example—he must give his advance approval. This advance approval will do much to assure that the fundraising event is properly represented to the public and that the principles of good business management are followed by the sponsors of the event, for it is incumbent upon the Senator to take enough interest to prevent flagrant abuse.

Whether from a fundraising event, an individual or an organization, or from his political party, the funds accepted by the Senator or candidate must be accounted for and, under a later rule, reported to the public.

Rule 42 permits the use of contributions by a Senator to support his nomination for election, or his election. Full understanding of this critical restriction suggests a reading of the language of the rule. It states:

> The Senator may use the contribution only to influence his nomination for election, or his election, and shall not use, directly or indirectly, any part of any contribution for any other purpose, except as otherwise provided herein.

It seems plain from these words that the nomination or election are events following or concurrent with the receipt of the contributions. If the nomination or election were in the past, then they could certainly not be influenced by after-acquired contributions. Thus it is clear that contributions may not be used to pay off past campaign or alleged past campaign deficits. The committee intended this application of the rule as to deficits of past campaigns.

An additional word about campaign funding, especially deficits. Rule 42 does not purport to regulate election financing. The rule simply fills a gap on the periphery of campaign practices. Detailed regulation of the conduct of campaigns is not a matter for Federal regulation, but is best handled at the State level in order to take into account local variations in campaign practices and the historical evolution of the political structure of each State. There are 50 sets of State laws on this subject. A standard of conduct of the Senate is hardly the vehicle to replace them.

The rule requires a detailed report of all these expenditures as to source and also outlay of these funds; and this report must be made public.

Under rule 42, a Senator also may use contributed funds to defray certain expenses of his office, such as travel to his home State, communications to his constituents, and particular office expenses that exceed his allowances.

All of the members of the committee have always felt that these kinds of expenses should be paid by the Federal Government. But since it is a fact that allowances are not enough in some cases, the committee believed that a Senator should not be deprived of the means of supplementing his reasonable and necessary office expenses. I have written to the chairman of the Committee on Rules and Administration, calling his attention to this situation, and suggesting that his committee undertake a thorough study of Senators' allowances and offer an appropriate remedy.

Rule 42 provides further that a Senator must report all gifts aggregating more than $50 from a single source during a year in accordance with the later disclosure rule.

The third rule, No. 43, prohibits generally an officer or employee who is paid by the Senate from becoming involved with campaign funds. A Senator may except specifically an assistant in his own office from the restrictions on receiving, soliciting, taking custody, or distributing campaign funds, provided the assistant's name is made public through the office of the Secretary of the Senate. But committee assistants and officers and employees of the Senate itself may not handle campaign funds for Federal office under any circumstances. This rule goes a long way toward taking employees out of campaign funding.

The final rule, No. 44, sets up a comprehensive program of financial disclosure. Every Senator, candidate for Senator, and officer or employee who is paid more than $15,000 a year by the Senate, must file each year by May 15, a copy of his Federal income tax return and a supplementary statement of financial interests. The supplement covers client fees, director and similar fees, the identity of property and trust interest that are greater than $10,000, the identity of liabilities exceeding $5,000, and gifts. Only the Committee on Standards and Conduct, for cause shown, may examine these reports. Many safeguards against a breach of the confidence of these reports are incorporated in the rule. The individual concerned must be given notice when his reports are examined, and again when the committee undertakes to receive the reports as evidence in a hearing. Provision is made for the return of reports after 7 years, or upon death or termination of service.

Rule 44 requires these same persons to file an additional report each year of contributions and honorariums received. This additional report will be made available to the public.

Thus, all significant financial interests will be reported annually. Those of a private character are available to the Committee on Standards and Conduct, which may use them for the investigation of a complaint or allegation of misconduct. Income which is closely allied to official position is made public.

The rule on political fund activity by employees will be effective 60 days from March 23, 1968, while the other three rules will take effect 90 days from said date. The first disclosure or report of financial interests will be required to be filed by May 15, 1969, and annually thereafter. None of the rules apply to the period of time before they become effective.

These rules are now part of the standing rules of the Senate. As in the case of any rule of the Senate, a violation may be subject to inquiry by the Select Committee on Standards and Conduct. The committee may then recommend appropriate action to the Senate. The power to punish remains in the Senate, as a body, and in accordance with precedent and authority may range from mild admonition to expulsion. In addition, the committee may refer certain matters to Federal and State authorities for further disposition.

My remarks concerning sanctions must not be construed in any threatening sense. The chief value of these rules are the guidance they provide and the deterrent effect they are expected to exert on potential wrongdoers.

Mr. President, these rules are not retroactive in their application in any way. They do not apply to transactions that occurred prior to the effective date. They speak as of their effective date and for the time thereafter.

These new rules give the Senate a new start. They will serve as both guidelines and as deterrents. These rules are clear notice that under no circumstances will one be permitted to use a position in the Senate as Member, officer or staff assistant, deliberately or otherwise, for the enhancement of personal gain at the expense of the public or against public interests.

I hope that Senators and all staff members will become fully familiar with these additions and I know they will all be followed.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and

to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. SMATHERS. Mr. President, I am ready to yield back the remainder of my time.

Mr. MURPHY. Mr. President, will the Senator from South Dakota yield?

Mr. MUNDT. Mr. President, I yield 2 minutes to the Senator from California.

The ACTING PRESIDENT pro tempore. The Senator from California is recognized for 2 minutes.

Mr. MURPHY. Mr. President, I rise for the purpose of congratulating my colleague from South Dakota [Mr. MUNDT] and join him in this effort, which I think is long overdue.

We have listened for hours to the problems of the war in Vietnam. No one in this Chamber is for war. Everyone is against the war. I know of no one who would not do anything he could to see that it is stopped as quickly as possible; provided, we can stop it with honor and with the achievement of freedom. The lives of those brave men which have already been lost in Southeast Asia should not have been sacrificed in vain. It would be unthinkable.

Mr. President, I find it inconsistent and difficult to understand why some Americans would attempt to make a profit out of trading with the Communist bloc nations which are sending sophisticated weapons to North Vietnam.

I congratulate my esteemed colleague for his attempt to stop such export trading with the enemy. I hope that the amendment will be adopted, and that this will be the beginning of a series fo amendments, rules and regulations, which will finally make it impossible for anyone in America to give any help to those countries helping to perpetuate the enemy's war effort at the cost of American lives.

Mr. MUNDT. I thank the Senator from California for his kind remarks.

Mr. President, may I inquire of the Chair as to the state of the time?

The ACTING PRESIDENT pro tempore. The Senator from South Dakota has 6 minutes remaining. The Senator from Florida has 12 minutes remaining.

Mr. MUNDT. Mr. President, I promised the Senator from Minnesota [Mr. MONDALE] that I would make a rejoinder to his opposition to the pending amendment. He is not in the Chamber at the moment, but I wish to vindicate my promise to him.

I rise once again in support of the amendment introduced by myself and my colleague from Virginia [Mr. BYRD]. I might add that I hope the Mundt-Byrd partnership will be as successful this time as we were when this same general subject area—trading with the enemy—was debated and voted upon with respect to Export-Import Bank bill.

As I explained yesterday, this amendment would impose in addition to any other tax already imposed by the Internal Revenue Service, a tax equal to 20 percent of the taxable income of the taxpayer for the taxable year, if that taxpayer engaged in trade with any Communist country which is supplying material to the Government of North Vietnam.

Mr. President, I have already mentioned the Export-Import Bank bill. What we did there, and what was subsequently endorsed by the House of Representatives and is now the law of the land, was to make it clear that no Government funds could be used in credit transactions to finance exports to countries who are engaged in armed conflict with the United States or any countries who are aiding such countries. In other words, the Government of the United States is not going to be guaranteeing any trade transactions with the same countries that are supplying their North Vietnamese allies with the means to prolong the war and kill more American boys.

This was a significant victory, Mr. President, and the overwhelming vote in favor of the concept of not trading with the enemy was, I believe, representative of the feeling in the country. Unfortunately, much of this trade continues because it does not involve Government financing and because, as incomprehensible as it may sound, private transactions are condoned, even encouraged by the executive branch. As the Senator from Minnesota [Mr. MONDALE] pointed out yesterday, American tools are, in fact, a part of the Fiat factory, through other forms of financing. In other words, certain companies and foundations through their greed for additional profit have decided to do what the Government would not do. This is exactly the problem and I thank the Senator from Minnesota for pointing it out. We cannot prevent them from doing this, although I believe it has been illustrated time and time again that the vast majority of the American people oppose it, unless we place an embargo on all trade, but we can effectively discourage it by making the companies pay for their actions, and that is what this amendment does.

This action by the executive branch and by certain companies, to me, and to many others, does not make sense. Why? First and foremost, because we take our differences with communism seriously, expecially in Vietnam. Never before in history have we found it conscionable to trade with the enemy. Today we have more men committed to the defense of free South Vietnam than at any time during the Korean war and some say we will need many more before the strife is over. The ultimate sacrifice has been made by over 23,000 of our fellow citizens. A total in excess of 122,000 men have fallen casualty to Communist-supplied arms in the Vietnam war.

It is little wonder to me that the Communists would question our resolve to carry this conflict to successful conclusion when we espouse a business-as-usual attitude in our trade policy. Worse, we find this administration assiduously promoting new markets within Communist nations at the very time these adversaries openly brag of "fraternal" support to North Vietnam. What a contrast with our Korean war attitude. Then we drastically cut our exports to the Soviet Union back to zero. Similiarly, during the Berlin crisis, trade was sharply restrained, each application for export being postponed by the Department of Commerce with the explanation that it could not be considered in light of developments arising over tensions in Berlin.

Since the executive branch is unwilling to close the floodgates on this scandalous trade, I believe Congress has the duty to act. Last year I introduced two bills, S. 2098, which would place an embargo on all such exports, and S. 2097, which doubled the customs duties on articles imported from these Communist countries. I still hope these bills are enacted into law. In the meantime, however, we have another opportunity with this amendment to make that trade more difficult.

What we have here today is an amendment that says if you, Mr. Taxpayer, or to be more realistic, Mr. Corporation, want to continue to trade with the Communist countries that are supplying the material necessary for the war in Vietnam to continue, you are going to have to pay for it. If your desire for profits transcends your desire for peace, we are going to make you take another look at your profit-and-loss statement.

This amendment adds 20 percent more on his tax bill. It is a costly penalty—I do not deny that—but Vietnam is no picnic. Neither should it be a bonanza for American war profiteers. Do you not think those boys in service over there would not be willing to pay 20 percent more on their income tax if they could bring the war to an honorable conclusion and come home? You just bet they would.

Mr. President, some may say that this trade is not substantial nor does it have any impact on the war. They have not looked very closely at that trade. They are just too busy looking at their profit reports. Let me give you some examples. Some of these figures I gave you yesterday but I believe they need repeating.

Last year alone, using the time period of January 1, 1967, to December 31, 1967, firms in our country shipped computer parts and related gear to the Soviet Union and other East European Communist bloc countries worth $3,186,707. Are computers valuable to the Soviets in supplying the North Vietnamese? Yesterday, the Senator from Minnesota spoke of "nonstrategic computers." If nothing else is clear as a result of former Secretary of Defense McNamara's 7½ years in the Pentagon, the fact that we are now in a period of computerized warfare is. The logistics of supplying a nation thousands of miles away with what they need, how best to get it there, the requirements of a specific unit to counterbalance U.S. strength in a given area—these are figures you do not come up with by using a Ouija Board. They have made computers actual armaments of war.

Let us take another example for the same time period. U.S. firms have supplied $482,273 worth of oil production and drilling equipment. What do they think the North Vietnam tanks, airplanes, and other military vehicles are running on these days? They can move only because Russia and her Communist satellites are supplying Hanoi with every gallon of petroleum used in the war.

How about items connected with aluminum production? Statistics from the Commerce Department show we traded to the Soviet Union alone last year $4,695,600 worth of these items. That is a lot of money, and aluminum is a mighty important substance in manufacturing airplanes.

Mr. President, some of these items have to be specifically cleared for export by the executive branch, and unfortunately, they are so cleared more than 98 percent of the time.

There is a substantial additional amount of trade, however, in items that do not even need a clearance. On October 12, 1966, the President authorized removal of over 400 items from the strategic control list. Now our exporters can trade in these items with no restrictions applied at all. And what are they? I will list a few. Diamond drill bits to help the Soviets drill for oil. As I pointed out last summer, this is important because Russian oil drills are good only for shallow wells and they need the American kind to get down deep.

We have also opened the floodgates on various forms of scrap metal. Among these are iron ore mass, aluminum alloy waste and scrap, and other magnesium or magnesium alloy waste and scrap. Does that not bring back memories of Pearl Harbor to many of you with even reasonably long memories.

Also included on this list cleared for trading by President Johnson's Executive action of 1966 was rifle cleaning compounds. If you do not believe it you can look it up on the list. It is export control commodity No. 55430. I placed the whole list of the items which were decontrolled by Presidential action in the RECORD for March 18, 1967. You will find it there starting on page S2974.

We also cleared bandages and surgical dressings, rubber thread and cord, automobile lifts and jacks for automotive vehicles or aircraft by that Presidential action.

We also allow them to ship the Communists shock absorbers, battery separators and other battery parts made of rubber, and spark plugs for aircraft and automobiles.

Mr. President, this covers the first part of our "Tinkers-to-Evers-to-Chance" double play in the deadly conduct of war. Now what about the trade from these Communist nations to North Vietnam? I have already listed the countries. The question was asked yesterday, "What do they supply?" Rumania in particular was the object of the question. The answer is, among other things, oil. Is Hungary involved? Let them supply the answer themselves. Do not take my word for it. I shall come back to that in a moment.

Mr. President, I could go on and on, but I think I have made my point that this trade is substantial and that it is related to the war effort. So we are back to the question of whether or not this trade should be considered in the same category as all other trade. I do not believe it should be.

I believe that if these rich exporters and corporations want to continue with this trade, they should pay for it. Let them pay an extra 20 percent on all their profits. If they do not want to pay the penalty tax, they can quit trading with our enemies and submit to the Treasury Department a statement, under oath, that they have not been engaged during the taxable year in trade with any Communist country which is supplying materiel to the Government of North Vietnam.

Mr. President, I invite special attention to a statement in a radio broadcast from Budapest on May 25, 1967, to which I referred a moment ago. I want to quote it, because so much serious thought has been devoted to this very tricky problem by the Senator from Connecticut, the Senator from Florida, and others, as to whether this effort to curtail the shipment of arms is important enough to justify our amendment, or whether because of some technicality in draftsmanship we should avoid recording our judgment on this basic issue.

So, let us take it from the other side, if any Senator feels this issue is not important.

The statement reads as follows:

(Budapest MTI International Service, in English, 9:45 a.m. GMT, May 25, 1967:) In a radio broadcast referring to the visit of Hungarian Defense Minister Lajos Czinege, "The importance of this visit was enhanced by the fact that the weapons protecting Hanoi on that front had been designed by Hungarian engineers and manufactured by Hungarian workers."

Let me point out here that we have American exporters sending ingredients from the United States to Hungary right now so that these Hungarian guns could be more abundantly manufactured.

Continuing:

It was mentioned that the unit using the Hungarian guns was credited with shooting down the 1,000th U.S. plane destroyed over Vietnam and the same unit using the Hungarian guns down 10 other U.S planes bombing Hanoi on May 19.

The President, as the Senator from California puts it, with the realism for which he is noted and his capacity to see through the fog, are we really going to vote now to encourage or discourage this kind of mercenary madness?

Or, are we going to do something to stop it and move in the direction of curtailing it or do we vote to express our approval of it?

This is not the final answer but it is a constructive start.

In his position paper, the Senator from Minnesota stated that there would be celebrations in the Kremlin if the pending amendment should be adopted.

I can assure the Senate that there will be far greater celebrations somewhere else if the amendment is adopted.

Who will be celebrating the most when we adopt this amendment?

It will be our servicemen in Vietnam who are now being shot at by the guns the Communists are supplying.

You could listen to the celebrations in Khe Sanh and Saigon. You would be able to listen to the rejoicing, the thanks, the gratitude, and the pious prayers of appreciation which will emanate from every battle encampment in every village, city, and field in which the American Army is located in South Vietnam, because these men are the targets of the end result of this unprecedented American policy of trading with the enemy which, understandably, has never before prevailed in American history in any other war.

That is where the celebrations will take place, Mr. President, and not in the Kremlin.

Another statement we hear so often is that it would hurt our balance of payments. Exactly and precisely. About $50 or $70 million in the balance of payments is coming our way in trading with the Communists. But I want Senators to know that that is not a balance of payments being paid in Russian gold. That is a balance of payments being paid in American blood, by our boys who are being shot, maimed, and killed in increasing numbers while the administration cries, "Give us more men to go to Vietnam." The administration states to chambers of commerce, labor unions, and to others, "Ship more goods to the Communist countries who are supplying the guns which kill our men and we will provide more men to take their places."

Mr. President, how any rational person believes that he can sell the world that we are serious about this war, with that kind of self-defeating, indefensible, inconsistent policy, I simply cannot comprehend.

How do we ever expect to convince the Communists that we are seriously interested in winning the war? How can we explain to the enemy in Hanoi, or to the mothers and fathers of our boys already in Vietnam, and those who are about to be drafted, that we really should get on with finishing the war but we would like to make a few fast bucks on the side which will not even be subject to an extra war profiteering tax?

Accordingly, I am not worried about that balance-of-payments argument, because it is being paid for in American blood. To that kind of repayment I do not subscribe.

The ACTING PRESIDENT pro tempore. All time on the amendment has now expired.

Mr. MUNDT. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. KUCHEL. Mr. President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. KUCHEL. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

The question now is on agreeing to the Mundt-Byrd amendment, as modified. The yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Maryland [Mr. BREWSTER], the Senator from Pennsylvania [Mr. CLARK], the Senator from Alaska [Mr. GRUENING], the Senator South Carolina [Mr. HOLLINGS], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Montana

[Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], and the Senator from Alabama [Mr. SPARKMAN] are necessarily absent.

I also announce that the Senator from Arkansas [Mr. FULBRIGHT] and the Senator from Missouri [Mr. LONG] are absent on official business.

I further announce that, if present and voting, the Senator from Pennsylvania [Mr. CLARK], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], and the Senators from Rhode Island [Mr. PASTORE and Mr. PELL] would each vote "nay."

On this vote, the Senator from South Carolina [Mr. HOLLINGS] is paired with the Senator from Maryland [Mr. BREWSTER]. If present and voting, the Senator from South Carolina would vote "yea," and the Senator from Maryland would vote "nay."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Illinois [Mr. DIRKSEN] and the Senator from Arizona [Mr. FANNIN] are necessarily absent.

The Senator from Kentucky [Mr. BAKER] is detained on official business.

If present and voting, the Senator from Kansas [Mr. CARLSON] and the Senator from Arizona [Mr. FANNIN] would each vote "yea."

The result was announced—yeas 38, nays 44, as follows:

[No. 85 Leg.]

YEAS—38

Allott	Fong	Mundt
Anderson	Hansen	Murphy
Bayh	Hartke	Randolph
Bennett	Hickenlooper	Ribicoff
Bible	Hill	Russell
Byrd, Va.	Hruska	Smith
Byrd, W. Va.	Jordan, N.C.	Spong
Cannon	Long, La.	Stennis
Cotton	Magnuson	Talmadge
Curtis	McClellan	Thurmond
Dominick	McGovern	Tower
Eastland	Miller	Young, N. Dak.
Ervin	Montoya	

NAYS—44

Aiken	Hayden	Muskie
Bartlett	Holland	Nelson
Boggs	Inouye	Pearson
Brooke	Jackson	Percy
Burdick	Javits	Prouty
Case	Jordan, Idaho	Proxmire
Church	Kuchel	Scott
Cooper	McGee	Smathers
Dodd	McIntyre	Symington
Ellender	Metcalf	Tydings
Gore	Mondale	Williams, N.J.
Griffin	Monroney	Williams, Del.
Harris	Morse	Yarborough
Hart	Morton	Young, Ohio
Hatfield	Moss	

NOT VOTING—18

Baker	Fulbright	Long, Mo.
Brewster	Gruening	Mansfield
Carlson	Hollings	McCarthy
Clark	Kennedy, Mass.	Pastore
Dirksen	Kennedy, N.Y.	Pell
Fannin	Lausche	Sparkman

So Mr. MUNDT's amendment was rejected.

I WEEP FOR MY COUNTRY

Mrs. SMITH. Mr. President, I am going to read into the RECORD a letter I wish very much for Senators to hear. Yesterday I received a letter from a woman in Maine that moved me very deeply. She is the mother of a young Marine Corps officer recently killed in Vietnam. She is a woman of obvious capability, as she is a practicing registered pharmacist. She is a woman of obvious intelligence and reasoned judgment.

She is a woman who has had the courage to speak up and to say the things that I am sure millions of Americans deeply feel.

She wrote:

Last night, Senator Smith, I wept for my country. I weep for those who have gone but most of all I weep for my country. It is sick, very sick I am afraid.

She is Mrs. Dorothy M. Dickinson, of Patten, Maine. I so thoroughly share her expression that I want to read her letter to the Senate, for she so magnificently says what should be said time and again throughout this country. Tragically, I have not heard any presidential candidate say what she has said.

Frankly, our country is desperately in need of a presidential candidate who will speak out against the moral decadence, the degeneration of softness and selfishness too prevalent among our people—and yes, the growing defeatism of a once proud and self-reliant citizenry.

I read her letter:

MARCH 23, 1968.

Hon. MARGARET CHASE SMITH,
U.S. Senate,
Washington, D.C.

DEAR SENATOR SMITH: Last evening as is our custom when time permits my husband and I turned on our television set to listen and watch *The Huntley-Brinkley Report.*

Much to our disgust and consternation the report showed "The Establishment" meaning the United States Government, hiring "hippies" in the Post Office at San Francisco.

Now we are not against the showing of this event on television but we are shocked almost beyond belief to think that the United States Government is hiring young men and women who are known users of drugs to work in any of its departments. They were shown smoking "pot" while delivering the mail; they were dressed sloppily, dirty and unkempt.

I have a friend employed in our local post office; she is required to wear a uniform. Why are these employees exempt?

I understand that the excuse the government gives for hiring them is because they are at the top of the civil service rolls in intelligence. Should high intelligence be the only factor considered?

Why are these men who appear to be of draft age not in the armed forces? If they are not usable by these services why should they be used in responsible positions in handling our mail?

Senator Smith, I am not ignorant of the proper use nor of the abuse of drugs. I am a practicing registered pharmacist. I am well aware of the great dangers involved in the use and abuse of drugs. These people need help but this is not the kind of help they need.

My husband and I just buried our only son last month in Arlington National Cemetery. He was an enlisted man who became a Lance Corporal and later received his commission as a second lieutenant in the United States Marine Corps. He served his country proudly and with honor.

While he served and died and many others like him served and died in Vietnam his country allowed known law-breakers to handle his mail and that of his buddies. Perhaps that is why he never received the Christmas tree and gifts we sent him. (In all fairness he did receive a Red-Cross box and some of his gifts.)

I am not bitter. I shall not allow myself ever to become bitter—bitterness and hatred only destroy the one who indulges in those practices. I have wept for my son; I have wept for his friends but last night, Senator Smith, I wept for my country.

Please tell me is this type of thing common practice? Why is it allowed?

There must be honest, clean, law abiding, black, yellow or white citizens in San Francisco much more worthy to serve their government than these selfish people who admittedly care only for their own immediate pleasure; who daily endanger the unborn, break our laws and live in filth.

I believe in free speech, I believe in personal freedom, but when my speech or my expression of personal freedom infringes upon or takes away another's rights then I do not call it freedom. I expect the same treatment from my fellowman.

I believe that the United States Government in condoning this type of behavior is asking for much more internal revolt than it has already experienced.

It is time, Senator Smith, for us, the quiet people, the average citizen; the ones who bear a large share of the tax load, who have given our most cherished possessions—our sons—to speak out and to be heard. Nor is this last circumstance a necessary reason; it only underlines the necessity.

Our personal tragedy is almost unendurable but this insult from the government he fought and died for is unforgiveable.

No, my husband and I will do nothing drastic, we shall go on as before, paying our taxes, voting, participating in civic affairs, but we shall do much thinking, much questioning.

Senator Smith, I weep for the many fine young men and women of our land and there are many. I weep for those who have gone but most of all I weep for my country. It is sick, very sick, I am afraid.

Most respectfully,

DOROTHY M. DICKINSON.

SECRETARY RUSK TO EXPLAIN TO EDITORS AND BROADCASTERS THE REASON FOR OUR EXCELLENT PROGRESS IN THE WORLD

Mr. HARTKE. Mr. President, my attention has been called to a program which the Department of State is offering to editors and broadcasters.

On April 15 and 16, 1968, the Department is hauling out its big wheels to give editors and broadcasters "for background only," the Department's views of why we are doing so well in the world. Secretary Rusk will address the conference, presumably impressing the assemblage with our recent victories in Vietnam. Then the Administrator of AID will explain how well goes the aid program. I presume Mr. Eugene Rostow, Under Secretary of State for Political Affairs, will jump into the fray as he did last week in New Hampshire, pointing out that the critics of our policies in Vietnam have not yet defined an alternative policy for Vietnam.

I have no objection to giving background to such editors and broadcasters as will attend the 2-day conference, complete with a 1½-hour reception. Indeed, I suspect these editors and broadcasters, being canny by trait, may get the idea that they are being given the treatment.

I would hope that some of them will find time to talk with critics of American policy because we now have a situation

in which Government funds are being used in efforts to brainwash the press.

If the administration wished to be candid in presentations of this kind, it would surely invite some of the administration critics to share in these briefings.

I would be glad to suggest a more balanced program if it were desired by the editors, by the broadcasters, or even by the administration itself.

I ask unanimous consent to insert in the RECORD at this point the provisional program for the U.S. Department of State sponsored National Foreign Policy Conference for Editors and Broadcasters and an article by Bernard Gwertzman, of March 23, 1968, published in the Evening Star, entitled "Rusk Aide Jumps Into Fray, Challenges Vietnam Critics."

There being no objection, the material was ordered to be printed in the RECORD, as follows:

U.S. DEPARTMENT OF STATE NATIONAL FOREIGN POLICY CONFERENCE FOR EDITORS AND BROADCASTERS, APRIL 15–16, 1968

PROVISIONAL PROGRAM [1]

Conference registration will begin at 8:00 a.m. Monday, April 15, in the lobby of the West Auditorium, Twenty-third Street between C and D Streets, N.W. The conference will convene promptly at *9:00 a.m.* and you are urged to allow ample time for registration.

Secretary Rusk will address the conference. Among other senior Departmental officers expected to participate in plenary sessions are: William S. Gaud, Administrator, Agency for International Development; Eugene V. Rostow, Under Secretary of State for Political Affairs; Charles E. Bohlen, Deputy Under Secretary of State for Political Affairs; William P. Bundy, Assistant Secretary of State for East Asian and Pacific Affairs; Henry D. Owen, Chairman, Policy Planning Council; Sol M. Linowitz, U.S. Representative to the Organization of American States.

Other members of the Department will participate in concurrent panels from 2:00–4:00 p.m. Monday, April 15. Topics include: Middle East Problems; Africa; Mainland China; Treaty on Nonproliferation of Nuclear Weapons; The Operations Center of the Department of State.

Secretary Rusk's reception for conference guests will be held Monday evening, 5:30 to 7:00 p.m. on the eighth floor of the Department.

The luncheon intermission on Monday, April 15, is scheduled from 12:15 to 2:00 p.m. A half-day session will be held on Tuesday ending at about 12:00 noon.

Unless otherwise announced, all conference sessions will be on *background only*.

[From the Washington (D.C.) Star, Mar. 23, 1968]

RUSK AIDE JUMPS INTO FRAY, CHALLENGES VIETNAM CRITICS

(By Bernard Gwertzman)

Eugene V. Rostow, the No. 3 man in the State Department, says President Johnson's political opponents have failed to come up with a workable alternative to the administration's Vietnam policy.

In the most openly political speech made by a State Department official in years, Rostow said that during the election campaign "the American people will see through verbal formulas, or vague programs which pretend to be alternatives."

"The critics of the administration have not yet succeeded in defining an alternative to our policy in Vietnam," Rostow, undersecretary of state for political affairs, said last night in a speech before the Manchester, N.H., Chamber of Commerce.

After listing and downgrading proposals made by Sen. Robert F. Kennedy, D-N.Y., without mentioning Kennedy by name, Rostow said:

"The plain fact is that Hanoi is not ready to negotiate, save perhaps to preside at our ritual surrender. These are the facts which every American voter should consider very carefully in the months ahead."

The State Department, under Secretary of State Dean Rusk, in the past has shunned direct political involvement, perferring to stick to the issues wherever possible. Rusk went out of his way during the 1964 presidential campaign to avoid controversy, but did on occasion take slaps at what he called efforts by Barry Goldwater, the Republican presidential nominee, to change the direction of American foreign policy.

This year, with Vietnam a major issue, it is perhaps inevitable that department officials will be drawn into the fight, although as recently as last Tuesday, Robert J. McCloskey, the State Department spokesman, said:

"I would hope and expect that as a matter of policy throughout this year we would not be commenting on statements which are made during the political campaign."

Rostow, the older brother of Walt W. Rostow, the President's chief foreign policy assistant, said the coming election "is one of the most important in a generation."

He said it would be dominated by "two immense issues, each central to our history, and to our fate."

One, he said, is the challenge to make good promises of equality to the Negro and the other is foreign policy and, particularly, U.S. policy in Vietnam.

"The issue of foreign policy we are facing in the election, make no mistake about it, is not alone our policies in Vietnam, but whether we continue on the path we have followed since the war, or seek once more to retreat into the isolationism of the 19th Century, as we did in 1920."

Linking the "two dominant issues," Rostow said "we are involved today in Vietnam, as in our cities, because commitments we made, in quieter times, are being put to the test."

"We made a commitment to give our Negro citizens true equality—we cannot now give up on that commitment because its fulfillment is difficult, more difficult perhaps than many may have expected.

"We have made commitments to our friends in the world, first in Europe, then in Asia, to help them resist aggression.

"I propose to you that we cannot now give up those commitments—made with open eyes and with the support of both political parties, representing an overwhelming majority of our people—because they too are more difficult than we may have hoped they would be," Rostow said.

In the section which discussed, indirectly, Kennedy's proposals, Rostow said, "Save for the few who frankly advocate surrender, and others who would support a major expansion of our military effort, it is impossible on analysis to discover in what respects policy of firmness and restraint."

[1] The program is tentative and subject to change. A final program will be issued at the time of the conference.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. HARTKE. Mr. President, I should like to have the attention of the manager of the bill, the chairman of the Committee on Finance, for just a moment.

A number of quota measures are pending before the Senate. One concerns the quotas on steel and was introduced by myself and the principal cosponsor, the Senator from Illinois [Mr. DIRKSEN] and 40-some other U.S. Senators.

I have discussed this matter with the minority leader and it is his opinion that the better part of procedure would be to have a measure of this kind pass through orderly hearings in the Finance Committee.

I agree with that procedure and think it should be followed. I wonder if I may have the assurance of the chairman of the Committee on Finance that, within a reasonable length of time, hearings could be held on the steel quota measure and such appropriate action be taken as the Committee on Finance deems appropriate at that time.

Mr. LONG of Louisiana. Mr. President, I am sure that the minority leader has made a statement similar to that made by the Senator from Indiana. While I have not seen the statements, I would agree that we should hold hearings on these proposals to limit certain imports into our country, particularly imports which compete with products made by domestic industries such as steel that are being severely injured as a result. I am personally very much interested in the problems raised by imports of petroleum products.

I assure the Senator that we will conduct hearings on the question of limiting imports during this session of Congress, and I hope in time that the committee's judgment can be offered to the Senate in the form of amendments to appropriate legislation originating in the House. As the Senator knows, such legislation would have to be offered as an amendment to a House-passed bill.

Mr. HARTKE. I understand that. I thank the chairman of the Finance Committee. And, with that assurance, it is not my intention to call up the steel quota measure unless other quota measures are adopted and in that event, I might change my position.

Mr. LONG of Louisiana. I assure the Senator that his chances of prevailing with his amendment will be better if he proceeds in the fashion he has just mentioned.

Mr. JAVITS. Mr. President, will the Senator yield?

Mr. HARTKE. I yield.

Mr. JAVITS. Mr. President, I am against the Senator's amendment, as I was against the Hollings amendment.

I say to my colleagues and to my friend, the Senator from Indiana, as well, that I am very pleased he has made the decision he has. I think the incalculable effects upon the country, even if the amendment is agreed to, would be so much less if it were agreed to after at least the considered judgment of a Senate committee and after debate instead of being agreed to in such an atmosphere, with the matter being brought up on yesterday and agreed to in an hour's time, even though it would be invoked everywhere in the world as if it

represented a departure from U.S. policy by the U.S. Senate and as if it had exactly the same consideration which the Senator so thoughtfully wishes his amendment to receive.

So I say, as the Senator knows, I am against it, but I am pleased that he sees the value to the country of doing what he is doing.

Mr. HARTKE. I thank the Senator from New York.

Mr. LONG of Louisiana. Mr. President, I hope that we might get on with this bill because the law which sets the existing excise tax rates on automobiles and telephone service expires at the end of this week and the bill still has to be discussed in conference. I have discussed this matter with some of the leaders on the other side of the aisle and some of those on this side of the aisle. I hope that we may obtain a limitation on debate, at least with respect to amendments offered to the Williams-Smathers substitute, reserving the right, of course, to Senators to offer any amendments they wish and to speak for any length of time they wish with regard to amendments offered to the bill itself. I believe it would help if we could have an agreement.

So, Mr. President, I ask unanimous consent that, with the exception of an amendment to be offered by the Senator from New York [Mr. JAVITS], which will require 2 hours, that debate on all amendments to the Williams-Smathers substitute be limited to 1 hour, the time to be equally divided between the sponsor of the amendment and the manager of the bill.

Mr. JAVITS. Mr. President, reserving the right to object—and I hope I will not have to object—I should like to ask the Senator a question, which he really should explain.

In the event that there is no limitation upon the Williams-Smathers amendment, why should we accept limitations? Limitations are always prejudicial to the movant, and they are only justified if they serve the purposes of the country in accelerating action. I wish to do that.

I believe the Senator is correct. This matter should be ended tomorrow night at the latest. But if there is no limitation on the Williams-Smathers substitute, this matter can go on for 3 weeks. Why should we accept limitations when they do not?

Mr. LONG of Louisiana. Mr. President, some Senators who favor the Williams-Smathers substitute might desire to offer amendments that would include some part of the Williams-Smathers substitute in the event that that substitute should fail. They might wish to offer such amendments to the bill. In view of that, they would feel that their rights had been prejudiced if they did not reserve the right to offer some amendments that they might wish to offer if the Williams-Smathers substitute is not agreed to.

Mr. JAVITS. That does not answer my question. I still reserve the right to object.

I know that if there is a failure of the Williams-Smathers substitute, then any amendments can be offered to the bill, and there are no limitations on time. I do not understand why the Senator wishes to limit all amendments to the substitute but does not wish to limit time on the substitute. This puzzles me. How are we accelerating anything if time on the substitute is not limited?

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. WILLIAMS of Delaware. It was my understanding that the limitation was to apply to any amendments offered to the substitute, and that after the amendments were completed, there would be a similar time limit on the substitute itself, with a half hour to each side.

Mr. JAVITS. Let us have that package. That makes sense.

Mr. WILLIAMS of Delaware. And then, in the event that the substitute was agreed to, that would be all; but if the substitute was not agreed to, the bill would be open to further amendment.

Mr. LONG of Louisiana. Mr. President, I will amend the request to provide that there then be 4 hours on the substitute, to be equally divided, half the time to be controlled by the Senator from Delaware and half to be controlled by the manager of the bill.

The ACTING PRESIDENT pro tempore. Is there objection?

Mr. RANDOLPH. Mr. President, reserving the right to object, I have attempted to hear the discussion. It has been somewhat difficult, and I am not critical, but with movement in the Senate, we do not always hear.

It is my intention to offer an amendment to delete section 23, which is the Williams-Smathers proposal as it affects the broad spectrum of public works projects. I should like to know exactly what the Senator has in mind.

Mr. LONG of Louisiana. Mr. President, I assure the Senator that if I am present during the time the matter is under consideration, we will not permit his rights to be prejudiced in any respect. We will maintain a parliamentary situation in which he can offer his amendments.

Mr. WILLIAMS of Delaware. Mr. President, I join the chairman of the committee in giving that assurance to the Senator from West Virginia, even though I shall oppose the amendment. I shall see that the Senator from West Virginia has an opportunity to offer it before third reading.

The ACTING PRESIDENT pro tempore. The Senate will be in order.

Mr. PROXMIRE. Mr. President, reserving the right to object, I ask the manager of the bill whether it is possible to permit me to have a half hour to speak in opposition to the Williams-Smathers substitute.

Mr. LONG of Louisiana. I had that in mind when I made the request for 2 hours.

Mr. JAVITS. Mr. President, reserving the right to object, I understand that it is the disposition of the manager of the bill that if amendments to the substitute are adopted which are relevant to the bill, and if the substitute is rejected, he will then accept the amendments to the bill?

Mr. LONG of Louisiana. Yes.

The ACTING PRESIDENT pro tempore. May the Chair understand the unanimous-consent agreement.

The Senator from Louisiana has propounded a unanimous-consent agreement, as modified, and as further modified by the Senator from Wisconsin, and as further modified by the Senator from New York. Is there objection? The Chair hears none, and it is so ordered.

UNANIMOUS-CONSENT AGREEMENT

The unanimous-consent agreement, as subsequently reduced to writing, is as follows:

Ordered, That, during the further consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, debate on any amendment (except one amendment by the Senator from New York [Mr. JAVITS], which shall be limited to two hours), to the substitute amendment (No. 662), motion, or appeal, except a motion to lay on the table, shall be limited to one hour, to be equally divided and controlled by the mover of any such amendment or motion and the manager of the bill or a Senator designated by him:

Ordered further, That debate on the substitute amendment shall be limited to four hours, to be equally divided and controlled by the Senator from Louisiana [Mr. LONG] and the Senator from Delaware [Mr. WILLIAMS].

Mr. MAGNUSON. Mr. President, I submit an amendment to the Williams-Smathers substitute, and I ask that it lie on the table. I will write it out. It is as follows:

On page 4, line 12, after the word "highways" and before the parenthesis mark, add "forest road and trail funds."

The ACTING PRESIDENT pro tempore. The amendment of the Senator from Washington will be received and printed, and will lie on the table.

Mr. MAGNUSON. I will bring it up at the time of the discussion of the amendment of the Senator from Virginia or others.

The Senator from Delaware is of the opinion that this would be included, anyway. But I wish to be sure, and I hope he will accept it, because someone might interpret the measure to cut the forest road and trail funds. In the 1969 budget we have suggested only $22 million for the entire country. But it is necessary to bring into the Treasury the Federal timber receipts which amount to almost $200 million. If this is not included in the Williams-Smathers substitute, by interpretation—the Senator did not intend to affect this section—we might be defeating our own purpose, because we would not be able to get that timber out with the Government sales. It is estimated that next year it will amount to $200 million.

Mr. RIBICOFF. Mr. President, on behalf of myself and Senators DODD, CLARK, KUCHEL, MURPHY, NELSON, PROXMIRE, PERCY, RANDOLPH, and WILLIAMS of New Jersey, I offer an amendment to the pending substitute amendment of the Senator from Delaware.

The ACTING PRESIDENT pro tempore. The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. RIBICOFF. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered; and, without objection, the amendment will be printed in the RECORD.

The amendment is as follows:

At the end of the amendment insert the following:

"SEC. 14. INDUSTRIAL DEVELOPMENT BONDS

"(a) Section 103 of the Internal Revenue Code of 1954 (relating to interest on certain governmental obligations) is amended by relettering subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"'(c) INDUSTRIAL DEVELOPMENT BONDS.—

"'(1) SUBSECTION (a)(1) NOT TO APPLY.—Any industrial development bond (as defined in paragraph (2)) issued after August 1, 1968, shall not be considered an obligation described in subsection (a)(1).

"'(2) INDUSTRIAL DEVELOPMENT BONDS DEFINED.—

"'(A) IN GENERAL.—For purposes of this subsection, the term "industrial development bond" means an obligation the payment of the principal or interest on which is—

"'(i) secured in whole or in part by a lien, mortgage, pledge, or other security interest in property of a character subject to the allowance for depreciation, or

"'(ii) secured in whole or in part by an interest in (or to be derived primarily from) payments to be made in respect of money or property of a character subject to the allowance for depreciation

which is or will be used, under a lease, sale or loan arrangement, for industrial or commercial purposes.

"'(B) EXCEPTIONS.—For purposes of subparagraph (A), property shall not be treated as used for industrial or commercial purposes if it is used—

"'(i) to provide entertainment (including sporting events) or recreational facilities for the general public;

"'(ii) to provide facilities for the holding of a convention, trade show, or similar event;

"'(iii) as an airport, flight training facilities, dock, wharf, grain storage facility, parking facility, or similar transportation facility;

"'(iv) in the furnishing or sale of electric energy, gas, water, sewage or solid waste disposal services or air or water pollution abatement facilities; or

"'(v) in an active trade or business owned and operated by any organization described in subsection (a)(1).'

"(b) The amendment made by subsection (a) shall apply with respect to taxable years ending after August 1, 1968."

Mr. RIBICOFF. Mr. President, I ask for the yeas and nays on my amendment.

The yeas and nays were ordered.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. RIBICOFF. I yield.

Mr. LONG of Louisiana. Mr. President, I have discussed this amendment with the Senators who wish to speak for and against it. I believe they would be agreeable that we further limit debate on this amendment to one-half hour, 15 minutes under the control of the Senator from Connecticut.

Mr. MONRONEY. Mr. President, reserving the right to object, I thought we had agreed on 30 minutes to each side.

Mr. LONG of Louisiana. I withdraw that request, Mr. President.

The ACTING PRESIDENT pro tempore. The Senator from Connecticut is recognized. How much time does the Senator yield to himself?

Mr. RIBICOFF. Mr. President, I yield myself 5 minutes.

The ACTING PRESIDENT pro tempore. The Senator from Connecticut is recognized for 5 minutes.

Mr. RIBICOFF. Mr. President, I agree completely with the sentiments expressed by the National Association of Counties which stated that if we permit the unchecked issuance of industrial development bonds, our action would have to be labeled as "irresponsible." The National Association of Counties pointed out that the use of these bonds "poses a disastrous threat to the entire State and local government bond market" and "the question as to whether this crisis should be handled by the administrative or legislative route should not be allowed to avoid the fact that corrective action must be taken now."

There is a great deal of confusion and misunderstanding surrounding the nature of industrial development bonds: what they are, what they do, and why they are used. When we are dealing with matters of this gravity, I think it is essential that we correct the record so that no one will be misled into thinking that industrial development bonds are somehow a boon to his State; that they somehow encourage industry to locate where it would not otherwise locate, or encourage industry to create new plants and jobs that would not otherwise have been created. None of these arguments is true. It is vital that the fallacy underlying the use of these bonds be clearly understood—that the adverse effects that these bonds have on all State and local governments, large and small, rural and urban, be taken into consideration.

Industrial development bonds are really debt obligations of private corporations. In most cases, they are issued entirely on the credit of the private corporation. That credit standing of the issuing community is not the slightest bit involved in the ability of the corporation to secure a lower interest rate for their corporate bonds. In truth, industrial development bonds are nothing but a device or gimmick for allowing industrial corporations to claim the benefit of the lower interest rate attributable to the Federal tax exemption of interest on State and local government obligations.

The perpetuation and growing use of this device places our small towns, our rural communities, and our underdeveloped areas, into direct competition for funds with United States Steel, Goodyear, Firestone, Litton Industries, and other corporate giants. The growing volume of corporate tax exempt bonds floated by our major corporations directly threatens the ability of these towns, of these counties, and of all our States throughout the country to borrow at reasonable rates to finance their needed governmental facilities.

The tax exemption of State and local government bonds was originally intended to help our State and local governments meet these needs at the lowest possible cost. The Federal tax exemption was not intended to permit United States Steel, Armco Steel, and other major corporations to gain tax advantages at the expense of other taxpayers. It was not intended to permit such private corporations to drain investment funds away from schools, hospitals, roads, and other public facilities. In short, it was not intended as a method of permitting corporations to finance corporate facilities on a tax-exempt basis.

In view of the disastrous effects that the billions of dollars worth of corporate tax exempt bonds have had on the municipal bond market, one may properly question why State and local governments have found it appropriate to authorize this practice. The answer is simple. It started as a method of attracting industry. Other States adopted the practice in self-defense. Today more than 40 States authorize such bonds. As a consequence, in today's world having authority to issue industrial development bonds does not help to attract industry to any particular State. Corporate executives know that almost anywhere they desire to locate in the country they can demand, as a matter of right, the aid of a local government in obtaining tax-exempt financing. The question today is not one of attracting industry. Instead, it is one of losing industry because a State does not authorize a gimmick available in a neighboring State. When all 50 States have authorized this practice there will not be the slightest scintilla of advantage to be gained by one State over another State. But even then, the practice will not be stopped. Not using the bonds will always place a State at a disadvantage vis a vis a neighbor who does use them. It is for this reason that even though responsible State and local government leaders recognize that the use of these bonds represents a self-perpetuating evil, at the same time, those leaders recognize that the States themselves cannot deal with this problem on an individual basis.

It has also been incorrectly suggested that the use of industrial development bonds is somehow responsible for creating jobs and creating new industry that would not otherwise have existed. Nothing could be further from the truth.

A corporation does not decide to expand because a financing gimmick is available. A corporation expands because there is a market for its products and because it considers expansion feasible. Only then does the question of whether to use a financing gimmick arise. There is absolutely no evidence to support the proposition that these corporations would not have expanded, that new facilities would not have been built and that new jobs would not have been created because our major corporations are unable to save a point and a half in interest on their borrowings for plant expansion. This proposition is simply untrue.

The PRESIDING OFFICER (Mr. BAYH in the chair). The time of the Senator has expired.

Mr. RIBICOFF. Mr. President, I ask unanimous consent that I may proceed for 5 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. RIBICOFF. Mr. President, many corporate executives frankly admit that they do not like industrial development financing. They consider it an unethical practice. However, they will also point out that as long as this practice is available they owe it to their shareholders to use it. What this means is that plants would be built and jobs would be created irrespective of whether industrial development bond financing is available or not. However, it also means that we will soon see most corporate bonds issued on a tax-exempt basis.

This is not theory; it is fact. A fact that is fully substantiated by the evidence. Over $500 million of these bonds were issued in 1966. Over $1.4 billion new issues were sold in 1967. At the end of last month over $2 billion issues were being prepared for sale. On March 14 alone over $200 million of these bonds were issued.

The issue is clearly not one of new jobs. If it were I do not think we would find the AFL–CIO strongly objecting to the continued use of industrial development bond financing. It is not a question of rural versus urban areas, or underdeveloped communities versus highly developed or industrialized communities. If such were the case we would not find the National Association of Counties going on record as declaring that Congress would be "irresponsible" if it permitted the unchecked continuation of these bonds. Similarly, I feel certain that if either jobs or underdeveloped areas were really at issue the clear majority of the members of the Advisory Commission on Intergovernmental Relations—a group representing a broad cross-section of State, local and Federal officials—would not be demanding action to end this practice.

What is at issue is a practice which historically—when it was used by only a handful of States—may have had some influence on plant locations. Today this practice has become so widespread that it has little influence on where a plant is located and no influence on whether plant expansion will take place and new jobs will be created. This practice has generated a self-perpetuating situation that threatens to undermine the tax-exempt bond market and impair the ability of all States, both rich and poor, both industrialized and non-industrialized to finance their local governmental needs. The continuation of these bonds is a gross waste of both Federal and State resources. It will necessarily lead to higher local taxes in order to generate revenue to pay the higher interest costs on State and local government bonds issued for schools, roads, hospitals, and other governmental purposes. It will also lead to higher Federal taxes to replace the Federal revenue lost.

Yesterday's vote said that the Congress, not Treasury, should act. Today I propose that we take that action. Anyone who takes the trouble to examine the true factual situation dispassionately must come to the conclusion that the use of these bonds represents an unwarranted distortion of the tax-exempt borrowing power accorded our States and local governments. Continuation of these bonds will not help needy States. It will work against the best interests of all States and all local governments. To this end I propose that the present bill be amended to add a new section to provide that, industrial developments bonds issued after August 1, shall be taxed in the same manner as all other corporate bonds.

Mr. GORE. Mr. President, will the Senator yield?

Mr. RIBICOFF. I am pleased to yield to the distinguished Senator from Tennessee.

Mr. GORE. Mr. President, the Senator has made a very able argument. I wonder if the Senator would address his attention to one additional untoward feature, and that is a great increase in the possibility of rich taxpayers having large incomes without tax liability.

Mr. RIBICOFF. I think the Senator is absolutely correct. That is what is happening. Today the exemption does not benefit a community; it benefits some of our largest corporate giants and taxpayers. They are using this exemption to build new plants which are operated in competition with those taxpayers who do not have the advantage, and as a consequence, they are receiving a tax boon.

Mr. GORE. Does not the provision afford individuals with the financial resources the opportunity to invest in securities really backed by the largest corporations in the country and yet receive complete tax exemption on the income derived therefrom?

Mr. RIBICOFF. The Senator is correct.

When one realizes the fantastic growth—$1.3 billion of these bonds were sold in 1967 and $2 billion were being prepared—it is apparent this is what is happening.

I have before me an advertisement which was published in the Washington Post recently. The headline is "Tax Free Income: 5.50 Percent." The advertisement reads in part:

> We're always glad to come to the aid of investors who find their tax bite too sharp for comfort. We suggest your consideration of the advantages of Tax-Exempt Municipal Bonds.
>
> We offer, subject to prior sale, Tax-Exempt Revenue Bonds secured by a major American corporation. The bonds are rated Baa by Moody, and have a 5.70% coupon, priced to yield approximately 5.50% *tax-free income.*

Mr. GORE. Mr. President, will the Senator yield further?

Mr. RIBICOFF. I yield.

Mr. GORE. Every person who works and draws a little wage on Friday afternoon must pay his share of the taxes. I hear speeches in this Chamber about the need for tax reform, and about the need for equity in carrying the burden of the Government. Yet Senators rise in this Chamber and in the name of the little people they support a measure which makes it possible for many people with incomes of a million dollars a year to pay no taxes at all.

Mr. RIBICOFF. There is no Senator who is better advised of the situation than the distinguished Senator from Tennessee, whose knowledge on the subject is second to none.

Mr. MONRONEY. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. MONRONEY. Mr. President, I would be a little more inclined to vote for the measure if I did not read about the giant stadiums, recreation facilities, trade shows, fairs, conventions, travel and similar transportation facilities, electric energy, gas, water, and sewer facilities, bonds for all of which are issued on a tax-exempt basis as far as Federal funds are concerned.

What is being stricken from the bill is not what the proponents of the measure say. There is being stricken a chance for small States and small communities, by a vote of the people, to issue revenue bonds. These revenue bonds do aid the municipality and the city and they sell at a lower interest rate than if they were taxable by the Federal Government.

However, the intelligent communities then, in building these structures, are able to secure an economic advantage. They gain a little bit perhaps, in that they are public bonds, by being able to borrow at two or three points cheaper than if the bonds were taxable.

Nobody is giving anything away to the giant corporation, any more than anything is given to the Washington Redskins if you build a stadium. That is a nice, private little organization that makes hundreds of thousands of dollars.

Mr. GORE. Mr. President, will the Senator yield?

Mr. MONRONEY. I yield.

Mr. GORE. Mr. President, I respectfully challenge the Senator's statement.

The practice does give tax exemption for the benefit of many of the largest corporations in the country.

Mr. MONRONEY. It does not give tax exemptions to the kind of bonds we are talking about here, and that would be denied also by the Treasury Department. I spent a great deal of time discussing the matter with officials of the Treasury Department.

These are exemptions on local bonds issued by governmental bodies. This tax exemption flows to them and gives them the lower rate of interest and, therefore, they can rent to American Airlines a little bit cheaper than if they had to pay the tax on it. They can bargain with a small manufacturer to come in on the basis that they will build a plant and charge them an economic rent based on their cost. This does help to get industry into the Senator's home State of Tennessee and would help to get other industries into other States which are having a hard time.

Mr. GORE. Mr. President, will the Senator from Oklahoma yield?

Mr. MONRONEY. I yield.

Mr. GORE. There may have been a time when a few States indulging in this practice had an advantage, but now that the practice has spread to 42 States and is indulged in by corporations as large as United States Steel, there is no longer an advantage. It is now a tax loophole.

Mr. MONRONEY. I will say to the distinguished Senator that we would have had no chance in Oklahoma. He would have had no chance in Tennessee, perhaps, in some of his counties, at least, ever to attract an industry unless he had this revenue bond law in practice to have

the bonds offered at a lower rate of interest than they otherwise would be. All States, even small States like Tennessee and Oklahoma, do have an equal opportunity to offer which we have not had before. The insurance companies in Connecticut are never interested in building factories or plants in Oklahoma. They are not interested in building housing out there. They are not interested in doing anything like that. Even the new types of housing that we are trying to encourage by private investment for low-income housing cannot be financed under this bill unless it is publicly operated—I repeat, publicly operated. This drives the housing program into public housing when all the sociologists I know of are trying to put it in the field of private housing. But we cannot possibly do it because the bill will prevent it.

The bill proposes to build a hangar on a fine airport to lease to Delta Airlines, say; but what are we going to do? Sell a piece of that airport to a factory that wants housing, to overhaul its plant and create employment? What are we going to do when we have a municipal facility that is of service to all the people, such as an airport? We cannot build a plant for them, or design it for them, because the municipality owns the land. They must issue the bonds, which are federally tax exempt, but there is nothing to exempt American Airlines, Braniff, or any others. There is nothing in a fine airport to permit here the issuing of revenue bonds for the building of an air terminal. This includes only the airport.

Mr. GORE. Mr. President, will the Senator from Oklahoma yield?

Mr. MONRONEY. I yield.

Mr. GORE. The Senator has asked two very good questions that deserve an answer. With respect to the advantage that his State or mine, or any other, might have had, the answer is that it is past, because now 42 States are practicing this tax gimmick, and if it remains the law I daresay that 50 States will soon be so doing. So we are all, then, even. It provides no advantage. It is available to all.

Now, second, the Senator asked——

Mr. MONRONEY. Mr. President, will the Senator from Tennessee yield at that point? Will the Senator let me respond to his first answer? I am very short of time for this colloquy. Or would the Senator from Connecticut [Mr. RIBICOFF] yield some time to the Senator from Tennessee?

Mr. RIBICOFF. Mr. President, I yield as much time to the Senator from Tennessee [Mr. GORE] as he may need.

The PRESIDING OFFICER. The Senator from Tennessee may proceed.

Mr. GORE. The Senator asks what I would do about Delta Airlines wanting to build a hangar, or American Airlines wanting to build an office building. I would let Delta and American build the hangar and the office building. I would not transfer to them the tax exemption that we provide to the counties and the towns which need that avenue of revenue in order to be able to build schools, hospitals, and other public facilities. What we are doing here is setting up the big private corporation with a tax exemption for its facilities, in competition with the small as well as the large community needs in our counties and States.

Mr. MONRONEY. Mr. President, on my time now—[laughter]—the Senator well knows that it is pretty hard to split up an airport and let a skyscraper be built——

The PRESIDING OFFICER. The time of the Senator from Oklahoma has expired.

Mr. MONRONEY. Mr. President, I yield myself 2 additional minutes.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized for 2 additional minutes.

Mr. MONRONEY (continuing). To be built on the airport or take half of an air terminal building or an aircargo building. That is only one of the many examples. But when we are worrying about tax exemptions, the bonds the Senator is talking about and the bonds the Senator from Connecticut is talking about for privately built, magnificent structures are generally built by those nice, beneficial trusts which enjoy complete tax exemption.

Now I shall be a little bit more serious about considering any possible tax favoritism to municipalities when the Finance Committee gets around to closing some of these great loopholes in the largest and richest families in this Nation which are buying up the bonds of United States Steel for their plants, because that is tax exempt, as the Senator well knows. Small States are not asking for special privilege. We are asking for equality. We do not believe we should be building up ghettos in the North continuously, which the good Senator from Connecticut has said would cost a trillion dollars to correct, and not have a chance to stop decentralization, to some extent, by offering an opportunity for industry to diversify into some of the smaller communities. We will be on an equal status if we have an opportunity to finance development by people voting the tax and the bonds on themselves. We will take our chance with the quality of our labor any time, any place, anywhere, to meet you in Connecticut, to meet you in New York, to meet you in California on these things. But we do expect an equal opportunity. You are trying to give a death sentence to this without even having a trial. We have not had it before the committee. The bill has been around all year. There have been no hearings yet to support the Treasury which by its own admission said that it did not know what it was talking about when it issued the regulations in the first place.

Mr. President, I reserve the remainder of my time.

Now, Mr. President, I am happy to yield to my distinguished colleague [Mr. HARRIS].

Mr. HARRIS. Mr. President, as I pointed out Tuesday during debate here, the amendment to continue the tax-exempt method of industrial bond financing is an issue here as it was in the Finnance committee, of which I am a member, where we previously considered the matter, is not just a question of whether tax exempt bonds for these purposes are good or bad, although I personally feel that they have definitely made their contribution to our economy and to the economy of States such as Oklahoma. But, as has been pointed out today, and earlier by my distinguished colleague from Oklahoma [Mr. MONRONEY], also involved is whether the executive branch alone should be allowed to change what has been a long-standing rule without action by the legislative branch.

I feel that the discontinuance of the present practice of allowing tax exemptions on interest received on industrial bonds in certain cases should come only after due consideration by the appropriate congressional committees—the House Committee on Ways and Means and the Senate Committee on Finance—after formal hearings and deliberate action by Congress.

I cannot say whether financing by industrial tax-free bonds has been abused, as has been said, but I do not think anybody else can say exactly the kind of cases in which that has been so, or how the law should be changed.

Furthermore, if this widely used method of industrial development financing, particularly in areas where so many poor people live, is to be abandoned, it ought only to be abandoned after the appropriate committees of Congress have had an opportunity to examine into alternatives, such as the one now pending before the Committee on Finance for tax incentives for the recruitment, training, and employment of poor people by private industries, and tax incentives for the location and expansion of job-creating industries where poor people are located.

If that is to be done, it ought to be done in a more orderly way, through hearings held by the appropriate committees to consider the present practice and any abuses which have occurred, to consider alternatives, and to afford an opportunity to explain the good uses to which the present law has been put. I hope the pending amendment to alter the committee position, which would prohibit removal of the tax-exempt status of these bonds without legislative approval, will not be agreed to.

Mr. MURPHY. Mr. President, I am pleased to speak as a coauthor of the amendment. I have listened to the arguments in opposition to it today and I think that sometimes, in the emotional state into which we sometimes move when looking after the individual interests of our States, we lose sight of the overall national picture.

The use of "municipal industrial financing" and "tax-free corporate financing" has increased rapidly in recent years. We are told that their use has increased "a hundredfold since the early 1950's, when the annual totals of these offerings rarely exceeded $10 million, to an estimated $1 billion in 1967."

Furthermore, some persons predict that the total annual volume may reach several billion dollars in the next few years.

The growing use of tax-free bonds to finance the construction of industrial facilities for occupancy by private corporations is further evidenced by comparing the percentage of municipal industrial bonds with the total legitimate local public purpose tax-exempt bonds.

In 1963, for example, municipal industrial bonds amounted to 1 percent of total local and State government tax-

exempt financing; by 1966, the percentage of these issues had risen to 5 percent; and in a 1-month period in late 1967, these issues reached an alarming 13 percent.

As has been stated here, whereas it was taken advantage of by only a few States in the beginning, it is now spreading to nearly all of the 50 States, so that any advantage at the outset is now no longer an advantage. All that will happen eventually is that all of this type of financing will be on a tax-free basis. Everybody will take advantage of it. I am surprised that the great State of Oklahoma, with all its gas and oil resources, would need such tax gimmicks to attract people to build airports there. I have been at the magnificent airports in Oklahoma. I have traveled in that State. I do not think for a minute that Oklahoma will suffer in the slightest by any change hopefully made here today.

Government officials—State, county, and city—State and local chambers of commerce, bankers, and concerned taxpayers of the State of California have without exception expressed to me their opposition to what they properly regard as a tax abuse. Why is there such strong opposition, Mr. President, to the use of these tax-exempt municipal industrial bonds?

Tax-free municipal industrial bonds are costing the people of California millions of dollars in interest on the legitimate truly public purpose bonds, such as schools, roads, water, and sewer. For example, the State of California and its subdivisions last year issued $3.3 billion in bonds with an average life of 15 or 20 years to finance legitimate governmental functions. Financial experts have estimated that the interest rate on these bonds was between one-fourth and one-half of 1 percent higher than it would have been if these legitimate governmental issues had not had to compete for buyers in the same market as tax-exempt industrial bonds. Thus, it has been estimated that the mere existence of industrial development bonds on the market last year cost the taxpayer of California between $124 million and $248 million in extra taxes in order to make sure that legitimate municipal bonds, such as for water, sewage, schools, were competitive at the marketplace.

This, Mr. President, is the amount of additional interest that the State and local governments of California will have to pay over the average life of the legitimate bonds that were issued in 1967.

These bonds, which were developed in 1936 as a means to attract industry to rural areas of low income, have spread so that the number of states authorizing their issuance has increased from thirteen in 1960 to 35 in 1966, and is now 40.

Thus, Mr. President, whatever reason existed initially for allowing municipal industrial bonds a tax-exempt status no longer exists, for as one can see, if the trend continues, nearly all the states will be authorizing the use of these tax-exempt bonds.

Therefore, when the reason for the "tax-exempt status" no longer exists and when the use of tax-exempt municipal bonds threatens to impair the tax-exempt status of legitimate public purpose municipal bonds, the exemption should be eliminated.

I am pleased to be a cosponsor with my distinguished colleague the Senator from Connecticut. The adoption of this amendment will correct a tax abuse and save the American taxpayers an estimated $50 million. I urge its adoption.

I ask unanimous consent to have printed in the RECORD a news release from the California State Chamber of Commerce, dated February 1, 1968, and an editorial from the New York Times of March 8, 1968, entitled "No Business for Cities."

There being no objection, the news release and editorial were ordered to be printed in the RECORD, as follows:

[From the California State Chamber of Commerce, Feb. 1, 1968]

STATE CHAMBER REAFFIRMS OPPOSITION TO TAX EXEMPT INDUSTRIAL BONDS

The California State Chamber of Commerce today (Thursday) reaffirmed its opposition to tax exempt industrial bonds used to finance factories for companies and commended the U.S. Treasury Department's decision to support pending legislation opposing such bond use.

The Chamber also was critical of the so-called municipal arbitrage bonds whereby state and local governments can profit by selling such bonds then reinvesting the proceeds in federal bonds and other securities with higher interest yields.

"Abuses of the tax exempt municipal bonds and the continuing widespread use of them in 41 states not only deprives the federal government tax revenues but can pose a serious threat to the legitimate tax exempt bond market," said Ernest J. Loebbecke, Chamber vice president and chairman of its Statewide Economic Development Committee.

He pointed out that since 1951 when approximately $7 million in tax exempt industrial bonds were sold, sales have skyrocketed to $1,319,597,000 in 1967, and is still growing.

"Whatever justification may have existed in the early 1950's for use of such bonds in economically depressed areas does not apply today," Loebbecke said. "The competitive advantages have been largely nullified by the widespread resort to such industry inducement practices. If their use continues to multiply it could create a costly competitive situation among states and communities vieing to see which could offer the largest inducements. In the long run all could be hurt," Loebbecke declared.

The Chamber's position will be communicated to the California legislative delegation, to Secretary of the Treasury Henry H. Fowler, and Representative John W. Byrnes of Wisconsin, ranking Republican of the Ways and Means Committee who heads a bi-partisan group seeking to remove the tax exempt privileges for municipal bonds used to finance private industrial construction.

[From the New York (N.Y.) Wall Street Journal, Mar. 8, 1968]

NO BUSINESS FOR CITIES

Since Congress seems reluctant to end the tax-exempt status of industrial revenue bonds, the Treasury intends to try to achieve the same end through administrative action. In the circumstances, that may be a good idea.

For a long time communities have been trying to attract new industry by offering various financial incentives, and in recent years an increasingly popular device has been the industrial-revenue bond. Municipalities sold more than $1 billion of such securities last year, up from only $70 million in 1960.

Money raised with the securities is used to build factories for incoming companies, whose rental payments then go to pay off the bonds. The companies like the idea because the cities can raise the construction funds more cheaply than the firms could if they had to market their own securities.

The prime reason for the lower financing costs, of course, is that income from municipal bonds is exempt from Federal tax; the securities thus are especially attractive to well-to-do investors. The Treasury is not alone in questioning whether this setup is desirable.

AFL–CIO officials charge that the system is a "vicious" way of moving jobs from one place to another. Many municipal-securities firms are fearful that the swift expansion of industrial-revenue financing will make it more difficult for communities to find takers for bonds used to build schools, roads and other more traditional facilities. Criticism of the factory-building schemes, in fact, could eventually lead to elimination of the tax-exempt privilege for all municipal securities.

The best way out would be for the cities themselves to refrain; surely none of them wants to destroy the market for their conventional securities. Aside from that, industrial real estate is a field in which few municipalities can claim expertise, and the losses in future years could be considerable. Companies attracted only, or even mainly, by low rental costs aren't always the soundest providers of long-term jobs, since some may be only too eager to move on if another community makes a better offer.

Naturally enough, the Treasury objects chiefly to the loss of Federal revenue. Its officials argue, and we think persuasively, that the revenue bonds—now authorized in 41 states—are in reality obligations of the business firms involved because their rentals pay off the securities. The Treasury has been pushing for Congressional action, but the lawmakers so far have been unwilling to offend local officials enamored of the practice.

For the good of everyone concerned, the practice should be eliminated. If the cities or Congressmen don't see it that way soon, the Treasury is both right and reasonable to move on its own.

Mr. MONRONEY. Mr. President, I yield such time as he may require to the distinguished Senator from Wyoming [Mr. HANSEN].

Mr. HANSEN. Mr. President, I rise in opposition to this amendment. I would like to point out that the State of Wyoming, since 1960, has not gained in population; it has lost in population. The sale of industrial tax-exempt bonds is before our people. They are interested in the continuance of the tax-exempt status for industrial bonds. If they are able to have this tax-exempt status continued, they will be able better to sell the bonds and they will be able to hold some of the people who have been leaving Wyoming, along with other rural-oriented States, and thereby stop adding to the problems of the cities.

I think I know something about the problems of small municipalities and counties that are faced with failure to hold people. It comes about because we do not have much business going on there. There are not enough jobs to employ all of our young workers. We have many natural resources in Wyoming, and we propose to develop them. New businesses made possible through the sale of this type of bond will create jobs; workers now leaving Wyoming will be able to find work in the State.

It has been estimated by the investment bankers of America that the total impact, cost-wise, which the tax-exempt status on industrial development bonds has had on the municipal bond market generally has been an increase in the rate of perhaps between one-fourth and one-half percent. But let us think for a moment about how we pay these bonds off. Do we pay them off with a tax on real estate or on jobs? The only way they can be paid off is by putting people to work, by creating payrolls, by creating jobs. This is precisely why the State of Wyoming is deeply concerned.

I happen to come from a county which is 97-percent federally owned. The only way we can pay taxes is by putting our people to work. If these bonds become taxable and we do not sell them, and the new plants are not built, we will continue to add to the problems of the cities by being unable to generate the type of industries in Wyoming that are essential to hold our young people there.

I hope the amendment offered by the distinguished Senator from Connecticut will be rejected.

The PRESIDING OFFICER. Who yields time?

Mr. MONRONEY. Mr. President, may I ask how much time is remaining?

The PRESIDING OFFICER. The Senator from Connecticut has 11 minutes and the Senator from Oklahoma has 18 minutes.

Mr. MONRONEY. I yield 4 minutes to the Senator from Massachusetts [Mr. BROOKE].

Mr. BROOKE. Mr. President, I agree in principle with the amendment proposed by the junior Senator from Connecticut [Mr. RIBICOFF]. However, I question the cutoff date proposed in his amendment.

I recognize the fact that industrial development bonds have in some cases adversely affected municipal bonding efforts. These bonds have provided a glut on the bond market; they have resulted in higher interest rates for municipalities which borrow money for public purposes. They have generally complicated and made more difficult the problems of municipal finance.

I believe the long-term economic arguments are clearly in favor of the principle incorporated in this amendment. With virtually every State in the Union now permitting such practices, the competitive advantages that some States previously enjoyed have now been dissipated. In general the impact of such bonds on plant location and expansion seems to me to be declining. And there are serious arguments against the use of the tax-exempt privileges of public institutions to further the expansion of private industrial complexes.

But both the previous Treasury Department ruling and the proposed amendment would place an arbitrary and, I believe, unreasonable cutoff date on industrial development bonding.

Proponents of the amendment argue that 60 or 90 days is more than enough for the companies and communities concerned to develop plans and issue bonds. I cannot agree. The Governor of the Commonwealth of Massachusetts does not agree; nor does the Massachusetts Department of Commerce or the State AFL–CIO. Several more months of planning will be required before these programs can be put in final form and realistic cost estimates obtained. Sufficient time should be allowed for the parties involved to negotiate their agreements and determine their costs.

Massachusetts refrained from the issuance of industrial development bonds for many years, and suffered serious economic injury because of this fact. Belatedly the State approved the practice, but we have only recently begun to make use of this device.

There are at least 10 major projects involving such bonds which are now underway or are being discussed in my own State of Massachusetts. I am sure there are more in other States as well. The proposed projects will result in millions of dollars of investment for the State; they will provide thousands of job opportunities.

As a matter of simple justice, I feel the present plans for a number of bond issues of this character should be allowed time to mature. They should not be disrupted by hasty action by Congress, any more than by the Internal Revenue Service. Indeed, while I would support an amendment to terminate the tax-exempt status of such bonds in early or mid-1969, I think the entire matter might better be handled through the normal processes of committee study and full debate. Neither of those processes have been followed in the present instance.

In summary, I am certainly in favor of an orderly transition away from industrial development bonding over a reasonable period of time. But I do not believe this amendment with its August 1 cutoff date offers such a transition.

Mr. President, I urge that the pending amendment be rejected.

Mr. President, might I ask if the distinguished Senator from Connecticut would be amenable to a change in the cutoff date as set forth in his proposed amendment?

Mr. RIBICOFF. Mr. President, if I had assurance of the change of enough votes, I might. Can the Senator from Massachusetts speak for any other Senators but himself?

Mr. BROOKE. Yes.

Mr. RIBICOFF. If the Senator can assure me that there would be enough votes to carry the day, maybe we can do something.

The PRESIDING OFFICER. The Senator's time has expired. Who yields time?

Mr. RIBICOFF. I am pleased to yield the Senator such time as he may require.

Mr. BROOKE. I am sure there are other Senators who feel the same way, but I should like to ask the Senator to consider amending his amendment on the merits and justice of the issue alone. The date set forth in the amendment is August 1. That leaves precious little time for States to make the transition involved.

Mr. RIBICOFF. What does the Senator from Massachusetts have in mind as a fairer cutoff date?

Mr. BROOKE. I would suggest most respectfully that a cutoff date of January 1, 1969, would be fair. I said in my statement the middle of 1969, but the end of the year 1968 would seem to me to be a perfectly reasonable time to terminate such transactions.

Mr. RIBICOFF. Mr. President, I ask that my amendment be modified to provide for a cutoff date as of January 1, 1969.

The PRESIDING OFFICER. The amendment is so modified.

Mr. BROOKE. I thank the Senator.

Mr. RIBICOFF. I yield 7 minutes to the distinguished Senator from Wisconsin.

Mr. PROXMIRE. Mr. President, I should like to stress, to begin with, the way in which industrial revenue bonds have snowballed. I think few of us realize how rapidly they have pushed ahead and how much they are displacing the regular municipal bonds.

Mr. President, I support wholeheartedly the amendment offered by the distinguished Senator from Connecticut [Mr. RIBICOFF], which would terminte the tax-exempt status of industrial revenue bonds. The method of industrial revenue bond financing was initiated many years ago in the State of Mississippi. At that time, it was regarded as a method of self-help financing, whereby small communities could spur their rate of economic growth by attracting industry.

However, what was started out as a laudable objective has turned into a multimillion-dollar special interest tax subsidy. The growth of industrial revenue bonds has been truly amazing. In 1951, for example, only $7 million in industrial revenue bonds were issued. By 1961, the figure had grown tenfold to over $70 million. Last year the number of revenue bonds issues reached the gigantic total of $1.3 billion. The investment bankers estimate that this year, 1968, the total might go as high as $2.5 billion. Moreover, the projections, assuming that industrial revenue bonds grow at their same rate, indicate that by 1970 revenue bond issues may reach $8 or $9 billion a year. In terms of outstanding issues, revenue bonds could reach well over $20 billion by the end of the 1970's.

Mr. GORE. Mr. President, will the Senator yield?

Mr. PROXMIRE. I am happy to yield to the Senator from Tennessee.

Mr. GORE. At the same time that we are obtaining this much tax-exempt income, we are proposing to add it to a bill increasing every working man's tax 10 percent.

Mr. PROXMIRE. The Senator makes a good point, because this is a tax increase bill.

Mr. MONRONEY. Mr. President, will the Senator yield to me?

Mr. PROXMIRE. I yield.

Mr. MONRONEY. I shall speak on my time.

The Senator from Wisconsin is not contending that this is Federal money, is he? This is to avoid spending Federal money to build public housing, to build public facilities. This is all private investment in municipal securities. In this way, it does not add to, but rather detracts from, the need for Federal spending.

Mr. PROXMIRE. Mr. President, this is Federal money, and I shall make that clear in a minute, because it exempts the interest that is paid from Federal taxation. Of course it is Federal money.

Last December the Joint Economic Committee held hearings on the financing problems of our cities. One of the most serious problems which was revealed in the course of these hearings is the rapid growth of industrial revenue bonds. The huge size of industrial revenue bonds financing has played havoc with the municipal bond market. A special committee of the Investment Bankers Association estimated that the sudden and spectacular increase in industrial revenue bond finance had forced up municipal bond rates for public issues approximately one quarter of a percentage point.

Now, Mr. President, one quarter of a percentage point may seem small. However, in terms of the $12 billion of ordinary municipal bonds outstanding, the effect of a quarter percent increase is to raise the cost of borrowing by municipalities by $200 million. This, I might add, is the estimate of the Investment Bankers Association which is most familiar with the situation.

Mr. President, this is truly a shocking figure. Industrial revenue bond subsidies are costing our cities $200 million a year in higher borrowing costs. At a time when our cities are extremely hard pressed for revenue, it is unthinkable that Congress would want to continue this flagrant subsidy which is costing our cities $200 million a year. Because of the war in Vietnam, we may not be able to appropriate all of the funds we would like to see appropriated to solve our urban problems. But, Mr. President, at least we can eliminate this gigantic $200 million tax upon our cities which disappears into the coffers of large, wealthy corporations.

Unless we act, the situation will get much worse and not better. The total volume of municipal bonds of all types are expected to double by 1975. Moreover, the increase in revenue bonds will grow at an even faster rate. Unless we act to end this unconscionable subsidy, it will soon be costing our cities over a billion dollars a year in higher interest charges.

Mr. President, I am sure no Member of Congress wants to tax our cities a billion dollars for the benefit of large, wealthy corporations and wealthy investors who buy these bonds. But, unless we approve the amendment offered by the distinguished Senator from Connecticut this is exactly what we will do. A vote against the amendment is a vote to tax our cities by $1 billion in order to help wealthy corporations and investors.

Now, Mr. President, I should like to make this point: Not only does the industrial revenue bond tax loophole cost our cities $200 million a year, it also costs the Federal Government money. According to the Treasury Department, the average tax bracket of investors in tax exempt municipal securities is 42 percent. This means that for every dollar of interest paid on tax-exempt bonds the Treasury losses 42 cents. The present outstanding volume of revenue bonds is nearly $3 billion. If these bonds were issued as ordinary corporate securities rather than tax-exempt municipals, the interest would average approximately 6½ percent or nearly $200 million a year. The income accruing to the Treasury Department would, therefore, come to 42 percent of $200 million or approximately $80 million a year. The entire $80 million is lost to the Treasury because of the industry revenue bond tax gimmick. Eighty million dollars of the hard-earned money of our taxpayers are disappearing into the pockets of wealthy investors. Every taxpayer in the country is supporting this dubious tax bonanza to the tune of $80 million a year.

Once again, the problem will get worse and not better unless we act. If revenue bonds grow at their present rate, by 1970 the total volume of outstanding issues will reach $20 billion or roughly six times the present outstanding volume. This means the tax loss to the Treasury will increase six times, and will reach the gigantic sum of $480 million. I wonder how we in Congress could consciously vote to retain a special tax gimmick which diverts $480 million from the pockets of the taxpayers to the pockets of the wealthy investors.

Mr. President, at the heart of the amendment is the statement that this is needed to develop some areas of States that need industrial development. One of the outstanding experts in this matter is the Senator from South Carolina [Mr. HOLLINGS]. He has received awards for doing the best job of any Governor in the country in industrial development, when he was Governor, so recently, of the State of South Carolina.

Mr. President, I think it is particularly appropriate to note that the distinguished Senator from South Carolina [Mr. HOLLINGS] is strongly supporting the measure to do away with the tax-exempt status of industrial revenue bonds. Senator HOLLINGS also was a most distinguished Governor of the State of South Carolina and, as Governor, he organized and implemented one of the most effective State economic development programs in the country. During the period of 1959 to 1963, when he was Governor, the State of South Carolina was able to obtain $1 billion in private investment resulting in the creation of 100,000 jobs. All of this was done without the industrial revenue bond gimmick. Also, Hon. Luther Hodges, a former Governor of North Carolina and Secretary of Commerce, played a most important role in revitalizing the economy of North Carolina. More economic growth was started in North Carolina under the leadership of Governor Hodges than in its previous history. Until recently, North Carolina did not have to depend upon industrial revenue bond financing.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. RIBICOFF. Mr. President, I yield 1 additional minute to the Senator from Wisconsin.

The PRESIDING OFFICER. The Senator from Wisconsin is recognized for 1 additional minute.

Mr. PROXMIRE. It is possible, Mr. President, for States and municipalities to have a vigorous and effective economic development program without the crutch of industrial revenue bond financing. The Congress, therefore, cannot use this argument for an excuse for continuing the tax-exempt status of industrial revenue bonds. It is simply not borne out by the facts.

Mr. President, there is simply no economic, social, moral, or political justification for continuing the tax-exempt status of industrial revenue bonds. It is a flagrant loophole. It is an unconscionable subsidy. It does not help those for whom it was originally intended to help. It benefits the rich and taxes the poor. I hope the Congress will vote today to eliminate this unjustifiable subsidy.

Mr. President, I ask unanimous consent that an excellent letter from Prof. Lester Chandler of Princeton opposing this industrial revenue bond loophole be printed in the RECORD at this point.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

A TAXPAYER'S MATTER?

This is the first time that this taxpayer has complained about being taxed more heavily so that the government can subsidize others. I am glad to have some of my tax dollars used to help the unfortunate and needy. I don't even complain when my money is used to help shaky business firms that don't have access to the capital markets and might otherwise fail. I can even see the point of using my money to subsidize firms to industrialize some of the backward areas in Arkansas, Alabama or Mississippi.

However, my patience is now being strained. Could you tell me why I should pay more taxes to enable some of our leading corporations to finance themselves cheaply through tax-exempt bonds issued by cooperating municipalities and public authorities which assume no responsibility whatever for either principal or interest? Total issues of some $200 million of these bonds were recently announced on one day. They were for the benefit of such worthy firms as U.S. Steel, Spring Mills Inc., Ashland Oil and Refining Co., Chicago and Northwestern Railway, Courts & Co., Reliance Electric and Engineering Co., Iowa Beef Packers, Inc., Sweetheart Plastics Inc., American Automatic Vending Corp., and Eastern Stainless Steel. Some of the funds will indeed be used to build plants in underdeveloped states. But are Delaware, Illinois, Ohio, Michigan, Nebraska and Iowa in this category?

These are indeed worthy firms, and their stockholders are undoubtedly worthy people. But why should we taxpayers subsidize them? Have they demonstrated need or some special merit? Have they promised to reimburse taxpayers by lowering the prices of their products? In this process, are we getting more efficient locations of industries, or less efficient?

Perhaps you or your readers can provide information which will make this form of subsidy seem reasonable. In the meantime, I can only say that the whole process is cockeyed, if not scandalous, and those members of Congress who want to perpetuate it must not have thought the thing through.

LESTER V. CHANDLER.

PRINCETON, N.J.

(The writer is chairman of the Department of Economics, Princeton University.)

Mr. MONRONEY. Mr. President, I yield 1 minutes to the distinguished Senator from Wyoming.

The PRESIDING OFFICER. The Senator from Wyoming is recognized for 1 minute.

Mr. HANSEN. Mr. President, since I have been a Member of the Senate, we

have devoted a lot of time on how we can put people to work.

I suggest that the pending measure gets right down to that purpose. If we continue to offer the tax-exempt status on industrial development bonds, we will create jobs. We will create payrolls and take people off welfare and put them to work. They will become tax contributors and not tax consumers.

I suggest that, indeed, Federal money is involved here, and it will be Federal money that will be saved because people will be working. They will be on the job. They will have payrolls. They will contribute to the support of the Federal Government and not have their hand out every week or every month to get a welfare check.

That is exactly the purpose of the pending amendment.

Mr. MONRONEY. Mr. President, I yield 2 minutes to the distinguished Senator from Mississippi.

The PRESIDING OFFICER. The Senator from Mississippi is recognized for 2 minutes.

Mr. STENNIS. Mr. President, I thank the Senator for yielding to me.

Mr. President, I am totally impersonal in this statement, but the amendment comes from a strange source. The Senator from Connecticut is a man of fine understanding and great compassion. He comes from an area that is an interesting and great part of the country. The Senator has a subcommittee that is engaged in working on the rebuilding of the cities. That committee has done outstanding work. The Senator is the only one I have ever heard mention a figure of a Federal program the costing sum of $300 billion to rebuild the cities. A great part of that money is to be Federal tax money.

We have these experiments going on with reference to the building with Federal money of high-speed trains to be operated from Washington into the New England States. That is a great and deserving area of the Nation.

We have these other Federal dollars by the billions that are going into welfare. Still, when a little rural community in my area of the country prepares to do something for itself, issues bonds, and puts a tax burden on its own back, their proposal is denounced here and it is claimed to be a subsidy and to be unfair and immoral.

I am surprised that the Senator from Wisconsin, a man of great understand, would label such a transaction as being immoral.

We want to get a genuine congressional hearing here that will measure any abuses of the program that may exist. And there may be some. We want to get a measurement of the equities involved in the situation and try to get a firm, strong policy that is fair to everyone. However, do not say that the program does not do some good. Do not say that there is equality now because all 50 States do not have it.

In my area of the country, and in other rural areas, these revenue bonds are used as a means for the communities to pull themselves up by their own bootstraps so that they may be able to compete for industry with other areas of the country.

I am amazed that the Senator overlooked that part of the picture. I am willing to have adjustments.

The fine senior Senator from Tennessee [Mr. GORE], mentioned that some corporations would benefit from this measure.

If it is unfair, it ought to be stopped. I I tell the Senator now that in the section of the country where I live, we are inducing now, through a bond issue like this, a native-born son who has been away for many years to come back and buy the patent rights on a certain type of agricultural plow for pastures and like lands. Through the use of these bonds they propose to erect a factory there in the county in which he was born. He will use his ingenuity and his own resources—and he is a man of some means—to manufacture these products, not to sell them in Connecticut, Tennessee, or anywhere else, but largely for local consumption, there and in west Alabama and relatively nearby areas.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. MONRONEY. Mr. President, I yield 1 additional minute to the Senator from Mississippi.

The PRESIDING OFFICER. The Senator from Mississippi is recognized for 1 additional minute.

Mr. STENNIS. Mr. President, that is the only way in which that little community can get anything approaching equality.

To come in now with a hatchet and cut this tax exemption off with no hearings and no adjustment of equities, but just to let the axe fall, is unfair.

I wish that all Senators were present to hear the actual cases involving communities that need this exemption to enable them to help themselves.

I do not blame any individual for how he votes. However, to denounce this proposal as being inequitous and something unholy and just for the wealthy people of the country does not correctly sum up the matter.

There is another side of the picture. A great part of the good that this program has done has been done for the small communities, villages, small towns, and counties that vote to place these bonds on themselves and vote the tax money with which to pay for them. And they do pay them off.

It is in the little industrial areas that have many people who are thrown out of work on the farm that the men can be employed on these projects.

I thank the Senator for yielding.

Mr. MONRONEY. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. MONRONEY. How much time remains?

The PRESIDING OFFICER. The Senator from Connecticut has 2 minutes remaining and the Senator from Oklahoma has 7 minutes remaining.

Mr. MONRONEY. Mr. President, I yield 4 minutes to my distinguished colleague, the Senator from Nebraska.

The PRESIDING OFFICER. The Senator from Nebraska is recognized for 4 minutes.

Mr. CURTIS. Mr. President, we are asked here to tax bonds that have been untaxable for more than 30 years. We are asked to do this with a mere half hour of debate. The proposal has never been heard by any committee. The amendment is so drawn that the author is willing to change most any section in return for one vote.

Mr. President, I wish we could have committee hearings on this proposal. Hearings would bring out the facts. In the first place, the payment of interest by a corporation is a tax deduction. If the corporation borrows at a lower rate because of the pending proposal, they pay less taxes.

Who buys the corporate bonds? Over 77 percent are bought by nontaxable entities: unions, foundations, pension funds, and other nontaxable entities.

On the basis of the $17,000,000 of industrial bonds sold in 1967, if we take into consideration the fact that the lowering of the interest rate lessened the corporate tax, we find that there was a net gain to the Treasury by reason of these bonds of $720,000. Time will not permit me to put in all the figures.

Some Senators would prevent a locality in Nebraska or any other State from using its credit to build an industry facility that would provide employment, yet, without hesitation, they vote out of the Public Treasury money to create a job enterprise through foreign aid, through the Federal Government's Economic Development Administration in the Department of Commerce, through the Small Business Administration, and otherwise.

If we are going to attack the use of government to promote jobs, let us do it across the board and get the Federal Government out of it. Let us not prevent these localities from helping themselves.

I say that this matter should go before a committee. For example, section (v) 5 of this amendment exempts from its operation any enterprise that is owned and run by the governmental subdivision.

In other words, the distinguished Senator from Connecticut strikes out the exemption if the facility is used by private enterprise. But if it goes all the way into socialism, whether it be housing, a packing plant, a machine factory, or anything else, if the governmental subdivision keeps the title and operates it, it is not included in the Ribicoff amendment.

Mr. President, the Senator spoke on this matter the other day; and while it is true that the issue was whether or not it should be done by legislation or by Treasury ruling, nevertheless, there was knowledge of what was involved. What is proposed today is a very, very slight difference from what we had before. The other day we were asked to approve or disapprove a ruling of the Treasury about which Congress had never been consulted. Today we are asked to approve or disapprove an amendment offered by the Senator from Connecticut which has never been printed, on which there never has been a hearing before a committee, and no one knows what it is. But we do know that it is very poorly drawn and that if the local subdivisions follow a socialistic route and operate their own enterprise, they are not covered.

The amendment of the distinguished Senator from Connecticut should be re-

jected, and this matter should be handled by a committee.

Mr. RIBICOFF. Mr. President, I yield 30 seconds to the distinguished Senator from Michigan.

Mr. GRIFFIN. Mr. President, I rise to indicate my support for the pending amendment.

Under the existing revenue code, interest which accrues on municipal bonds is exempt from Federal taxation. This exemption is justified, and it should be continued, to the extent that such bonds are issued for public purposes—such as the construction of schools, roads, sewer systems, hospitals, and the like.

However, I am convinced and have long contended that, in allowing this tax exemption, Congress did not contemplate, and did not intend, that tax-free municipal bonds would be used to finance the construction of private facilities. In my view, when public credit is used for private purposes, the justification for the tax exemption no longer exists.

This gaping loophole in our Internal Revenue Code should be closed.

Earlier this week, I voted with the Finance Committee in support of the fundamental proposition that this is a matter which should be resolved by legislation enacted in Congress rather than by administrative fiat. However, now the issue is squarely before the Senate, and I believe we should take the action which is called for by logic and reason.

Mr. President, in recent years the use of tax-exempt municipal bonds to finance private business has spread across our Nation like wildfire. In 1951, only two States, Mississippi and Kentucky, used such bonds to finance facilities for private enterprises. However, by the end of 1967, the number of States using municipal credit for such purposes had increased to more than 40. Between 1960 and 1967, the total of new issues of industrial bonds grew from $70 million to about $1.4 billion.

In the absence of any Federal legislation to prohibit or discourage the use of municipal bonds for private purposes—legislation which I sponsored and advocated in the 87th, 88th, and 90th Congresses while a Member of the House of Representatives—numerous States, including Michigan, have had no realistic alternative but to embark on the same course in an effort to check the pirating of their industry.

Mr. President, I have long been concerned about the problems generated by this tax loophole. My interest in the subject was stirred in 1961 when the Borg-Warner Corp., moved its Norge operations from Muskegon, Mich., in my congressional district, to Fort Smith, Ark. Norge moved into a new plant in Arkansas which was financed through the issuance of tax-free municipal bonds.

Mr. President, in 1961, the constitution of the State of Michigan prohibited municipalities in our State from using public credit for private purposes. As a result, Michigan was at a distinct disadvantage vis-a-vis other States, such as Arkansas, in the competition to attract industry.

In the light of these circumstances, I made a special appearance on December 7, 1961, before the Committee on Finance and Taxation of the Michigan Constitutional Convention, which was then in session for the purpose of revising our State's constitution.

In the statement presented, I analyzed and emphasized the problems inherent in using tax-exempt municipal bonds for private purposes. I spoke out strongly then in support of Federal legislation to close this loophole in the Federal tax law. However, under the circumstances, I felt there was no real choice but to urge the delegates at that constitutional convention to grant our legislature sufficient flexibility under the new constitution so legislation could be adopted, enabling Michigan to "fight fire with fire" by taking advantage of the same loophole.

Subsequently, Michigan approved a new constitution, and Governor Romney, on May 8, 1963, signed Public Act 62, which authorized municipalities in our State to issue revenue bonds as a means of financing acquisition of industrial facilities and leasing them to industrial firms. On August 24, 1966, the Michigan Supreme Court, in *City of Gaylord* v. *Gladys Beckett* (378 Mich. 273), upheld the validity of the 1963 act under the new State constitution.

Since then, three major industrial projects in Michigan have been financed through the use of tax-exempt bonds. The total cost of these projects exceeds $55 million. I am aware that five other projects are now pending in Michigan totaling more than $80 million, and that a number of other proposals are in various stages of consideration.

I realize that some hardship would result from an abrupt cutoff of the use of this method of financing. I note that the Ribicoff amendment, as modified, would not take effect until January 1, 1969. I am hopeful that, by providing a cutoff date 9 months in the future, most projects now in the planning stages will not be affected.

Mr. President, the continued use of tax-exempt municipal bonds for private purposes—which was never intended by Congress—is interfering with the ability of public bodies to market bonds for legitimate and necessary public purposes.

The time has come for Congress to take action which is long overdue. I urge the Senate to approve the pending amendment.

Mr. President, I ask unanimous consent that the statement, to which I made reference, be reprinted at this point in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

STATEMENT OF HON. ROBERT P. GRIFFIN, U.S. REPRESENTATIVE, NINTH MICHIGAN DISTRICT, BEFORE COMMITTEE ON FINANCE AND TAXATION OF THE MICHIGAN CONSTITUTIONAL CONVENTION, DECEMBER 7, 1961

Mr. Chairman and members of the Committee. I appear here today to focus attention upon a serious situation which is severely handicapping our State in its efforts to attract new industry and to encourage existing industry to expand within Michigan.

In a way, the problem of which I speak grows out of the federal tax laws with which I am concerned as a Representative in the United States Congress. But the situation also involves the Constitution and laws of our State.

I refer to the fact that in 15 of the other states of the Union tax-exempt municipal bonds are now being used, on an ever increasing scale, to finance industrial development. As this Committee knows, under Article X, Section 12 of our present Constitution, the State of Michigan, its municipalities and other political subdivisions are prohibited from using public credit for private, non-public purposes.

The seriousness of the situation which confronts our State was emphasized this year in my Congressional district when the Borg-Warner Corporation moved its Norge Division operations at Muskegon (where 1800 people were employed) to a new plant in Greenwood, near Fort Smith, Arkansas.

Under enabling legislation enacted in Arkansas in 1958, Greenwood had issued $7.5 million of municipal revenue bonds to finance the construction of a huge new modern industrial plant. Under present federal laws, the interest on municipal bonds is exempt from taxation. As a result of this special tax immunity, municipalities are in a position to issue bonds and borrow money at very low interest rates—rates which are generally lower than that available to the Federal government itself because, since 1941, interest on federal bonds has been taxable.

Consider for a moment the tempting position which Greenwood, Arkansas, was able to hold out to lure the Norge plant away from the State of Michigan. After using its public credit to borrow $7.5 million at low interest rates, the municipality of Greenwood then proceeded to construct a brand new plant, holding title to the land and building in its name. Under such an arrangement, as you have already surmised, the plant is then leased by the municipality to the company which can deduct its rental payments for income tax purposes as a business expense. Of course, the rental payments under such an arrangement can be very reasonable because the land and building owned by the municipality are not on the local property tax rolls.

As topping for the cake, it was rumored for a while that the Borg-Warner Corporation itself, had purchased $6 million of the $7.5 million tax-exempt bonds. Officials of the corporation have denied that such was the case and I accept their statement. However, the suggestion has pointed up the possibility, and I have learned that other municipal bonds issued under similar circumstances have been purchased by the company occupying the plant or its major stockholders. Such an investment is not a bad one because, to a corporation with annual net earnings exceeding $25,000 (placing it in the 52% bracket), a tax-exempt municipal yield of 3.5% is actually equivalent to a yield of 7.29% on a fully taxable investment.

To be sure, it should be recognized that a number of other considerations play equal or more important roles in determining whether a company will locate its operations and its jobs in one state rather than another. In presenting this problem as it affects the ability of our State to compete for industries and jobs, I do not wish to underestimate or underrate the importance of such other vital factors as: the cost and responsibility of labor, the political climate, the natural climate, the proximity of raw materials, and markets, and the availability and cost of such essentials as power and water.

However, I do want to emphasize my concern and my conviction that the rapidly expanding use in other states of this tax-exempt industrial development "gimmick" is much more of a problem than is generally realized, and it is seriously compounding the other handicaps which we may have in this fierce and ruthless competition among the states for industries and jobs.

I want to point out that in the Norge case labor relations in the Muskegon plant were

good. In the community the local union leadership was generally considered to be responsible, and there had been no strike there for many years. However, the physical plant occupied by the Norge Division was a very old, inefficient, two-story building. New, modern efficient quarters were needed for the Norge operations. In my own mind, there is no question but that the "gimmick" proposed by Greenwood, Arkansas, made the difference and was the major factor in this particular decision to leave the State.

While the Norge situation may have received a lot of publicity around the State, let me caution the members of this Committee that it is not an isolated case. You have read about the Gemmer Division of Ross Gear and Tool in connection with Judge Kaess' extraordinary ruling that seniority employees continue to have employment rights, even after expiration of their collective bargaining agreement, which can follow a company from Detroit to Lebanon, Tennessee. But attention should be focused upon another aspect of that particular case: In order to lure the Gemmer Division away from Michigan, the city of Lebanon, Tennessee constructed a new factory building in 1960 with the proceeds of a $2.5 million tax-exempt municipal bond issue.

Several months ago, it was announced that the Scott Valve Manufacturing Co. would close its Detroit plant and move to Blytheville, Arkansas to occupy a new plant under a similar financing arrangement, leaving 140 persons unemployed in Detroit, most of them over 50 years of age.

The impetus for the current trend to use low cost municipal financing for industrial development began about 24 years ago in the South wtih Mississippi. Kentucky and Alabama followed suit. Then, for self-protection, a number of Northern states began authorizing similar programs—and now a full-fledged second war among the states is underway.

At the present time the following 14 states have made it legally possible for their municipalities to sell bonds, use the proceeds to build plants, and then to rent the facilities to private industrial corporations:

	Year enacted
Mississippi	1936
Kentucky	1948
Alabama	1951
Tennessee	1951
Illinois	1951
Louisiana	1952
New Mexico	1955
North Dakota	1955
Vermont	1955
Arkansas	1958
Maryland	1960
Missouri	1960
Kansas	1961
Nebraska	1961
Georgia	a)

[1] Has program limited to 25 counties.

It is reported that at least another 10 or 11 states are currently considering constitutional changes or legislative enactments to authorize similar programs.

According to tables compiled by Prof. C. J. Pilcher of the University of Michigan School of Business Administration, the number and value of municipal industrial development bonds has just about doubled each year over the past 5 years. Keep in mind that each new bond issue represents at least one new industrial plant. In 1957, there were 22 such bond issues totalling $7.5 million. In 1958, there were 47 issues totaling nearly $13 million. In 1959, there were 50 issues aggregating $23 million, and in 1960 there were 74 issues adding up to $47 million.

Mr. Chairman, let me say that I am concerned about this situation, which grows steadily more serious, not only from the standpoint of Michigan's plight, but also from the standpoint of what is sound policy for the Federal government.

As long as the federal tax laws remain as they are, it can be expected that more and more states will move to take advantage of what I term a federal tax "loophole." As this grows, there will be a greater and greater loss in federal tax revenue. Frankly, I believe that the doctrine of reciprocal tax immunity, which is enjoyed between the federal and state governments, is abused when a municipality uses its public credit for anything other than a public or governmental purpose. I question whether the Federal government should exempt from taxation the interest on municipal bonds which are used to finance a private industrial enterprise for profit. Since the Norge situation has come to light, I have been working very hard in Congress in an effort to arouse interest in this problem. I earnestly believe that the situation should be remedied by a change in the federal tax laws.

I am well aware that municipalities are understandably jealous of the tax-exempt status of their bonds. Associations or municipal officials are very suspicious and fearful that any legislation which tampers with this exemption could be the "entering wedge" to an outright elimination of their important tax advantage.

With that concern in mind, I have tried to attack the problem by using another approach. On April 17 of this year, I introduced H.R. 6368. This bill would not affect in any way the tax-exempt status of municipal bonds. However, if the bill were to become law, any person or corporation who leases an industrial plant constructed with tax-exempt municipal bonds would be denied the right to deduct rental payments as a business deduction for federal income tax purposes. In this way, I believe the attractiveness of the "gimmick" could be destroyed and the practice would be discouraged.

While I intend to keep on pushing for federal action, I must indicate to this distinguished Committee that prospects for enactment by Congress in the near future of this or similar legislation are not very bright.

It seems obvious to me that such legislation would get nowhere in the present Congress without the strong and vigorous support of the Administration in power. Earlier this year, on July 31, I wrote to President Kennedy requesting such support. On August 23, I received a weak reply from an Assistant Secretary of the Treasury which recommended that "any action on the bill be postponed for this year" and indicating only that "possible revision of the tax treatment of state and municipal bonds . . . could well be considered as part of a . . . (comprehensive tax program" being prepared by the Secretary of the Treasury for submission to Congress next year.

(A copy of H.R. 6368, together with a copy of my letter to the President and the reply received, are attached.)

Mr. Chairman, I am well aware of the arguments against public financing of industrial development. In effect, the municipality or public body almost becomes a partner in business under such a financing arrangement. Then, too, there is the matter of discrimination against those existing industries which are paying local property taxes.

Obviously our State is on the horns of a dilemma. However, this Constitutional Convention does not have to decide the kind of program or the extent to which municipal bonds might be used for industrial development in Michigan. But the Convention is confronted with this difficult question: Should we keep the door closed completely and absolutely so as to preclude the Legislature and the Governor from considering any program in this area?

After weighing the matter carefully, I should like to make the following recommendation:

1. I believe the new State Constitution should be so drafted as to provide the Governor and the Legislature with flexibility enabling them at least to consider and weigh carefully legislative proposals which would make it possible for Michigan to "fight fire with fire";

2. I believe that any flexibility provided under the Constitution allowing the possible use of state and/or municipal credit for industrial development purposes should be limited to revenue bonds. I do not believe it would be necessary or desirable to permit the use of general obligation bonds for such a purpose; and

3. In the meantime, the Michigan delegation in Congress, the Governor, the State Legislature, the delegates to this Constitutional Convention and everyone else with any influence in our State should exert a maximum effort to obtain enactment in Congress as quickly as possible of H.R. 6368 or similar legislation.

The municipal bond "loophole" now being used by an increasing number of states to attract industry is reminiscent of a situation which once existed with respect to a few community property states. As more and more states began changing their laws to take advantage of the community property loophole, Congress was pressed into action and finally made changes in the federal law to afford uniform tax treatment.

Even though it may appear distasteful in some respects, I believe the new State Constitution should leave enough flexibility so that the Legislature can at least consider various ways and means of taking advantage of this loophole.

If and when Michigan and other states do move to authorize the wider use of tax-exempt municipal financing for industrial development, I believe Congress will be forced to face up to this situation and will take the legislative action that is necessary.

Thank you.

HOUSE OF REPRESENTATIVES,
Washington, D.C., July 31, 1961.

Hon. JOHN F. KENNEDY,
The President,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: On May 9, 1961, the views and recommendations of the Treasury Department were requested concerning H.R. 6368.

This bill, which I have introduced, would disallow, for income tax purposes, the deduction of rental paid by a company occupying a plant financed through the issuance of tax-exempt municipal bonds.

The urgent need for passage of such legislation was emphasized last week by the revelation that the very first "benefit" approved under the so-called "depressed area" legislation will be, in effect, a bonus to a Southern community which has utilized the municipal bond loophole to lure a new industry.

As you may know, Commerce Secretary Hodges approved a $129,000 grant, as well as a $31,000 loan, to the Arkansas community of Gassville (population 233) to finance a water system which is vital to a new industry locating there. According to press reports, the industry will occupy and lease a new industrial plant being constructed with the proceeds of a $535,000 tax free municipal bond issue.

Under the present law, as you know, the interest on municipal bonds is exempt from federal income taxes. This exemption is justified, and should be continued, to the extent that such bonds are issued for a *public* purpose.

However, I am firmly convinced that, in providing this tax exemption, Congress did not contemplate that municipal bonds would be issued to finance the construction of industrial facilities for a *private* business enterprise. Certainly, when the public credit is utilized for *private* purposes, the justification for this tax exemption no longer exists.

In 1956, there were 8 states which permitted local taxing units to issue bonds for such purposes. By 1959, there were 10 such states, and in the year 1960 five more states (Arkansas, Mississippi, Missouri, Maryland and Nebraska) passed enabling laws permitting local units of government to issue bonds for industrial development.

As long as this loophole in the federal tax law remains, more and more states will be forced to adopt legislation to take advantage of it. Unless the federal law is changed in the near future, a substantial loss in federal revenue and other serious consequences can be foreseen.

In the meantime, Michigan and 34 other states, which are not taking advantage of this federal tax loophole, are seriously handicapped in their efforts to attract new industries and to qualify for development grants and loans under the "depressed areas" legislation.

I urge that the Administration lend its strong support to the prompt enactment of H.R. 6368, or similar legislation. In the meantime, I believe that the Administration should withhold approval of "depressed area" projects in communities which use the municipal bond loophole.

Respectfully yours,

ROBERT P. GRIFFIN,
Member of Congress.

TREASURY DEPARTMENT,
Washington, August 23, 1961.

HON. ROBERT P. GRIFFIN,
House of Representatives,
Washington, D.C.

DEAR MR. GRIFFIN: The President has referred your letter of July 31 regarding H.R. 6368 to the Treasury Department to bring it to the attention of officials directly concerned with tax policy questions. As you indicated, this Department has been requested to report on H.R. 6368 which you introduced and which would deny deductions for payments by private industrial and commercial organizations to State and local governments for the use of plants financed by the issuance of State and local bonds.

We have not yet completed a study of the problems and issues raised by H.R. 6368. Accordingly, we cannot at this time take any definite position on the bill. After preliminary examination I believe it may be advisable for us to suggest that any action on the bill be postponed this year.

The use of municipal bond issues to construct facilities for lease to municipal concerns have received attention in recent years both by the Executive branch and by the Congress. The question was considered at length by the Congressional tax committees during the formulation of the Internal Revenue Code of 1954. This review pointed out some of the controversial policy issues and technical problems which deserve full and careful consideration.

As you know, the President in his Tax Message to the Congress on April 20 directed the Secretary of the Treasury to undertake the research and preparation of a comprehensive tax reform program. This work is now under way, and the possible revision of the tax treatment of State and municipal bonds used for the financing of industrial and commercial plants is a matter that could well be considered as part of this program.

Sincerely yours,

STANLEY S. SURREY.

H.R. 6368

A bill to amend the Internal Revenue Code of 1954 to deny deductions for amounts paid by private industrial and commercial organizations to State and local governments for the use of industrial plants acquired or improved by the issuance of certain bonds by such States and local governments

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) part IX of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items not deductible) is amended by adding at the end thereof the following new section:

"SEC. 274. CERTAIN PAYMENTS TO ISSUERS OF TAX-EXEMPT OBLIGATIONS.

"(a) GENERAL RULE.—No deduction shall be allowed for any amount paid or accrued to any State or possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia by a nonpublic lessee for the use or occupancy of an indutrial plant which was acquired or improved (in whole or in part) out of the proceeds of a tax-exempt obligation issued on or after April 17, 1961.

"(b) DEFINITIONS.—For purposes of subsection (a)—

"(1) INDUSTRIAL PLANT.—The term 'industrial plant' means—

"(A) any building or equipment which is used for manufacturing or processing articles or commodities (including any building or equipment the use of which is incidental to such manufacturing or processing) and which is located on land held by the lessor for the benefit of such plant, and

"(B) the land on which the building or equipment described in subparagraph (A) is locted.

(2) TAX-EXEMPT OBLIGATIONS.—The term 'tax-exempt obligation' means any obligation issued—

"(A) by any State or possession of the United States, any political subdivision of any of the foregoing, or the District of Columbia, and

"(B) the interest on which is wholly exempt from the taxes imposed by this subtitle."

(b) The table of sections for such part IX is amended by adding at the end thereof the following:

"Sec. 274. Certain payments to issuers of tax-exempt obligations."

SEC. 2. The amendments made by the first section of this Act shall apply with respect to taxable years ending after the date of the enactment of this Act.

Mr. RIBICOFF. Mr. President, will the distinguished Senator from Louisiana yield me 5 additional minutes on the bill?

Mr. CURTIS. I shall object.

Mr. LONG of Louisiana. Mr. President, might I inquire why the Senator objects to the additional 5 minutes?

Mr. MONRONEY. If the Senator is going to yield the time, I am sure he is fair enough to yield the other side an equal amount of time.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that both sides have an additional 5 minutes.

Mr. CURTIS. All right.

The PRESIDING OFFICER (Mr. TYDINGS in the chair). Without objection, it is so ordered.

Mr. JAVITS. Mr. President, will the Senator yield?

Mr. RIBICOFF. I yield to the distinguished Senator from New York.

Mr. JAVITS. Mr. President, I shall be with the Senator from Connecticut with respect to his amendment, for the reasons stated by the Senator from Michigan.

I should like to ask the Senator from Connecticut two questions.

First, is it a fact that the words of the amendment would exclude from its operation—so that those bonds would be subject to the tax exemption privilieges—bonds issued by a State dormitory authority for dormitories on college campuses?

Mr. RIBICOFF. Without question, those are excluded. The amendment covers only depreciable property used for commercial or industrial purposes, such as plants or equipment, and that would not apply to a State dormitory authority.

Mr. JAVITS. Second, where the governmental entity itself lends the proceeds of its bond issues to a large number of different small business ventures—in other words, where it is using the proceeds itself for a quasi-banking type operation—would it be excluded under the provisions of (v)(5)?

Mr. RIBICOFF. The Senator is correct.

Mr. JAVITS. I ask unanimous consent to insert a letter I received this morning from Assistant Secretary of the Treasury Stanley Surrey which bears out the position of the Senator. I thank the Senator.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

TREASURY DEPARTMENT,
Washington, D.C. March 28, 1968.

HON. JACOB K. JAVITS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR JAVITS: We understand that certain technical questions have arisen with respect to the proposed amendment on industrial development bonds being proposed by Senator Ribicoff.

As we interpret Senator Ribicoff's proposed amendment it is limited to bonds issued for industrial or commercial purposes and will not affect bonds issued to finance facilities for colleges, hospitals, and similar non-commercial activities. Thus, the bonds issued by the New York Dormitory Authority will not be affected by that amendment. In addition, Senator Ribicoff's proposed amendment does not affect bonds issued in situations where the governmental unit will itself use the proceeds in a business type operation. As we understand the operations of the New York Job Development Authority the proceeds of its bond issues are loaned to a large number of different small business ventures and it is the Authority itself which is using the proceeds in a quasi banking type operation. Accordingly, the bond issues of the New York Job Development Authority would also be unaffected by Senator Ribicoff's proposed amendment.

Sincerely yours,

STANLEY S. SURREY.

Mr. RIBICOFF. Mr. President, I yield 2 minutes to the Senator from Tennessee.

Mr. GORE. Mr. President, like most tax loopholes, this one started small. Like most tax loopholes, it started with a plea for equity. But, like most tax loopholes, it has grown and grown and grown, until in the debate in the last hour I recall three corporations being identified as beneficiaries of this special device—American Airlines, Delta Airlines. Where are there more profitable corporations? Search your records. United States Steel. Where is there a more basic industry, or how many larger corporations do we have?

Yet, Mr. President, this is offered as an amendment to increase billions of dollars of income, tax-exempt. This is offered as an amendment to a bill raising the taxes of every taxpayer in the United States. Equity? Fairness? Where is there equity in providing large incomes completely free of taxation for many indi-

viduals? And you do this in the name of counties? By what right do you speak?

Here is a statement of the National Association of Counties. Let me read it:

The irresponsible continuation of the unchecked issuance of industrial development bonds poses a disastrous threat to the entire State and local government bond market.

Mr. President, I hope this amendment will be adopted.

Mr. RIBICOFF. Mr. President, I yield 2 minutes to the Senator from New Hampshire.

The PRESIDING OFFICER. The Senator has only 1 minute remaining.

Mr. MONRONEY. Mr. President, I yield 1 minute to the Senator from New Hampshire.

Mr. COTTON. Mr. President, I trust that the Senator from New Hampshire is not entirely parochial or provincial in his attitude. He desires to legislate for the benefit of the entire country. But there are States in this country which, by their own constitution, as interpreted by their own supreme court, cannot issue bonds for any purpose other than public purposes. My State is one of them.

I remember through the years when we were struggling to hold our textile industries, and they were going away from us, that under our constitution a municipality could not agree to a temporary 2- or 4- or 5-year exemption from taxation for any industry.

I believe all States should be on an even basis. I love some of my friends who are anxious. I should like to help some of the other States, but if one believes in States rights, it should refer to Yankee States as well as Southern States. That is why I believe the line should be drawn—not only because of tax loopholes but also so that those States which have held firm and have had to get their business wtihout special considerations shall have an even chance with every other State in the Union.

Mr. MONRONEY. Mr. President, I yield 2 minutes to the Senator from Vermont.

Mr. PROUTY. Mr. President, we are told we must spend billions and billions of dollars—some estimates are as high as $30 billion a year—to save our cities. What is one of the great problems within our metropolitan areas? Much of the problem has to do with the fact that we have had a great migration of people from rural areas who are without education, training, or skills. They have gone on the relief rolls and they create almost impossible situations in those areas.

Mr. President, I point out that 45 percent of the poverty in this country today exists in rural areas; and only about 32 percent of the funds under the so-called antipoverty program go into the rural areas.

Perhaps it is too simple to be worthy of consideration that through industrial development bonds we may establish small plants, factories, and retraining facilities in these areas for the benefit of the people who are there. Certainly, that seems to be the cheapest and most realistic way to handle the problem.

I cannot agree with those Senators who spoke on the other side, most of whom come from highly industrialized centers. Most of us need help, and this means offers the advantage of bonds which have to be approved by the citizens in the communities.

We can do the job, save billions and billions of dollars from taxpayers funds, and at the same time create a reliable and self-supporting community, if we are given the chance.

Mr. MONRONEY. Mr. President, in closing I wish to dispel some of the impressions that may have been created.

We spent $383,600,000 in Federal money in the economic development program. We are trying to offer a substitute whereby people can vote bonds to encourage industrial development. Sometimes companies come in and sometimes they do not.

In Oklahoma we have the Sequoyah Mills, where 80 percent of those employed are Indians. Up until the time the plant was completed, they had never a single day of employment. Today they are among the finest carpetmakers that one can find. There are other examples in this country where training has been made possible and skills developed.

With all of this crying about the great loss, I would like to have the attention of the Senator from Wisconsin because he does not understand or misinterprets the figure. In 1967 $17 billion worth of corporate bonds were issued, and $13.2 billion went into nontaxable hands. The Government lost that interest. There has been so much crying about the rape of the taxpayers. There were $1.5 billion of these tax-exempt industrial bonds issued in 1967. They are an infinitesimal part of the market. When I went to the Treasury Department to talk about their first mistake—when they did not know what they were doing the first time—they said the income loss to the Government was so infinitesimal it gave them no concern.

Mr. CURTIS. Mr. President, will the Senator yield?

Mr. MONRONEY. I yield.

Mr. CURTIS. I repeat that the payment of interest by corporations is a tax deduction, so the Government loses 48 percent right there.

I believe the Senator from Wisconsin said that the individual who pays taxes on his interest received is in the 42-percent bracket, so the Treasury Department is ahead 6 percent there. However, three-fourths of the bonds go into the hands of people who pay no taxes at all, such as pension funds, unions, foundations, and the like.

It cannot be sustained by any stretch of the imagination that the Treasury Department loses on these matters, aside from any gain by reason of increased activity.

I wish to point out to the distinguished Senator from New Hampshire that constitutions can be changed. This procedure was not permitted in Nebraska. We amended our constitution and, thereby, jobs are now being provided.

Mr. MONRONEY. Mr. President, the important point is if the law stands, as it has for 30 years, municipalities or counties could borrow money to build these plants and industries. The interest rate is 4.5 percent instead of 6 percent. We are trying to help the communities. They are not going to lose big Federal money; but we can give them a chance to build with local credit for a company that wants to take advantage of local labor. Let us give them the chance to do it and not make everything a Government handout. This is the simple way to do it, if we are trying to help agricultural communities, trying to prevent ghettos whose repair will cost trillions of dollars. This is a way to bring industry to the man instead of taking man to the industry.

Mr. COOPER. Mr. President, I shall vote against the amendment offered by the distinguished Senator from Connecticut [Mr. RIBICOFF]. I do so because I believe that the adoption of the amendment would unduly restrict, if not eliminate, the use of revenue bond financing as a means for assisting industry to seek new locations in the economically depressed areas of the country.

From my own personal experience, I know that in Kentucky the sale of industrial revenue bonds has provided an important impetus to the economic growth and development of many communities. In recent years some 137 revenue bond issues have financed a variety of new industries in Kentucky, and have produced an estimated 27,000 additional jobs.

Mr. President, I ask unanimous consent that a list of companies that have located in Kentucky just in the past year and those currently proposing to locate in Kentucky, and financed by revenue bonds, be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

PLANTS FINANCED THROUGH REVENUE BOND ISSUES IN 1967

City	Company leasing building	Year of issue	Amount of issue (thousands)	Interest cost (percent)	Product
Danville	Genesco	1967	$800	4.713	Shoes.
Frankfort	Marsh Instrument Co	1967	2,140	5.187	Gauges, thermometers, valves.
Florence	Equitable Paper Bag Co	1967	1,300	5.54	Bags.
Jeffersontown	L. G. Balfour Co	1967	600	4.95	Printing.
Franklin	Simpson Manufacturing Co	1967	250	5.9	Men's clothing.
Do	Marvel Industries	1967	250	5.9	Stampings, hoists, couplings.
Bowling Green	Firestone Tire & Rubber Co	1967	30,000	4½	Tire fabric.
Henderson	Bear Brand Hosiery Co	1967	270	5	Hosiery.

PLANTS FINANCED THROUGH REVENUE BOND ISSUES IN 1967—Continued

City	Company leasing building	Year of issue	Amount of issue (thousands)	Interest cost (percent)	Product
Florence	American Sign Industries	1967	$200	5.8386	Signs.
Bowling Green	Wellington Electronics	1967	875	5.86	Anodized aluminum foils.
Hickman	Carborundum Co	1967	3,600	5.86	Graphite products.
Wickliffe	West Virginia Pulp & Paper Co	1967	80,000	[1] 5.15	Paper mill.
Mount Sterling	Hobart Manufacturing Co	1967	4,200	5.12728	Home diswashers.
Hopkinsville	Phillips Products Co	1967	815	4.89	Plastic products.
Bowling Green	Wren Products Co	1967	32	5.98	Desk accessories.
Morgantown	Weatherall Manufacturing Co	1967	400	5.504	Rainwear.
Corbin	Whayne Supply Co	1967	150	5.30	Construction equipment.
Do	American Greetings Corp	1967	5,000	5.6506	Greetings cards.
Prestonsburg	U.S. Shoe Corp	1967	900	5.49	Shoes.
Florence	American Book Co	1967	2,000	5.913	Book warehouse.
Do	Interchemical Co	1967	1.750	5.906	Carbon paper.
Do	Globe-Union, Inc	1967	2,200	5.993	Plastic containers.
Harrodsburg	Textron, Inc	1967	2,800	5.82	Bathroom accessories.
Florence	Hewitt-Robins, Inc	1967	6,000	5.913	Conveyor systems.
Ashland	Pittsburgh Activated Carbon Co	1967	10,500	5.73	Activated carbon.
Jeffersontown	Huttig Sash & Door Co	1967	760	5.99	Windows, doors.
Stanford	George J. Mayer Co	1967	1,150	5.575	Metal name plates, trim.
Dawson Springs	Ottenheimer & Co	1967	250	5.999	Uniforms.
Warren County	Pedigo Pork Rind Co	1967	100	6.0	Fishing bait.
Florence	Continental Electric Equipment Co	1967	1,500	5.657	Power distribution equipmint.
Total			160,792,000		

[1] Approximate.

MUNICIPAL INDUSTRIAL REVENUE BOND ISSUES, PROPOSED OR PENDING

City	Company	Jobs	Amount (thousands)	City	Company	Jobs	Amount (thousands)
Versailles	Kuhlman Electric	300	$7,000	NKIF (Kenton County)	Signode	500	$4,500
Hancock County	Southwire	1,000	90,000	Bardstown	Lily Tulip Cup	500	8,000
Lawrenceburg	Young Radiator	250	2,500	Smith's Grove	Kain Manufacturing Co	400	250
Glasgow	Swift & Co	40	1,200	Springfield	Grote Manufacturing	125	1,300
Elizabethtown	Company Confidential	100	12,000	Ludlow	Duro Paper Bag Manufacturing Co	100	800
Frankfort	Bendix-Westinghouse	300	4,200	NKIF (Florence)	Levi Strauss	100	1,000
Somerset	Lear Siegler	300	750	Do	Inter-Chemical	100	1,500
Campbellsville	Copeland Refrigeration	300	3,000	Total		4,615	152,000,000
Richmond	Okonite	200	14,000				

Mr. COOPER. Mr. President, in conclusion, I note at page 108 of the hearings that representatives of the Treasury Department have estimated that the loss of tax revenue to the Department as a result of the tax-exempt status of industrial revenue bonds amounts to some $50 to $100 million annually.

When we compare this loss of tax revenue with the billions of dollars that the Federal Government is spending in the country on programs to assist in economically depressed areas and in its war on poverty, it is my view that we should not curtail the limited means at the disposal of local communities to attract new industry and new jobs not financed by the Government. If abuses have developed in the employment of this means of financing, then efforts should be made to cure or remove the abuses without eliminating the tax-exempt status of revenue bonds for industrial purposes. Where the program has been abused by its application to businesses which can carry the financing themselves or by a failure to set a top limit upon the amount of bonds to be issued in a single financing, corrections can be effected by the Congress.

TAX-EXEMPT MUNICIPAL BONDS

Mr. NELSON. Mr. President, with more than 40 States offering this municipal industrial financing, it is obvious that the decision to locate a plant in a particular locale will be motivated by other economic considerations, not the availability of this kind of financing.

Under present conditions, 40 States are diluting the value of the tax-exempt market with little economic justification.

Last year $1.4 billion of these bonds was issued compared with $0.5 billion the year before. The effect this is having on the legitimate municipal bond market can be measured by the fact that for the last quarter of 1967, for the first time, municipal industrial financing was the largest single use of proceeds of newly issued State and local indebtedness.

This total exceeded even the combined debt issued to finance elementary, secondary, college, and university projects during this 3-month period.

The Investment Bankers Association has informed me that in my own State of Wisconsin, in the school district of Muskego-Norway, officials wanted to upgrade the school system and construct buildings costing $3 million. On December 4, the school bonds were taken to market where they met with competition from $500 million in municipal bonds. This was the heaviest day of bond sales of the year.

Two issues alone of industrial revenue bonds accounted for a great share of the total.

Only two bids were received for the Muskego-Norway school district bonds. The rates quoted were 4.96 and 5.14 percent—the highest ever. The rate up to that time had been below 4.62 percent.

The Wisconsin school officials had no choice but to reject the bids. They had to wait almost 2 months to go to market again, and then were successful in selling only one-half the issue, $1.5 million, at a still excessive rate of 4.77 percent.

The day before yesterday my distinguished colleague from South Carolina, Senator HOLLINGS, said that his State was able to compete with her sister States in successfully attracting industry without the tax loophole.

Now, however, the flooding of the bond market has finally washed away the ability of the small rural towns to sell bonds for legitimate purposes.

He said one South Carolinian town was unable to sell $800,000 of school bonds, full faith and credit, at 5 percent, backed by a substantial and financialy successful and stable community.

This will happen all over the country when the real value of the bonds is subverted for any industry on a come-one, come-all basis.

The $1.4 billion sold in 1967 was even greater than all the municipal bonds sold to improve roads, bridges, and tunnels for the entire year and just slightly less than the $1.8 billion of bonds sold for the entire year for sewer and water projects.

This is a national disgrace that major corporations around the country are rushing to use up the available limited municipal credit which could be used for essential public improvements.

Market experts have said that the large volume of these bonds last year had the effect of raising interest rates on normal municipal bonds from one-quarter to one-half of a percentage point.

If one projects this rate against the $13 billion of normal public improvement bonds issued last year, the taxpayers of this country will experience the crunch of having to pay over the life of last year's bonds issues alone, about $.5 billion in excess interest costs.

The Curtis amendment attached to the excise tax bill was aimed at the Treasury Department for taking upon itself the jurisdiction of enacting rulings which belongs to the Congress.

Today the issue is clear; Senator RIBICOFF's amendment is aimed directly at the curbing of the abuse of these bonds. There are no side issues.

Last week the Director of the Bureau of Budget, Charles J. Zwick, told the Municipal Finance Forum of Washington that the competition in the bond field has raised rates to a new high of 4.43

percent—the highest in the history of the program—for public housing bond sale. In 1947 the annual average yield was 1.45 percent, 2.51 percent in 1956, 3.67 percent in 1966, and 3.74 percent in 1967. He said:

Any sizable increase in net offerings of tax exempts causes yields—the market measure of the cost of municipal financing—to rise more rapidly than yields on taxable obligations. This is because the tax exempt bond market at present yields is limited to buyers with relatively high marginal tax rates.

Senator PROXMIRE'S Joint Economic Committee's study on tax exempts notes that the rapid increase in volume of municipal credit demands could exhaust the market from such buyers and cause yields of municipals to rise to as much as 90 percent of corporate yields, compared to the 75-to-70 percent ratios prevailing in the 1965–65 decade.

An even higher crunch will occur if we fulfill our obligation to provide 1.5 million additional units of public housing per year over the next 10 years. This we can expect to require municipal financing of about $25 billion, or $2.5 billion per year.

The President called for a total of 26 million housing units over the next 10 years to help meet the crisis of the cities in his message to the Congress.

This $2.5 billion average per year over the next 10 years, to be financed through normal municipals, will cost considerably more when it enters the market looking for buyers.

Yesterday my office received a telegram from the Mortgage Bankers Association of America favoring the Ribicoff amendment. The National Association of Counties also endorses the amendment saying:

The unchecked issuance . . . poses a disastrous threat to the entire state and local government bond market.

Failure to enact this amendment will insure a "New War Between the States."

I ask unanimous consent that some telegrams, a letter, and an editorial be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

WASHINGTON D.C.,
March 25, 1968.

Senator GAYLORD NELSON,
Senate Office Building,
Washington, D.C.:

The Mortgage Bankers Association of America favors legislation to prohibit the continued use of tax-free municipal bonds for the financing of industrial and commercial properties. We urge your favorable vote for the Ribicoff amendment to H.R. 15414 excise tax bill.

GRAHAM T. NORTHUP,
Director, Governmental Relations.

WASHINGTON D.C.,
March 26, 1968.

Senator GAYLORD NELSON,
U.S. Senate, Washington, D.C.:

Federal tax exemptions granted municipal industrial bond financing create unjustified tax burdens on average taxpayer while giving unconscionable economic advantages to certain industries. These same industries may create intolerable hardships to the people of communities they leave without jobs, income, and tax revenues when they move to tax-favored locations. On behalf of the more than six million members of the Industrial Union Department, AFL–CIO, I urge your support for the Ribicoff-Clark amendment to H.R. 15414 to limit this discriminatory tax exemption.

JACK BEIDLER,
Legislative Director, Industrial Union Department, AFL–CIO.

WASHINGTON D.C.,
March 27, 1968.

Senator GAYLORD NELSON,
Washington, D.C.:

AFL–CIO strongly urges you support Ribicoff amendment to end tax-exempt status of so-called industrial development bonds. After 20 years of abuse, this tax loophole should be closed. Now that this tax-evasion device has been adopted by virtually every State, its attractiveness as a lure to industry is minimal but its cost to taxpayers and government is skyrocketing each month.

We favor new industry and plant expansion and more jobs, but the use of local governments' credit by corporations to escape their tax obligations is neither job-creating nor of financial benefit to communities. In fact, the rising cost of these bonds is forcing cutbacks in schools and public works thus causing substantial job losses.

ANDREW J. BIEMILLER,
Director, Department of Legislation, AFL–CIO.

WASHINGTON D.C.,
March 26, 1968.

Senator GAYLORD NELSON,
U.S. Senate, Washington, D.C.:

On behalf of Amalgamated Clothing Workers of America, I strongly urge support for Ribicoff-Clark amendment to H.R. 15414, which would curtail use of tax-free municipal bonds for industrial financing. This practice results in wasteful transfer of jobs from one area to another disregarding broad human and economic consequences.

JACOB S. POTOFSKY,
General President.

NATIONAL ASSOCIATION OF COUNTIES,
Washington, D.C., March 22, 1968.

Hon. GAYLORD NELSON,
U.S. Senate, Washington, D.C.

DEAR SENATOR NELSON: The irresponsible continuation of the unchecked issuance of Industrial Development Bonds poses a disastrous threat to the entire state and local government bond market.

We urgently request that no action be taken to reverse the Department of Treasury Regulation which would control this abuse unless such a reversal is accompanied by positive legislative action to likewise control the abuse.

The question as to whether this crisis should be handled by the administrative or legislative route should not be allowed to avoid the fact that corrective action must be taken now.

Sincerely yours,

BERNARD F. HILLENBRAND,
Executive Director.

[From the Post-Crescent, Aug. 2, 1967]

TAX EXEMPT BONDS FOR INDUSTRIES

Rep. John Byrnes of Green Bay has introduced a bill in the House which would stop federal tax exemption on the interest on state and municipal bonds used to construct industrial plants for private businesses. Mr. Byrnes, whose bill is cosponsored by nine other Wisconsin congressmen strikes at an abuse which has grown during recent years from a total of $7 million in such bonds 16 years ago to an estimated $1 billion this year.

In explaining the effects of the tax exemption, Mr. Byrnes points out: the United States Treasury loses millions in revenue which must be picktd up from all taxpayers; states like Wisconsin, which is prohibited from floating bonds for businesses, lose industry to states with such schemes which this state's taxpayers help to pay for; and, finally, the interest rate on legitimate municipal bonds tends to rise as the industrial development bonds are put in competition with them in the market.

Thirty-five states, many of them in the south, now permit state or local governments to float bond issues for industrial development. Proceeds of the bond sale are used to build plants to the specifications of the new industry which are leased or sold to the business with the bonds secured by the lease or sale.

Mr. Byrnes emphasizes that he strongly supports the principle that borrowing by states and municipal governments is necessary to enable them to build such public service facilities as bridges, water works, industrial parks, municipal docks, parking authorities, recreation areas and the like. But he sees the industrial development bond scheme for what it is: an abuse of the principle of government bonding which could, if permitted to continue, jeopardize the whole idea of tax exemption for municipal and state bonds. The idea of tax exempt bonds cannot even be defended as helping underdeveloped areas. As Sen. Nelson of Wisconsin pointed out last March in attacking tax exempt borrowing to attract new industry, only two of 127 bond issues in 1966 were in areas which could be classified as depressed economically.

Rep. Byrnes' bill probably faces an uphill fight because 35 states use the tax exempt bond gimmick. It, however, deserves a full public hearing and action both to eliminate losses to the treasury of millions and the built-in discrimination against states where no such tax exempt bonds are permitted.

Mr. PERCY. Mr. President, I am very grateful that the distinguished Senator from Connecticut [Mr. RIBICOFF] has proposed this amendment. and I am happy to join him as a cosponsor. I believe the amendment represents a very sound approach to a problem that has faced the Senate in two previous votes this year. It represents a balanced disposition of the question of the tax status of the income from municipal industrial bonds, and I hope it will be agreed to.

Mr. President, on behalf of my colleague, the most distinguished senior Senator from Illinois [Mr. DIRKSEN], I thank the Senator from Connecticut for accepting a change in his amendment which is a departure from the form of his original proposal. The exception relating to bonds for the construction of air and water pollution control is, we feel, responsive to a genuine need throughout the Nation. It will retain an avenue for immediate action against a very real and growing problem with which, it seems, everyone is much concerned, but upon which we are slow in mounting a meaningful attack at the grassroots level.

Mr. President, the citizens of the State of Illinois will vote on a $1 billion general obligation bond issue this year. A substantial part of the proceeds of this issue will provide the means for financing water pollution control facilities so desperately needed in our State, particularly in the Chicago area. Many small communities have plans for similar issues, in order to match the State moneys.

An interesting possible application of this exception is described in a paper prepared by Mr. James H. McCall, of the corporate finance department of Good-

body & Co., in Chicago. But more important, the paper, delivered at a recent meeting of representatives of concerned organizations, outlines graphically the tremendous needs in this critical area of pollution control, not only in Chicago and Illinois, but in the Nation, as well, I ask unanimous consent that it be printed in the RECORD, together with the names of those who participated in the discussion of ways to meet this important need.

I urge Senators to vote for the Ribicoff amendment. I hope it will be agreed to.

There being no objection, the paper and list of participants were ordered to be printed in the RECORD, as follows:

A PLAN FOR ENVIRONMENTAL CONTROL FINANCING

(By James H. McCall, Goodbody & Co., March 12, 1968)

INTRODUCTION

The questions and problems of pollution control are being studied on all levels of government and business. The actual definition of many forms of pollution has yet to be agreed upon—the tolerable degree of effluent in one or another stream or airshed is governed by what is the best economic and social usage of each of those courses. Nevertheless, we know pollution has no benefits in itself, and it must be minimized to help control our environment and our ability to maintain our well-being.

The technological approach to these problems is properly being taken on an individual basis, and definitions of need, approach and attack proposed for each individual case are well delineated as to the micro-economics of that portion of the total system it is to satisfy.

But the economics of the whole of the communities' problems must be taken in more broadly in order to be realistic, and a macro-economic approach must be established in order to make full use of the most efficient application of any proposed solution.

THE FEDERAL GOVERNMENT'S ENVIRONMENTAL APPROACH

The federal government has quietly moved in this direction with the introduction of the two bills in the Senate for the organization of an Environmental Council, and with the President's latest message covering all aspects of environment and not one or another area—water, air or solid waste. Under these proposals, the respective Secretaries of Interior and Health, Education and Welfare would work in harness with the Council, and their respective efforts would complement one another. The highly interrelated problems of air pollution, water pollution and disposal of our solid wastes, which are complex in their creation, would likewise be approached and solved on an interrelated basis, in which the economics would play an important role. This broad approach must be made by the State and local governments as well as the Federal, if any progress will be made.

ACTION NEEDED NOW

Unless this broad base is created at the outset of the attack on local problems, some formidable and perhaps insurmountable obstacles will arise that will not permit the new pollution technology to be implemented. If industry and governmental officials do not take an initiative today to provide the proper economic vehicles for effective environmental control, the road to clean air and useful waters is going to be detoured through a sticky political swamp.

A PLAN FOR ACTION

What we are here today to propose to you and to ask your help on, is the creation of a new environment—if you will pardon the pun—that of industry-government cooperation to give the existing regulatory agencies a real chance to do their job, and have some sound, business-like support to get it done; financial support that is not dependent upon relative needs dictated by political pressures, foreign aid, available taxes, or referendums; and operating support that is efficient, effective and comprehensive.

We have a plan which we think can provide Chicago and Illinois an opportunity to lead the nation by providing such a vehicle to aid in resolving problems of environmental control.

BACKGROUND

For over two years, we have intensively put our minds to questions of ways and means of meeting pollution problems. In connection with this, I have, on behalf of Goodbody, visited cities from coast to coast and have discussed first-hand with city officials and civic and industrial leaders the problems and difficulties which they have. We have explored approaches and concepts that might most quickly and most efficiently be employed to diagnose the particular pollution problems, what causes them, and on what economic basis they can be resolved. We are very much aware that new technologies are being developed to meet these problems. Implementing the new technologies requires the development of new methods of financing. Mr. Reilly of our firm is a nationally-recognized authority on developing and applying new municipal financing techniques.

NEEDS

First, what are our needs in Chicago and Illinois? It is conservatively estimated that during the next five years the capital requirements for pollution and environmental control merely to cover present rates of new construction in the Northeastern Illinois area will be at least 1.3 billion dollars. This figure is based on moderate population projections, the standard current per capita expense on water and sanitary facilities and the current share of industrial capital expenditures allocated to pollution control. This estimate does not take into account the development of new technologies or any acceleration in the rate of spending. On a statewide basis, far greater sums will be needed over the next few years.

On a national basis, the need for municipal and industrial water pollution control facilities over the next five years will require between 20 and 23 billion dollars. From that, we can also estimate that the share of water pollution control facilities in Northeastern Illinois alone could easily require one billion dollars or more.

INDUSTRY INCENTIVES

Since the huge investment required does not produce income for those private industries who must bear much of the cost, it is important that incentives be provided to induce maximum cooperation. Control of our environment is a public, as well as a private, responsibility; therefore, it is appropriate that public agencies cooperate with private industry in financing the cost. Only by sharing the load can there be an effective effort to obtain full use of our air, lakes, streams, and rivers. A good example of a joint effort is the low income dwelling rehabilitation now being undertaken by several major corporations and federal and local governments.

OTHER PROPOSALS

We have reviewed legislation and proposals under consideration in other states, such as Ohio, Nebraska and New York, and systems in other countries such as the Ruhr Valley in Germany. We have also studied the background on the proposition for referendum coming up this year in Illinois. We see some good ideas in all these plans but nothing comprehensive enough to provide a strong economic basis for the type of action that is going to have to be taken. The provisions for real and practical incentives for industry to provide its own corrective systems are actually few, and industry needs these incentives, as well as regulations, to stimulate action on many of our most pressing problems.

THE PROPOSAL

Out of this research we think we have found a basis for financing of many of the needed environmental control projects, and we feel that we have developed a unique proposal which is simple, economical, efficient, and which will result in a minimal cost to the taxpayer. What we now propose is the application of the principles of municipal revenue bond financing to the problem of raising capital for pollution control not only for public agencies but also for private industry. This program is designed to meet the requirements of the Federal government for matching funds, and as outlined in the President's environmental message of March 8.

We asked our legal counsel, Mr. Richard G. Ferguson of Isham, Lincoln & Beale to prepare a draft of legislation to provide a vehicle for our plan. The legislation is now in draft form and can be readied to be introduced without delay at the forthcoming reconvening of the State Legislature.

Specifically, the legislation as drafted calls for the following:

1. The creation of local Environmental Control Districts. These districts would be created by counties acting either separately or jointly with other counties. In counties where a municipality has over one-third of the over-all population, the District would be established by joint action of the municipality and the county. These local districts would acquire air and water pollution control equipment and facilities for lease, contracts, or to provide services to private or public interests with pollution control problems. The local districts will also be authorized to provide disposal services for solid wastes arising from all pollution control efforts on a contract basis for other political subdivisions or for private industry.

2. The creation of a state level Environmental Control Commission. The purpose of this Commission would be to supervise and coordinate all pollution control policies and planning undertaken by local and regional agencies as well as by other state agencies. It would be composed of state agency officials, citizens, and representatives of the local districts. The Commission would issue and market state revenue bonds payable out of the pooled revenues produced by the lease or sale of the environmental control facilities and equipment or for services provided by any of these facilities, by the local districts. The proceeds from the sale of these bonds would be distributed to local districts in direct proportion to their actual capital needs to deal with their localized problems. By having the state agency market and issue the bonds backed by the revenue to be received by the local districts, the bonds could be issued in large enough amounts so as to provide the lowest net interest cost for the financing. The revenues would be further backed by guarantees of the leases to smaller firms under a lease guarantee plan developed and administered by the private insurance industry and the SBA. This would save substantial amounts for the community and for industry and the bonds would be readily marketable instruments. The Commission would also render technical and engineering advice to private industry and to government agencies to assist in determining the feasibility, capacity and necessity for various pollution control projects. This Commission would in no way replace or curtail the status or powers of any existing State or local agency, but would exist solely to provide an efficient, expedient and businesslike method of implementing their actions.

Our proposal is analogous to the financing techniques used by the Public Building Commission for public agencies, and to the industrial aid bond technique in its application to private industry.

ADVANTAGES

Of course, the important advantage to private industry from this plan is the reduction in the cost of financing pollution control facilities through the use of the relatively low interest rate, tax free municipal bonds and the incentives of exemption from all property taxes on these facilities arising from public ownership. The advantage to the public from this proposal is clear; there would be an immediate opportunity to accelerate a major part of our pollution control efforts, no additional taxes need be imposed, and in fact, Illinois citizens could be relieved of many of the additional taxes contemplated by the bond referendum to solve a number of the pollution problems caused by the private sector of the economy.

It may be possible for the agency to develop income by reason of services it could also render to the municipalities and industry. This income could provide an effective offset to the costs of financing and the service charges to the municipalities and to industry, by providing them with credits on their payments.

COORDINATION WITH BOND ISSUE

This program would coordinate well with the one billion dollar statewide general obligation bond issue to be presented to the voters in Illinois in 1968. Since revenue bonds could provide a means to finance the bulk of pollution facilities required by private industry and the various local governments, that part of the proceeds of the statewide issue now intended to be used for such purposes would be substantially decreased. The state would then be able either to reduce the amount of bonds actually issued (thereby minimizing the taxpayer's burden) or apply more of the bond proceeds toward water resources and flood control projects. It would be helpful if some small portion of the proposed billion-dollar bond issue could be applied toward start-up operating costs of the various local environmental control districts which might be created. Thus, the funds to be available from the revenue bonds would be available *without* the statewide referendum and without the imposition of a statewide property tax.

EXAMPLE

As an example of the operation of the proposed legislation, suppose, that in Cook County a number of industries need facilities and equipment to meet the pollution control standards promulgated by various federal, state and local agencies. The tight money market with high interest costs makes it difficult and expensive for these private businesses to acquire the needed facilities themselves.

APPLICATION TO INDUSTRY

Under the proposed legislation the industries could lease the necessary equipment from the local Environmental Control District formed jointly by the County Board and the Chicago City Council. The facilities could thus be made available for the public benefit to the industries without impinging upon the capital resources needed by companies for regular business purposes. These facilities would become available to industry at an over-all lower cost due to the tax advantages of public bond financing and the economic advantages accruing from the local district providing pollution control facilities on a greater scale. The program would also be particularly consonant with modern business management attitudes toward the acquisition of nonproductive equipment, which is to have the use of such equipment by lease and not to tie up the working capital of the business for such reasons.

APPLICATION TO MUNICIPALITIES

By the same method, the District could purchase and lease facilities to a municipality or sanitary district that had reached its taxing limits, or for some other reason did not choose to issue additional bonds. These leases or term purchase arrangements are perfectly legal under current legislation, and can be paid for with user charges in many instances where taxes cannot be levied. The cost, because of the revenue pooling arrangements, and loan guarantee programs, may approximate what the municipality would pay on its own.

STATE ISSUES BONDS

The state Environmental Control Commission would then issue its revenue bonds based on the capital needs of the local district and the proceeds of the bonds would go in our example to the Cook County Environmental Control District to acquire or construct the necessary facilities to meet the local needs. The facilities could thus be made available to industry without any direct cost to the public and without additional taxation. By coordinating with the local district, the state agency could insure that local efforts would employ sound technology and responsible financing.

ECONOMIES

Moreover, by the coordinating of various individual pollution efforts, the local districts and the state agency could make additional economies available to the users by the sharing of some facilities among them wherever possible. The technical advice which could be offered by the state experts could result in more efficient implementation of technology as applied to the particular industries involved. For instance, new techniques are providing ways to recover many pollutants as useful raw materials which can be resold or recycled to offset the costs involved in pollution control. We have found in a Houston project we financed that material recycling now significantly off-sets operating costs with the re-use of 30% to 35% of the input volume. There are many instances where wastes and by-products of one industry become raw materials for another, only because the volumes were able to be coordinated and timed. It seems inevitable that additional discoveries of this type will be soon forthcoming. Thus, the industries receiving the control district facilities could be aided in making their own operations more efficient.

SOLID WASTE DISPOSAL

Another interrelated problem which plagues both industrial and municipal agencies is the problem of solid waste disposal which is not a part of the pending $1 billion bond referendum. The combination of increased population and increased waste per capita presents an exploding and aminous problem that involves not only the treatment of residential and industrial wastes, but also that of getting rid of the final wastes after treatment. It is important that any solid waste program be coordinated with the air and water pollution control programs because generally the final product of these projects is an unwelcome sludge which is hard to dispose of in any volume. This problem of solid waste disposal is an area in which economies of scale are most evident. The greater the volume of solid wastes or sludge treated by a facility or to be disposed of, the lower the per-ton cost can be brought.

These are great opportunities for additional revenues and income to be generated here. Solely out of elimination of duplicate facilities, coordination of collection and transfer stations, and the economies of large volume material handling, the district could provide a cheaper service, yet generate income to reduce the overall costs of environmental control, compared to what would be the cost of handled with today's fragmented approach.

In addition, a major hazard could be averted in the regional systematizing of the refuse disposal problem which will become critical within a few years.

The City of Chicago now generates almost 3 million tons of solid wastes (excluding sewage sludges) each year. About 50% of this volume is exported for disposal in other areas. Of the 22 regions in Northeastern Illinois surveyed in 1963, 16 had less than 10 years life in disposal areas, and 10 are now exporting all refuse. In addition, only 28 of the 82 disposal facilities in the area were publicly owned, and no regulations exist on the rates charged by the private sites. In the last year, at least one of the major operators of these sites doubled his rates.

By closely coordinating with both public and private refuse operations, the District could provide regional disposal operations that would most efficiently take advantage of logistics, and provide the lowest cost, yet most up-to-date technological facilities for disposal of all solids generated with the Northeastern Illinois area. By operating as a profit-making operation, it could be self supporting, and maintain the lowest costs for the communities and industries it serves.

ASSISTANCE ON THE PROGRAM

The program we have developed reflects the thinking of many people, all of whom are willing to offer their time and talents to refine and perfect the programs and mechanics and to serve in any way to help implement it. We have the experience and background to bring to bear on the economics and legal aspects of the bond issues and can advise all state and local agencies involved. In addition, we at Goodbody & Co. are prepared to secure the assistance of the financial community to underwrite and distribute the bonds which will be issued by the Commission. All of us have developed this program together in order to bring the critical problem of environmental control into a solvable perspective and to provide a sound economic basis for our community to meet these challenges. We have discussed this concept in general with officials of several large corporations, engineers and civic leaders, with a uniformly positive response. We are confident that the support for this coordinated plan will be widespread and enthusiastic.

OPPORTUNITIES FOR CHICAGO

For Chicago in particular, we believe that this program will provide:

1. An acceleration of the implementation of needed pollution control and abatement methods.

2. The provision of a modern method of *adequate* financing in keeping with the ever-advancing state of the art of pollution control, by offering immediate, direct and attractive financial incentives to industry and the community.

3. Continued national leadership for the City of Chicago in meeting the growing challenge of urban and social problems. This program will demonstrate that this effort need not be based on property taxation and that it can be supported by industry. The program would be a model for others to follow.

PARTICIPANTS, ENVIRONMENTAL CONTROL FINANCING LUNCHEON, MARCH 12, 1968

Todd Cayer, Deputy Regional Construction Grants Program Director, Federal Water Pollution Control Administration, Chicago, Illinois.

Frank E. Dalton, Chief Engineer, Metropolitan Sanitary District of Greater Chicago.

Stephen Denning, General Partner, Goodbody & Co., Chicago, Illinois.

Robert G. Ducharme, Assistant Director, Northeastern Illinois Planning Commission, Chicago, Illinois.

Richard G. Ferguson, Partner, Isham, Lincoln & Beale, Chicago, Illinois.

James V. Fitzpatrick, Commissioner, Dept. of Streets & Sanitation, Chicago, Illinois.

James Flannery, Chief Economist, Federal Water Pollution Control Administration, Washington, D.C.

Robert Gentz, Vice President, Inland Steel Co., Chicago, Illinois.

G. Findley Griffiths, President, Interlake Steel Corp., Chicago, Illinois.

H. Harper, Vice President, Northern Illinois Gas Company, Chicago, Illinois.

E. F. Heizer, Jr., Assistant Treasurer, Allstate Insurance Company, Northbrook, Illinois.

Allen S. Lavin, Chief Counsellor, Metropolitan Sanitary District of Greater Chicago.

Richard C. Lonergan, Vice President, Allstate Insurance Company, Northbrook, Illinois.

James H. McCall, Corporate Finance Dept., Goodbody & Co., Chicago, Illinois.

Ronald D. Michaelson, Administrative Assistant, Board of Commissioners of Cook County, Illinois.

Morgan Murphy, Jr., Partner, Coughlan, McGloon, Joyce & Murphy, Chicago, Illinois.

William F. Palmer, Engineering Consultant, Goodbody & Co., New York, New York.

Preston E. Peden, Director of Governmental Affairs Division, Chicago Association of Commerce and Industry, Chicago, Illinois.

James F. Reilly, General Partner, Goodbody & Co., New York, New York.

John R. Sheaffer, Research Associate, Center for Urban Studies, University of Chicago.

Charles F. Willson, Director of Area Development, Continental Illinois National Bank and Trust Company, Chicago, Illinois.

Richard A. Young, Manager, Institutional Department, Goodbody & Co., Chicago, Illinois.

Mr. MONRONEY. I yield back the remaining time.

Mr. RIBICOFF. I yield back the remainder of my time.

The PRESIDING OFFICER. All remaining time having been yielded back, the question is on agreeing to the amendment. The yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BAKER (when his name was called). On this vote I have a pair with the distinguished senior Senator from Illinois [Mr. DIRKSEN]. If he were present and voting, he would vote "yea." If I were at liberty to vote, I would vote "nay." I withhold my vote.

The rollcall was concluded.

Mr. BYRD of West Virginia. I announce that the Senator from North Carolina [Mr. ERVIN], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Missouri [Mr. LONG], the Senator from Arkansas [Mr. MCCLELLAN], and the Senator from New Mexico [Mr. MONTOYA] are absent on official business.

I also announce that the Senator from South Carolina [Mr. HOLLINGS], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], and the Senator from Alabama [Mr. SPARKMAN] are necessarily absent.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY] would vote "yea."

On this vote, the Senator from North Carolina [Mr. ERVIN] is paired with the Senator from Arkansas [Mr. FULBRIGHT]. If present and voting, the Senator from North Carolina would vote "yea," and the Senator from Arkansas would vote "nay."

On this vote, the Senator from South Carolina [Mr. HOLLINGS] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from South Carolina would vote "yea," and the Senator from Rhode Island would vote "nay."

On this vote, the Senator from Arkansas [Mr. MCCLELLAN] is paired with the Senator from New Mexico [Mr. MONTOYA]. If present and voting, the Senator from Arkansas would vote "yea," and the Senator from New Mexico would vote "nay."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Illinois [Mr. DIRKSEN] and the Senator from Arizona [Mr. FANNIN] are necessarily absent.

If present and voting, the Senator from Arizona [Mr. FANNIN] would vote "nay."

The pair of the Senator from Illinois [Mr. DIRKSEN] has been previously announced.

On this vote, the Senator from Kansas [Mr. CARLSON] is paired with the Senator from Nebraska [Mr. HRUSKA]. If present and voting, the Senator from Kansas would vote "yea," and the Senator from Nebraska would vote "nay."

The result was announced—yeas 50, nays 32, as follows:

[No. 86 Leg.]

YEAS—50

Allott	Griffin	Moss
Bartlett	Gruening	Murphy
Bayh	Hart	Nelson
Bible	Hartke	Percy
Boggs	Holland	Proxmire
Brewster	Inouye	Randolph
Brooke	Jackson	Ribicoff
Byrd, Va.	Javits	Russell
Cannon	Jordan, N.C.	Scott
Case	Jordan, Idaho	Smathers
Church	Kennedy, Mass.	Spong
Clark	Kuchel	Symington
Cotton	Magnuson	Tydings
Dodd	McGee	Williams, N.J.
Dominick	McIntyre	Williams, Del.
Fong	Metcalf	Yarborough
Gore	Mondale	

NAYS—32

Aiken	Hatfield	Muskie
Anderson	Hayden	Pearson
Bennett	Hickenlooper	Prouty
Burdick	Hill	Smith
Byrd, W. Va.	Long, La.	Stennis
Cooper	McGovern	Talmadge
Curtis	Miller	Thurmond
Eastland	Monroney	Tower
Ellender	Morse	Young, N. Dak.
Hansen	Morton	Young, Ohio
Harris	Mundt	

PRESENT AND GIVING A LIVE PAIR, AS PREVIOUSLY RECORDED—1

Baker, against.

NOT VOTING—17

Carlson	Hruska	McClellan
Dirksen	Kennedy, N.Y.	Montoya
Ervin	Lausche	Pastore
Fannin	Long, Mo.	Pell
Fulbright	Mansfield	Sparkman
Hollings	McCarthy	

So Mr. RIBICOFF's amendment was agreed to.

Mr. RIBICOFF. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. PROXMIRE and several other Senators moved to lay on the table the motion to reconsider.

The motion to lay on the table was agreed to.

Mr. RIBICOFF. Mr. President, I move to make this amendment a part of the original bill.

The PRESIDING OFFICER. The question is on the motion of the Senator from Connecticut.

The motion was agreed to.

Mr. RIBICOFF. Mr. President, I move to reconsider the vote by which the motion was agreed to.

Mr. PROXMIRE. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

AMENDMENT NO. 675

Mr. RANDOLPH. Mr. President, I call up my amendment No. 675. The amendment is at the desk.

The PRESIDING OFFICER. The clerk will state the amendment.

The ASSISTANT LEGISLATIVE CLERK. The Senator from West Virginia [Mr. RANDOLPH] proposes an amendment for himself, Mr. BYRD of West Virginia, and Mr. MUSKIE, beginning on page 4, line 9, to strike out all to and including line 16, page 6.

The language proposed to be stricken out, is as follows:

SEC. 3. MORATORIUM ON PUBLIC WORKS PROJECTS.

(a) (1) Notwithstanding any other provision of law, no Federal department or agency shall, during the period in which this section is in effect—

(A) initiate the planning or construction of any public works project (including projects for recreational facilities but excluding projects for highways), or

(B) make any grant to any State or local government agency for initiating the planning or construction of any such public works project.

(2) Upon request of the head of the Federal department or agency concerned, the Director of the Office of Emergency Planning shall investigate a public works project with respect to which paragraph (1) applies for the purpose of determining whether the delay in planning or construction of such public works project required by paragraph (1) will cause irreparable damage to the public health or welfare. If with respect to any planning or construction of any such public works project, the Director determines that such delay will cause such irreparable damage, paragraph (1) shall cease to apply with respect to such planning or construction effective on the date on which the Director publishes such determination.

(3) The Director shall report, from time to time, the results of his investigations and determinations under paragraph (2) to the President and the Congress.

(b) (1) The Director of the Office of Emergency Planning shall make an investigation of all public works projects (including projects for recreational facilities but excluding highway projects), the planning or construction of which has been initiated on or before the date of the enactment of this Act and is being carried out by a Federal department or agency or by a State or local government agency with Federal assistance, for the purpose of determining what planning and construction on such public works projects can be temporarily halted without causing irreparable damage to the public health or welfare.

(2) Notwithstanding any other provision of law, no Federal department or agency shall—

(A) continue any planning or construction, or

(B) make any grant (or payment of a grant previously made) to any State or local government agency for continuing any planning or construction,

which the Director determines under paragraph (1) can be so temporarily halted, during the remainder of the period in which this section is in effect beginning with the day

after the date on which the Director publishes such determination.

(3) The Director shall, as soon as practicable, report the results of his investigation and determinations under paragraph (2) to the President and the Congress.

(c) This section shall apply during the period beginning on the day after the date of the enactment of this Act and ending on the last day on which the tax required to be deducted and withheld on wages under section 3402 of the Internal Revenue Code of 1954 includes any amount attributable to the tax surcharge imposed by section 51 of such Code.

The PRESIDING OFFICER. Who yields time?

Mr. RANDOLPH. Mr. President, yesterday afternoon I placed on the desk of each Senator a brief memorandum setting forth some of the implications of section 3 of the Williams-Smathers amendment, the "Moratorium on Public Works Projects."

In the memorandum I indicated that there was a need for clarification of some of the subject matter which had been acted on in the Senate in prior votes.

This afternoon I want to further clarify the memorandum and to enlarge upon it. I am very grateful for the privilege of discussing this amendment, which is cosponsored by my able colleague, Senator BYRD of West Virginia, and Senator MUSKIE of Maine.

I shall address myself first to the comments of the Bureau of the Budget concerning this section in reply to a request of the Committee on Finance, chaired by the able Senator from Louisiana [Mr. LONG]. That request was in connection with a report on S. 2902, a bill introduced by the distinguished Senator from Delaware [Mr. WILLIAMS], which contains essentially the language embodied in section 3 of the pending measure, sponsored by Senators WILLIAMS of Delaware and SMATHERS.

The proposed moratorium is offered as an economy measure. However, I think Members of the Senate who are conversant with the construction activities of the Federal Government are aware that a stop-and-go approach is infinitely more costly than the orderly procedures established by the Congress to guide the administration of these programs.

In this regard, the Bureau of the Budget commented in the following words:

> The proposed moratorium on public works projects would be costly and difficult to administer. It would require uneconomic actions to stop many worthwhile projects already underway if large reductions in expenditures were to be achieved.

That is the end of the quotation from the Bureau of the Budget in reporting on the original bill offered by the Senator from Delaware.

Senators have previously heard during the debate on this matter references to the action by President Truman in curtailing public works construction during the crisis in Korea. However, I would point out that even during that period, when the relative wartime demands on the economy were much greater than they are today, the actions of the administration were far less stringent and extreme than those that are proposed in the pending measure.

Mr. President, to quote again from the report of the Bureau of the Budget:

> Contracts were generally allowed to be completed on less essential projects before placing the projects on the standby basis. The present bill would require cancellation of existing contracts.

I underscore that language. The present bill would require cancellation of existing contracts.

The report of the Bureau of the Budget refers to five specific difficulties created by the language proposed in section 3 of the pending measure.

First, economically it would be very costly and wasteful to the Federal Government and to our State and local governments, for it would require additional costs to place projects on a standby basis, and would subject Federal agencies to damage claims for the cancellation of construction contracts.

Second, cancellation of planning on projects would be severely damaging. I think this is important to underscore—not only the projects that are in being, but the projects that are in the planning stage would be affected. This would of course damage programs of the Federal Government as well as State and local programs, and would result in the loss of highly skilled planning staffs, who could not readily be recovered for work after July 1 of 1969, when the moratorium would presumably be lifted.

It would be doubtful, of course, just how quickly we could pull those people back. But I think it is even more important to note that a moratorium on planning would be in direct violation of the recommendations of the Bureau of the Budget to maintain a high level of planning activity at periods of relative cutbacks in construction level, so that these highly skilled teams can be held together.

Third, the Bureau of the Budget criticized the language of S. 2902 as not having clear definitions. The pending measure, I say, has not been improved—and I say that with good conscience and good grace—in this regard. The concept of irreparable damage to public health and welfare is probably without meaning, since it is doubtful that anyone could make a judgment that the failure to construct a hospital or to build a dam or to erect a vocational educational facility would be damaging beyond repair to the public health or welfare.

Fourth, I quote again from the report of the Bureau of the Budget:

> Investigations of the projects being planned or under consideration before a determination to stop a project would require a time-consuming investigation period. The application of the moratorium to all going projects could well take several years, by which time some of these projects would already be completed. If an investigation of going projects were to be required, it is questionable whether OEP is the proper agency.

Of course, I too think the Office of Emergency Planning, without disparagement of it, is not the agency with which the authors of the amendment should have entrusted the making of decisions. But, to continue—

> It is questionable whether OEP is the proper agency to review agency proposals and make the final determination as to what is essential to the public health and welfare.

Finally, there is a serious question of equity involved in section 3, since many of the programs which would be covered by the proposed moratorium are identical to programs financed with Federal loans, which would not be affected.

I now direct the attention of Senators to the all-encompassing scope of the term "public works." As I have stated in the memorandum to which I have called attention, title 40, United States Code, section 460, defines public works as "any public works other than housing."

The Special Analyses of the Budget of the United States for fiscal year 1969 has a separate chapter entitled "Federal Activities in Public Works." I call attention to table G–2, page 79, which presents a summary of direct Federal public works expenditures in 1969 under new obligational authority. I remind Senators that this table includes none of the Federal grant-in-aid programs. I shall not read it, but I ask unanimous consent to have printed in the RECORD the entire list, presented in table G–2, page 79 of the aforementioned document.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TABLE G–2.—DIRECT FEDERAL PUBLIC WORKS—EXPENDITURES AND 1969 NEW OBLIGATIONAL AUTHORITY, BY AGENCY FROM FEDERAL FUNDS AND TRUST FUNDS

[In millions of dollars]

Type of program and agency	Expenditures			New obligational authority, 1969 estimate
	1967 actual	1968 estimate	1969 estimate	
Civil public works:				
Forest Service	112	137	123	139
Corps of Engineers—Civil	1,057	1,022	923	894
Public Health Service	36	47	48	30
Social Security Administration (trust funds)	1	8	26	26
Bureau of Indian Affairs	56	58	55	52
National Park Service	52	54	51	13
Bureau of Reclamation	231	210	215	202
Bonneville Power Administration	106	115	116	114
Post Office Department	43	42	88	130
Coast Guard	29	34	70	52
Federal Aviation Administration	62	79	102	71
General Services Administration	239	214	172	61
National Aeronautics and Space Administration	289	160	76	45
Veterans Administration	60	59	66	34
Tennessee Valley Authority	183	249	263	28
Other	196	218	213	87
Subtotal, civil public works	2,752	2,706	2,607	1,978

TABLE G-2.—DIRECT FEDERAL PUBLIC WORKS—EXPENDITURES AND 1969 NEW OBLIGATIONAL AUTHORITY, BY AGENCY FROM FEDERAL FUNDS AND TRUST FUNDS—Continued

[In millions of dollars]

Type of program and agency	Expenditures			New obligational authority, 1969 estimate
	1967 actFa.	1968 +, ostimate	1969 estimate	
National defense public works:				
Army	447	786	604	691
Navy	523	177	356	372
Air Force	550	568	438	278
Interservice activities	80	90	134	79
Civil defense centers and shelters	1	2	6	
Atomic Energy Commission	130	161	245	353
Subtotal, national defense public works	1,731	1,784	1,783	1,773
Total, direct Federal public works	4,483	4,489	4,391	3,752

Mr. RANDOLPH. I mention the Forest Service as an example. There was mention, earlier today, by the Senator from Washington [Mr. MAGNUSON], the chairman of the Committee on Commerce, concerning programs in the Forest Service.

The Public Health Service, the Bureau of Indian Affairs, the Bureau of Reclamation, the Coast Guard, the National Aeronautics and Space Administration, the Veterans' Administration, and others—some 18 or 20 in all—have civil works construction programs. Those civil public works activities are under planning and construction, and would be killed by the moratorium which is envisaged in the Williams-Smathers amendment.

The total expenditures in 1967 for all of these agencies, some of which I have mentioned, were $4.483 billion. The estimated expenditures for fiscal year 1968 are $4.489 billion.

Because of the timelag between the obligations, the expenditures, and the completion of construction, in all probability a large part of the funds for fiscal 1967 and possibly all of the funds for fiscal 1968 are still under contract, and much of this contracting would have to be postponed, under the terms of the moratorium proposed in section 3 of the amendment of the Senator from Delaware and the Senator from Florida.

I thus point out again that the proposed moratorium would make a shambles of the activities of every major agency in the U.S. Government engaged in construction.

Mr. CHURCH. Mr. President, will the Senator yield?

Mr. RANDOLPH. I yield.

Mr. CHURCH. Mr. President, will the Senator be kind enough to explain to me precisely what his amendment would do with respect to the moratorium?

Do I correctly understand that the Senator's amendment would exempt construction contracts that are underway, that have been started but are incomplete?

Mr. RANDOLPH. The Senator is correct. I would delete in its entirety section 3 from the bill.

Mr. CHURCH. How would the Senator's amendment affect new starts in the field of construction?

Mr. RANDOLPH. The administration would be able to go ahead with the planning and construction of projects that have been authorized by the Congress and for which funds have been or will be appropriated.

Mr. CHURCH. Would it be possible, also, if the Senator's amendment is agreed to, for new construction starts to begin in the coming fiscal year?

Mr. RANDOLPH. It would be possible, though I think that would be very improbable. I point out that the administration's proposed budget for fiscal year 1969 has already cut deeply into these programs, and, of course, the Appropriations Committees will exercise their judgment on these matters.

Mr. CHURCH. I thank the Senator.

Mr. RANDOLPH. Mr. President, the effect of this amendment cannot be determined as we discuss it on the floor of the Senate.

To consider only one small item that would be affected, I call the attention of the Senator from Idaho to the construction involved under the general item of Corps of Engineers, Civil Functions, appropriations. I refer to a request for $904 million. Out of that total, about $100 million can be classified as controllable. The remainder will be required for payment under existing, continuing contracts or for the initiation of other phases of the work which, if not awarded, would require the contracting officers to stop work on the existing contract.

Let us suppose that there is a valid contract for the construction of a dam. Unless contracts are amended for the necessary relocation of the facilities which would be flooded by the impoundment, the corps would have to suspend the contract to closure in order to avoid damages to a highway, let us say, or to property located within the reservoir or lake area that has not yet been acquired.

Very few if any of these public works projects would qualify as being essential to the public health or welfare. However, the cancellation of the existing contracts in the guise of saving money could be very expensive to the Government and to the taxpayers of the United States and would defeat the very purpose which the authors of the pending measure seek to serve.

I feel that it should be rejected.

Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. RANDOLPH. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from West Virginia has 10 minutes remaining.

Mr. RANDOLPH. Mr. President, I refer to the grant-in-aid programs for such projects as water and sewage treatment. This will be discussed in greater detail by the able Senator from Maine [Mr. MUSKIE], chairman of the Subcommittee on Air and Water Pollution. I refer also to the programs for vocational schools, public hospitals, medical health centers, and airports, all of which would fall under the proposed moratorium.

How many Senators are aware at this point that 41,000 persons are employed at the J. F. K. International Airport in the New York City area in both direct and indirect employment? It is the largest single employer at one site in New York City.

We have to think in terms of a continuing program and facilities for the movement of aircraft so that we may not only move people and products, but may also consider the safety of the people of the United States. Certainly their safety should be protected.

I remind the Senate that the several States and thousands of counties and municipal governments have already made their financing plans and predicated those plans on the good faith of the Federal Government.

The Federal dollars to be expended for such projects are to be matched in many instances by funds raised by bond issues that have not been easy of passage at the local and State level. This applies equally to projects that are already under construction as well as to those authorized and in the planning and preplanning stages mentioned by the able Senator from Idaho.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. RANDOLPH. I yield.

Mr. LONG of Lousiana. Mr. President, the Senator is to be applauded for offering this amendment. The cosponsors are also to be commended.

In the absence of the Senator's amendment, if the Williams-Smathers substitute should prevail, public works, a very ancient and honorable undertaking of the Government, would be placed in an inferior status in comparison with other kinds of spending for the Great Society. Let it be understood that I am not here to criticize the Great Society programs, I voted for most of the programs suggested by President Johnson. I refer to programs such as VISTA, Headstart, the poverty program, and the various other related programs. I assert, however, that no evidence can be produced to prove that they are any more worthy than the many desirable public works projects.

Is it not correct that, without this amendment, desirable public works, properly recommended and voted on by Congress and for which money would otherwise be appropriated, would be plcaed in a status inferior to that of other types of spending?

Mr. RANDOLPH. Mr. President, I agree with the statement of the Senator from Louisiana that the so-called old line programs are valuable. They have been tested. However, there is a mixture involved here. We find that the mental health facilities, vocational education and higher educational facilities are also

involved. I think we might call these a part of the Great Society. However, there is no need to downgrade other programs that have been proven over the years, programs of which Congress has a commitment and, in fact, a responsibility. We must be responsible to the American people.

I agree with the statement of the Senator from Louisiana.

Mr. LONG of Louisiana. Mr. President, is it not the case that all programs proposed in the budget will be carefully scrutinized by the Senate, including the public works recommendations? Naturally, the latter are likely to be cut below the President's recommendations, as are a lot of other requests. However, is not the amendment proposed as a substitute for the pending bill guilty of the charge that it over kills? It just kills all public works in sight. A conscientious administrator would be forced to stop virtually all activity under the language of the amendment.

Mr. RANDOLPH. The Senator is correct. It is sad to say it, but this is a meat approach rather than the approach of a careful and skilled surgeon in an attempt to find whether there might be improvements made or programs eliminated.

Mr. LONG of Louisiana. It is an overkill. What conscientious administrator could certify that any delay in a particular program would irreparably damage public health or welfare? When could he say that if we spend money later, even if it costs three times as much later, we could not possibly overcome the damage that had been done?

Mr. RANDOLPH. It could not apply. The Senator is correct. I agree with him completely.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. RANDOLPH. I yield.

Mr. MONRONEY. I am distinctly disturbed about a reference that this bill would do serious damage to our greatly needed airport program and would further postpone, for a period of many, many months, even the projection of planning for and getting ready for the construction of airports.

The Senator, who was active in writing the general airport bill when President Truman was in office, and who is completely familiar with this matter, knows that usually there is a period of perhaps 6 years between the inception of an airport and the time it is receiving planes.

As I read this amendment, we would jeopardize the program, for whatever period this freeze is on, or whatever the disposition is of the genius who is set up to administer it and to decide what is right and what is wrong with respect to public expenditures.

Can the Senator from West Virginia inform me as to the situation?

Mr. RANDOLPH. The Senator is correct. It takes 3 to 5 years to do an airport project. We know that, and we know that the needs run into the thousands—not only for the convenience and the comfort but also for the safety of the people of the United States as they move about, and also for the products that are shipped by the people of this country.

I referred earlier to the employment of 41,000 persons at J. F. K. International Airport, just to show the impact of this industry.

I believe it is also important to show the airline passenger growth in this country. In 1967, we had 126 million passengers on our scheduled airlines. The projected figure for 1973, as the Senator knows, is 248 million passengers, and by 1979 we project 444 million passengers.

America needs, as the Senator from Oklahoma has said, a continuing program of improvement for the convenience, comfort, and safety of the American people.

Mr. MONRONEY. The Senator is correct. He is aware—I presume he has referred to it—that the 747 jumbo jet will be unloading 450 people from its doors when it lands at the already overcrowded facilities in many cities, on the already overtaxed runways, and the same situation will apply to the 250-passenger DC–10, and the Lockheed Sky Bus, the 1011.

Mr. RANDOLPH. The FAA construction program in 1967 was only $62 million, and the projected figures are $79 million for 1968 and $102 million for 1969. Even these amounts, while substantial, are inadequate to meet our air transportation needs. The Senator knows that to be true.

Mr. MONRONEY. The program would be jeopardized unless the amendment is adopted.

Mr. RANDOLPH. Yes.

Mr. President, is the Senator from Maine [Mr. MUSKIE] in the Chamber?

Are we limited to 1 hour on the amendment?

The PRESIDING OFFICER. That is the time limitation on the amendment. The Senator has 1 minute remaining.

Mr. WILLIAMS of Delaware. Mr. President, I will have control of the time in opposition to the amendment. I shall not need the full 30 minutes to explain my position. If the Senator from West Virginia needs an extra 5 minutes, I will yield him 5 minutes of my time at this time or later, although I shall oppose his amendment.

Mr. RANDOLPH. I believe that the Senator from Deleware might well proceed at this time, and then we could, by his gracious consent, give the Senator from Maine an opportunity to speak. Could that be done?

Mr. WILLIAMS of Delaware. I will yield 5 minutes to the Senator from Maine at this time, if he wishes, or I will yield the time later.

Mr. MUSKIE. It might be just as well if the Senator went ahead at this time, and I will take my time later.

Mr. WILLIAMS of Delaware. All right.

I yield myself 10 minutes at this time.

Mr. President, the Senator from West Virginia has very properly pointed out that the Bureau of the Budget objects most strenuously to this amendment, which is in the Williams-Smathers package. There is no question about that. I spoke with the Director of the Budget yesterday at noon; in fact, I spoke with him several times in the last few days. I asked him particularly, after the Senate had had a couple of votes of rather great importance in connection with this bill, just what the position of the administration was in connection with the package before the Senate.

Mr. Zwick, the Director of the Budget, made it clear that the administration is unalterably opposed to the package before the Senator. They said they would like to have a tax increase, but they are unalterably opposed to each and every section in the bill—1, 2, 3, 4—which has any connection at all with controlling expenditures, not only the section with respect to public works, but the one with respect to controlling employment as well. They are against any control of or a ceiling on expenditures. They are against every proposal in this package which deals with controlling expenditures. They gave me the clear impression that they will do everything they can to defeat it. So there is no question about their position. We are in complete agreement that the Johnson administration is definitely opposed to any control of or any reduction in spending, but they do want the tax increase.

The suggestion has been made that the language is not quite proper and that the bill is not well drawn. I introduced this bill on January 31, and within 24 hours I submitted it to the Director of the Budget and asked him for their comments together with their recommendations for any change in the language. As of this moment, with but one exception, I have not received any suggestions for changes in the language, and I am glad to make that exception because it tightened the language.

They said—as the Senator from West Virginia pointed out—on page 4, line 16, after the word "grant," we should have included "loan"; otherwise, some of them would be left out. So an amendment will be offered in a moment which will put loans in since it was intended that they be covered in the first place. That was an unintentional omission on our part.

I thank the Budget Bureau for giving us that very constructive suggestion to tighten the language. That will be done, so it will be all inclusive.

With respect to the suggestion that the language is cloudy I was asked, "How do you define 'project' and how do you define 'public works'?"

This afternoon an argument is made that the language embraces all the employees at Kennedy Airport, and they now claim that 41,000 people are working there who would be seriously jeopardized and that thousands of people and the great growth of airports would be jeopardized. That is a ridiculous argument.

In fact, I wonder if the Senator from West Virginia, speaking for the administration, overlooked one point he could have made. Our population during this period has been growing at the rate of 2½ billion a year. I suppose some will argue that, too, will be jeopardized if we cut back on spending, because it is the only thing I know of, except the kitchen sink, that was not thrown in as an objection to this proposal. Then we hear the argument that the word "project" is not defined.

Now any bureaucrat or any Member of Congress knows what a public work project is. The word "project" is defined

in Webster's Dictionary. One definition is that a project is a plan or a proposal, a planned undertaking. Another definition for the same spelling—pronounced differently—is to throw away or to cast about.

I do not know whether they figure that these projects are something the administration wants to throw away. Maybe that has been the confusion. If the words "public works" are put in front of it, it merely means that it is a public works project and that the American taxpayers are paying for it. Every Senator knows that.

The Senator from West Virginia has enumerated the sewerage and the airports as projects that would be stopped, and there are those in the executive branch who use the same argument. But I will say that the executive branch never raised one question about these projects being involved until this week when the Senate rejected the Long amendment to delete them from the bill.

They were so sure they were going to knock it out that they did not bother to raise a question. Then, and only then, did they suddenly come up with a list of projects that they claim will be affected.

I am reminded of what happened a couple of years ago when we were debating in the Committee on Finance—the chairman will remember this—about whether or not we should extend the debt ceiling by a certain amount. The Secretary of the Treasury, in order to stimulate interest in Congress, made the statement that if Congress did not give them what they asked for by a certain date every social security check in America and all veterans pension funds were going to be stopped. He later admitted that was an off-the-cuff statement and that it was ridiculous and absurd. Veterans benefits are payable under law and the social security checks come out of a trust fund. Neither of those benefits would have been affected by the delay. Those were scare tactics which were being employed then, and that is what we are seeing here this afternoon.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I will yield in just a moment. To reach a compromise the Senator from Florida and I have agreed to reduce the coverage to those projects which are new starts. The part of the amendment in which we were primarily interested was new construction and new starts. We will compromise on this basis.

In a moment we are going to offer as a substitute an amendment which would confine this moratorium solely to new starts, which will eliminate all of the argument we have just heard. It would limit the proposal to new projects started from here on.

Even then, if the Office of Emergency Planning decided that a continuation or initiation of that project was in the best interests of that country it could go ahead.

The suggestion was made that the Office of Emergency Planning was not the proper agency. I do not care what agency is named. If anyone has a better suggestion I would accept it. I did ask the administration which office they think would be most appropriate to which to delegate this authority.

While it was clear that they were against the amendment, they said the Office of Emergency Planning was the most appropriate agency if it were to be approved. It was on their suggestion that we put in the Office of Emergency Planning. As I have said, if any Senator has a better suggestion I would welcome it.

But let us face it, this argument, like the others, was only an excuse to object to a plan they were determined to oppose anyway.

Confining the amendment solely to new construction projects would achieve the objective we seek and at the same time it is a proposal which the administration has said they could live with.

Mr. MORSE. Mr. President, will the Senator yield to me for 4 minutes? I am on the other side, but the Senator from West Virginia [Mr. RANDOLPH] has no time remaining.

Mr. WILLIAMS of Delaware. I would be glad to yield to the Senator from Oregon for 4 minutes if he will wait for a moment.

Mr. MORSE. I am sorry. I thought the Senator had completed his remarks.

Mr. LAUSCHE. Mr. President, will the Senator yield for a question?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. Is it the proposal of the Senator from Delaware that his amendment would allow the administration to go forward with all projects which have already been approved and which are underway?

The PRESIDING OFFICER (Mr. MONDALE in the chair). The time of the Senator has expired.

Mr. WILLIAMS of Delaware. No, Mr. President. How much time do I have remaining?

The PRESIDING OFFICER. The Senator has used 10 minutes of his 20 minutes. The Senator has 10 minutes remaining.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 6 additional minutes.

The PRESIDING OFFICER. The Senator is recognized for 6 additional minutes.

Mr. LAUSCHE. Mr. President, is it the position of the Senator from Delaware that those projects which have been planned and are underway shall not be interrupted by his amendment?

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. LAUSCHE. And even beyond that, new projects which the Office of Emergency Planning deems are in the interest of the country in the nature of new projects may go forward.

Mr. WILLIAMS of Delaware. The Senator is correct, just as they had under President Truman during the Korean war.

Mr. LAUSCHE. Is it the position of the Senator from Delaware that the stability of the dollar is of such grave importance that we must do something to demonstrate to the world that the Congress of the United States and the administration contemplate following the fiscal policy that will establish stability to the dollar?

Mr. WILLIAMS of Delaware. The Senator is correct. If we are going to start exempting public work projects the next step would be to exempt education, poverty programs, foreign aid, and agriculture. If we start this practice of exemptions we would be defeating the purpose of the bill.

Mr. SMATHERS. Mr. President, will the Senator yield to me for a question?

Mr. WILLIAMS of Delaware. I yield.

Mr. SMATHERS. It is also a fact, is it not, that Secretary Fowler, in commenting with respect to this kind of amendment we are now talking about said—and I shall read the letter into the RECORD because I think it is important:

> The proposed moratorium on public works projects would be costly and difficult to administer. It would require uneconomic actions to stop many worthwhile projects already underway if large reductions in expenditures were to be achieved.

Those were his comments on the proposal to impose a moratorium on all public works projects.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. SMATHERS. Mr. Fowler further said:

> The intent of S. 2902 in restricting new public works construction starts may be only slightly more limiting than the President's recommendations in the 1969 budget. The budget proposes very few new direct Federal projects other than those essential to the national defense and health and welfare of the public and, holds going work to a minimum level.

The effect of what the Secretary of the Treasury said was that while there would be great difficulty in limiting those public works projects which are underway and for which money has been appropriated, he would be for a proposal if ongoing projects were excluded from the amendment, as we have now recommended, and limited to new starts. At least indirectly this seems to be the effect of his statements.

Mr. WILLIAMS of Delaware. The Senator is correct. It would be slightly more limiting only to the extent we would write into law.

Mr. SMATHERS. Rather than by Executive order.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. JORDAN of Idaho. Mr. President, will the Senator yield for a question?

Mr. WILLIAMS of Delaware. I yield.

Mr. JORDAN of Idaho. I understand the Senator's amendment would prohibit construction of new projects. Would the amendment in any way prohibit the planning?

Mr. WILLIAMS of Delaware. No. That question was raised by the Senator from South Dakota earlier. He made an excellent point that it would be a good idea to continue the planning so that when this emergency is over they could have these plans on the drawing board. I discussed this with the the cosponsors, and we agreed that this was a small point. We would allow them to plan, but the plans would be held in abeyance until the war is over and our budget

more nearly under control. This would not restrict planning.

Mr. JORDAN of Idaho. With the understanding that planning can go forward I am pleased to support the amendment.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. LAUSCHE. Assume there is a bridge vitally needed because of the dilapidated condition of the existing bridge and the inadequacy of an existing bridge to serve the needs. Would the Emergency Planning Commission under the proposal of the Senator have the right in that instance to say that this is in the interest of the security and the economy of the country and allow it to be built?

Mr. WILLIAMS of Delaware. Surely, they could. It is intended that they could.

Mr. COOPER. Mr. President, will the Senator from Delaware yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. COOPER. Senator LAUSCHE has clarified an important point. Bridges which fall or become dangerous will be reconstructed.

Mr. WILLIAMS of Delaware. Surely, they can. Buildings can also burn down, and they will have to be reconstructed. We cannot stop everything.

Mr. COOPER. I have the honor to serve as the ranking Republican member of the Committee on Public Works. I serve also on the Appropriations Subcommittee for Appropriations of public works. I should like to say that no one holds the chairman of the Senate Public Works Committee, Senator RANDOLPH, in higher regard than I. No one has provided more effective leadership for the construction of necessary public works than the Senator from West Virginia.

It is difficult for me to disagree with him on this subject, for we have worked together for many years, but, taking into consideration the critical financial condition of our country, the most critical I have known during my service in Congress, the war in Vietnam, the absolute necessity of getting our house in order, by the control of expenditures and the levying of taxes, to halt inflation, to prevent the drain of our gold, and to establish the confidence of the world in our financial situation, and the dollar, every program must take some reductions.

If we have to make a choice between public buildings and public works as against human needs, I want programs for human needs to be preserved.

Therefore, I shall vote for the amendment of the Senator from Delaware [Mr. WILLIAMS] and against the amendment of the Senator from West Virginia [Mr. RANDOLPH].

Mr. WILLIAMS of Delaware. Mr. President, I yield 4 minutes to the Senator from Oregon [Mr. MORSE].

The PRESIDING OFFICER. The Senator from Oregon is recognized for 4 minutes.

Mr. MORSE. Mr. President, the language of the Williams amendment No. 662 states in section 3 that there shall be a moratorium on the initiation of all public works construction by the Federal Government, or by any State with Federal money, excluding highways.

The moratorium itself would mean disaster to education, health, and many of the activities of all levels of government. Only if the Office of Emergency Planning were to make general exceptions, as it is empowered to do, would the impact of this provision be alleviated. Yet the Office of Emergency Planning must make a finding that a delay in planning or construction of such a facility would "cause irreparable damage to the public health or welfare."

I find that in Vietnam pacification spending, we allocate and appropriate funds for planning and construction of many structures far less important to the people of Vietnam than are the structures forbidden the American people by this amendment. The theory of pacification in Vietnam is that we have to create a feeling of loyalty to their Government on the part of the local people. They do not have it; we have to create it with American money spent for schools, public markets, hospitals and other medical facilities, and housing.

Sidney Roche, the retired lieutenant colonel and a civilian adviser who has resigned for lack of confidence in our pacification program, cites among the instances of corruption he could no longer stomach the furnishing of cement for the patio of a province chief's brother-in-law.

It is not as though we were helping the people of Vietnam at this expense to ourselves. We are forcing our help on them, in the effort to create a feeling of nationality and cohesion with the government in Saigon that does not exist.

I simply cannot imagine what obsession we are developing when we think we have to suspend all construction by the Federal Government here in the United States in order that we can continue planning and initiating the construction of the same projects in Vietnam.

What we have in connection with the 10-percent surtax is the same situation. We all know that a tax increase is the price the European central banks are exacting as the price for stopping their run on U.S. gold. They hold vast quantities of Yankee dollars. Why? In large part because of the stationing of 330,000 American soldiers and many of their dependents across the length and breadth of Europe, except in France, where we have been kicked out. The Senator from Missouri said here yesterday that the net dollar loss to us from those soldiers is some $700 million a year. The majority leader tells us that the total cost to U.S. taxpayers is $2.5 billion.

The Europeans who hold those dollars do not want to see them cheapened by inflation. They are going to demand gold for them unless we maintain their value by imposing a tax increase on the American people. There was no great sentiment for a tax increase in Congress until the word came from Europe that they might lose faith in the value of the billions of dollars we have spent over there to protect them.

The soldiers in the amount of 330,000 or so are not enough of a commitment to suit Western Europe. They want the value of their surplus dollars maintained, too. That is why all the furor for a tax increase in this Chamber in recent days. It is not for the protection of the American people and their confidence in the dollar. It is for the protection of the Europeans who hold dollars.

This, too, is commitment gone mad. We are taxing our own people so that Europeans can enjoy the protection of 330,000 American servicemen which they have not matched with NATO forces of their own, plus the untarnished value of the surplus dollars it costs us to keep them there.

We are being asked in the same amendment to suspend public works in this country so that they can continue in Vietnam, where the people seem less and less willing to put forth any effort to preserve a government that does not represent them.

I am aghast at the illogic and self-defeat of this entire amendment.

Mr. President, if the distinguished Senator from Delaware [Mr. WILLIAMS] wants to know what a substitute may be, I will give it to him:

Take $20 billion from the unjustified $79 billion recommendation of this administration for defense spending, only $26 billion of which is Vietnam connected. Cut the foreign aid bill by $2 billion. Then no one will have to cheat the American people out of needed domestic improvements, which this amendment would do, and drive thousands of workers into the streets, costing us $6 for every $1 we will save, plus precious American blood here at home as well as in Vietnam.

Mr. WILLIAMS of Delaware. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from Delaware has 7 minutes remaining.

Mr. WILLIAMS of Delaware. I yield 4 minutes to the Senator from Maine.

The PRESIDING OFFICER. The Senator from Maine is recognized for 4 minutes.

Mr. MUSKIE. I thank the distinguished Senator from Delaware for yielding me time to listen to an argument against his amendment. I appreciate his courtesy very much.

Mr. President, it has been made clear that the amendment strikes at much more than the Corps of Engineers' projects which, I suspect, most Senators had in mind as being affected by the provisions of the Williams-Smathers amendment.

I am particularly interested in the fact that the amendment, if allowed to stand, would bring to a screeching halt the sewage treatment grant program which is so vital to the fight against water pollution in this country.

To give an indication of the magnitude of the impact upon this program, let me cite some figures.

At the present time, the Federal Water Pollution Control Administration has outstanding commitments amounting to $323 million to municipalities, to assist in the construction of over $1.6 billion of waste treatment facilities. These are facilities in the process of construction. We have already committeed ourselves to the communities. Those commitments could not be met if the pending amendment should be adopted.

Second, under the water quality standards program which was initiated under

the 1965 act, we have brought pressure upon every community in every State to begin planning sewage treatment projects and industrial waste treatment projects to meet higher standards of water quality. That is the pressure which has motivated the States to float bond issues and has motivated the communities to make investments in planning and in staffs. These are not ongoing projects, but they are projects which are the inevitable result of activities we have already stimulated under the landmark legislation of 1965 and 1966, which would be brought to a screeching halt.

In 1966, we enacted legislation to provide $6 billion—that was in the Senate—to help States and communities do the job.

The House forced us to reduce that figure to $3.5 billion. In the first installment of that authorization in this fiscal year, we have cut it from $450 million to $203 million. Now this amendment would force us to cut the $203 million.

Mr. President, I do not think it is necessary to impose that kind of austerity on this kind of domestic national problem, which is so clearly related to the long-range economic growth of our country.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 2 minutes.

The argument of the Senator from Maine is not at all valid. In the first place, this proposal does not stop projects which are underway. I would like to read what Secretary Fowler said in connection with the amendment now at the desk:

> The intent of S. 2902 in restricting new public works construction starts may be only slightly more limiting than the President's recommendations in the 1969 budget.

As a stanch supporter of the administration, I have had this amendment drafted so that it does only what the President promised he was going to do anyway—only I want to write it in the law.

Mr. MUSKIE. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I do not have the time.

Since this amendment does only what President Johnson said he was going to do, why is there objection? The amendment that the Senator from Florida and I are suggesting is that we write into law what President Johnson said he was going to do. Why does anyone object to writing it into law unless he thinks the President was merely making political speeches and had no intention of implementing his promises?

If the Senator from Maine thinks that President Johnson does not mean what he said, or if he thinks President Johnson wants to stop sewage plants, then he should make that accusation clear, but he should not use that argument against this bill, because it has nothing to do with it.

Mr. President, I reserve the remainder of my time.

Mr. MUSKIE. Mr. President, will the Senator yield to me so I may reply?

Mr. WILLIAMS of Delaware. I have already yielded 4 minutes to the Senator from Maine.

Mr. MUSKIE. It is important to answer that.

May I have some time on the bill?

Mr. LONG of Louisiana. Mr. President, I yield 2 or 3 minutes on the bill.

Mr. MUSKIE. Three minutes.

I have disagreed with President Johnson on air and water pollution legislation for 5 years. I have taken issue with him and prevailed, because I have greater influence in the committee than he does. So I know the impact of the provisions before us on these programs. So my description of them is accurate—they will come to a screeching halt, and the Senator's proposed no-new-starts amendment will not get to this problem.

If that is what the Senate wants to do, it is the Senate's privilege; but let me say that, in my considered judgment—and I have checked this out with competent counsel as well as people in the administration, and formed a judgment of my own—this is the impact. If that is what Senators want, that is the way they ought to vote, but this proposal will bring the water pollution program to a screeching halt.

Mr. WILLIAMS of Delaware. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. One minute.

Mr. WILLIAMS of Delaware. Mr. President, does the Senator from Ohio [Mr. LAUSCHE] wish me to yield?

Mr. LAUSCHE. Yes. May I ask the Senator from Delaware a question.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. I yield 1 minute.

Mr. LAUSCHE. If we do not stabilize the strength of the dollar, if we allow it to collapse, what will then be the situation with respect to the water, sewerage, and air contamination programs which we have adopted? Is it not a fact that all the Senator from Delaware asks is a delay until we put our financial house in order?

The argument has been made by economists of great ability that the problem confronting us is one that may lead to calamitous consequences. It may lead to a collapse of the international fiscal system, which may lead to a collapse of stock sales, and otherwise.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LAUSCHE. May I have 2 minutes on the bill?

Mr. WILLIAMS of Delaware. Mr. President, I yield 2 minutes on the bill.

I completely concur in what the Senator from Ohio has said.

Let me say in conclusion that the adoption of the amendment which we are proposing does not halt any planning. It does not halt a single project underway. It does not halt any projects for which commitments have been made. It does not stop any future initiation of any project which can be certified as being essential to the national interest. What more can we ask at this time?

Mr. LAUSCHE. Mr. President, I want to repeat what the Senator from Delaware has said. The amendment which he proposes allows the Office of Emergency Planning to approve all projects which are deemed essential and necessary in the interest of the people of the country.

Mr. WILLIAMS of Delaware. That is correct. Why should we not postpone projects which can be postponed at a time when we have a $28 billion deficit?

Mr. RANDOLPH. Mr. President, I say, not in disparagement, that there has been an omission by the authors of section 3. The language is very deficient. Now the proposal is to make changes and present a substitute and take another approach. I am thinking of programs like mass transit, public hospital facilities, mental health facilities, facilities of all types to strengthen our economy and look after human resources, and I am thinking in terms of air and water pollution. Certainly a cesspool in this country is not desirable. If we do not continue such programs, and even initiate new ones, we will be in trouble.

Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. WILLIAMS of Delaware. Mr. President, I send an amendment to the desk, which I ask to have stated.

The PRESIDING OFFICER. The amendment will be stated.

The LEGISLATIVE CLERK. The Senator from Delaware [Mr. WILLIAMS] offers, for himself, the Senator from Florida [Mr. SMATHERS], and the Senator from Ohio [Mr. LAUSCHE], an amendment on page 4 beginning with line 9, strike out all down to and including line 9 on page 6 and insert in lieu thereof the following:

> SEC. 3. MORATORIUM ON PUBLIC WORKS PROJECTS.—(a) (1) Notwithstanding any other provision of law, no Federal department or agency shall, during the period in which this section is in effect—
>
> (A) initiate the construction of any public works project (including projects for recreational facilities but excluding projects for highways), or
>
> (B) make any grant or loan to any State or local government agency for initiating the construction of any such public works project.
>
> (2) Upon request of the head of the Federal department or agency concerned, the Director of the Office of Emergency Planning shall investigate a public works project with respect to which paragraph (1) applies for the purpose of determining whether the delay in construction of such public works project required by paragraph (1) will cause irreparable damage to the public health or welfare. If with respect to any construction of any such public works project, the Director determines that such delay will cause such irreparable damage, paragraph (1) shall cease to apply with respect to such construction effective on the date on which the Director publishes such determination.
>
> (3) The Director shall report, from time to time, the results of his investigations and determinations under paragraph (2) to the President and the Congress.

Mr. WILLIAMS of Delaware. Mr. President, I ask for the yeas and nays on the pending amendment.

The yeas and nays were ordered.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 3 minutes. I should like to read again what the Secretary of the Treasury told the Finance Committee on March 12 of this year in connection with the amendment as it is now at the desk:

The intent of S. 2902 in restricting new public works construction starts may be only slightly more limiting than the President's recommendations in the 1969 budget. The budget proposes very few new direct Federal projects other than those essential to the national defense and health and welfare of the public.

The only thing limiting about this amendment is that we write into law what the President has said he is going to do. It does not stop any project which is underway. It does not halt any planning. It does not prohibit construction or the initiation of any new project if—and I emphasize the word "if"—that project has been certified by the Office of Emergency Planning as being essential to the national interest and public welfare.

We are speaking much here about establishing priorities. To me this will be a key vote in the Senate on this bill. Are we merely going to adopt a proposal which embraces a lot of figures about reducing the budget and at the same time insist on deleting from the bill all of those provisions which may affect some particular project we like?

I think if we are to adopt the proposed package, which would require a $6 billion reduction in spending plus an additional $10 billion reduction in the authorization for 1969, we are going to have to cut spending somewhere. Senators had just as well face up to the fact that in the months to come we are going to have to answer some roll calls and do some budget cutting; or do they wish to delegate to the President of the United States the responsibility and the authority to make the cuts?

Here is the place we can start. I think our vote here today will be understood.

Mr. President, I do not think we have any choice but to agree to this amendment and then be sure it is retained in the bill.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. AIKEN. Does the Senator feel that his amendment would prohibit the improvement of veterans' facilities necessary to take care of the increasing numbers of sick and wounded veterans?

Mr. WILLIAMS of Delaware. Certainly it would not. Not only that; using that argument, as they have been trying to do here today, is just as ridiculous as it was when Secretary Fowler made the threat that if we did not extend the debt ceiling by X date he would stop payment of all social security pensions in America.

That is one of the scare tactics used by an administration which does not want to cut spending. Do not overlook the fact that they have said that no matter how it is modified they do not want it.

Mr. AIKEN. Then if it is necessary to extend the facilities to meet actual needs, there is nothing in the Senator's amendment that would prohibit that?

Mr. WILLIAMS of Delaware. Not only nothing in the amendment, but I say that any man who used that as an excuse ought to be impeached.

Mr. AIKEN. I would vote to impeach him.

Mr. WILLIAMS of Delaware. I would, too.

Mr. SMATHERS. Mr. President, will the Senator from Delaware yield me 5 minutes?

Mr. WILLIAMS of Delaware. I yield 5 minutes to the Senator from Florida.

The PRESIDING OFFICER. The Senate will be in order. The Senator from Florida is recognized.

Mr. SMATHERS. Mr. President, the amendment which the Senator from Delaware, the Senator from Ohio, and I have offered seeks to put us in the position we were in during World War II and during the Korean war; to impose the same sort of rules and regulations which prevailed during those conflicts with respect to public works projects.

In other words, we say that we recognize there is some justification for not stopping ongoing public works projects, flood control projects, and things of that kind. But there is no justification, in our view, Mr. President, for starting new projects when we face the kind of emergency which we face in this country. If there should be a project at the type and character that the distinguished Senator from Maine [Mr. MUSKIE] talked about—one that is absolutely essential—the amendment provides that a representation to that effect may be made to the Office of Emergency Planning. If it proves necessary as claimed, then the Office of Emergency Planning will authorize it and work on it can go forward.

Mr. MUSKIE. Mr. President, will the Senator yield at that point?

Mr. SMATHERS. I am happy to yield.

Mr. MUSKIE. Let me make this point: I do not see that one sewage treatment plant is any different than another, by the measurement of irreparable damage to health. I do not think you can distinguish them on that basis.

So, in effect, the amendment would ask the Office of Emergency Planning to make the judgment we are making here this afternoon—whether or not this program should go forward.

Mr. SMATHERS. Let me tell the Senator what the distinguishing feature is. The distinguishing feature is our $25 billion deficit. The distinguishing feature is the run on our dollar that has just occurred. The distinguishing feature is the pandemonium that will reign on Monday if we do not do something now to redeem ourselves.

Mr. MUSKIE. Will the Senator yield?

Mr. SMATHERS. I am telling the Senator what is the distinguishing feature. We cannot run on a basis of business as usual. We cannot do all the things we would like to do under the conditions which prevail today. That is the reason why we have the pending substitute before us.

Anyone would agree, if we were in the position we were in, say, in 1954 and 1955, that we should go forward with public works programs. But in times when people are sacrificing overseas, in Vietnam——

Mr. MUSKIE. Will the Senator yield?

Mr. SMATHERS. No; the Senator from Maine wanted to hear the distinction, and I am going to tell him.

Mr. MUSKIE. Mr. President, the Senator has not answered my question. I shall be glad to listen to his rhetoric after he answers my question.

Mr. SMATHERS. I am answering the Senator's question. The Senator wanted to know what was the distinction. I am telling him the distinction. It is that we do not have the expenditure options we once had. We have a war going on in Vietnam. We have got to be concerned about a run on the dollar. We have got to be concerned about our gold position. We have to pull in. That is the difference.

There are times when we should go forward with the type of program the Senator is talking about. I have voted for such programs. But there comes a time when one cannot any longer, in good conscience, vote for this type of program; that time is when our fiscal situation is what it is today.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 2 minutes.

I do not think we will need all the time on this particular amendment, I would imagine that the Senator from West Virginia, even though he may later want to strike the whole amendment, would be in favor of this particular amendment. So I expect we will have a strong vote at this time.

Mr. RANDOLPH. Mr. President, will the Senator yield at that point?

Mr. WILLIAMS of Delaware. I yield.

Mr. RANDOLPH. Mr. President, as indicated—I shall not state by admission; I do not want to use that terminology—but certainly by the readjustment of the thinking of the Senator from Delaware, he is going a long way toward what I desired in eliminating section 3. He would eliminate the moratorium on existing contracts. But he is not going far enough. The moratorium would still have a blanket application to all planning in these programs. It is very important that we go all the way.

Mr. President, as I understand it, if the amendment which is offered by the Senator from Delaware prevails, that the Senate will then have the opportunity to vote upon my amendment; is that correct?

Mr. WILLIAMS of Delaware. That is correct.

Mr. LONG of Louisiana. Mr. President, I yield myself 5 minutes.

Mr. RANDOLPH. Mr. President, I should like a response to my inquiry.

The PRESIDING OFFICER. Will the Senator from West Virginia restate his inquiry?

Mr. RANDOLPH. The amendment which has just been offered is a perfecting amendment; is that correct?

The PRESIDING OFFICER. The Senator is correct.

Mr. RANDOLPH. If it is passed—and I shall vote for it—will there not then come the opportunity for the Senate to express itself by a yea and nay vote on the remainder of my amendment; that is, on the deletion of section 3 in its entirety, which I had previously presented?

The PRESIDING OFFICER. The Senator is advised that the question would then recur on this motion to strike.

Mr. LONG of Louisiana. Mr. President, I yield myself 5 minutes.

It is of course, a generous and laudable act when a man admits he is wrong.

I applaud the Senator from Delaware and the Senator from Florida for admitting that they were 94 percent wrong.

I have before me special analysis G of the budget for fiscal 1969. It estimates the following expenditures for direct Federal civil public works in fiscal year 1969:

For continuing work, $2,358,000,000; and

For new projects and features, $166 million.

These figures show, Mr. President, that roughly 6 percent of the total budgeted for direct Federal civil public works will be for new projects and features. So I must say that it is very generous of the Senators to admit that they were 94-percent wrong.

The Senator, by his amendment, now proposes to strike out 94 percent of what he previously wanted to do. At the start he wanted to say all works underway would be stopped unless they were judged to be of irreparable injury to the national health and welfare. The Senator is now willing to say that only new starts should be stopped. So I shall certainly vote for this amendment. When we get through agreeing with the Senator that he is 94-percent wrong, we will see if he can find one more ounce of charity so that he will be able to say that he is the other 6-percent wrong also.

Here is a list of the kind of projects involved in the other 6 percent:

The Federal Aviation Administration—it is concerned with air safety—would receive $30 million for new starts.

The Coast Guard—which deals with safety on the seas—would receive $30 million.

The Post Office Department—to provide new post office buildings, and to provide equipment for new services—would receive $28 million.

Allocated for projects of the Forest Service, $21 million.

Allocated for the Public Health Service, $9 million.

The Corps of Engineers—and these amounts have been very closely scrutinized in an effort to get down to the bare bones—is allocated $7 million for civil functions.

The Office of Economic Opportunity is allocated $5 million.

The Bonneville Power Administration, $5 million.

The Bureau of Indian Affairs, $4 million.

The National Aeronautics and Space Administration, $4 million.

The Veterans' Administration, $3 million.

The Southwestern Power Administration, $2 million.

The Tennessee Valley Authority, $1 million.

Other projects, $17 million.

Mr. President, in suggesting what the proper percentage should be in a few instances, we should look at all of these public works projects. We should look at the whole amount.

The test we should apply in making a judgment should ask whether we are talking about something we want to start right now, or something we want to continue. It should also ask how vital is this matter? How much do we need it when we consider the situation in which we find ourselves?

Mr. President, I have heard this dire talk: "Oh, my goodness, the world is going to come to an end." It reminds me of the story that is ably referred to by the distinguished minority leader, the Senator from Illinois. He tells about Chicken Little telling Henry Penny that the sky is going to fall in because an acorn fell from a tree.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I yield myself an additional 2 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for an additional 2 minutes.

Mr. LONG of Louisiana. Mr. President, I notice that in 1943 our national deficit was $57.400 billion, and our entire gross national product at that time was $177.-500 billion. Our deficit that year was 32 percent of our gross national product.

This year we are talking about a deficit which might run around $20 billion but will probably be less. Undoubtedly there will be some reductions in expenditures. In all probability, there will be some increases in revenue as a result of increased taxes voted by Congress. However, even if none of that happens, and the deficit is $20 billion, it would be only 2.5 percent of our $800 billion gross national product—one-fortieth. It would be as 1 is to 40 in relative terms, comparing our budget deficit with the gross national product.

It is a false impression that the world will come to an end if we wait until the Appropriations Committee and the Public Works Committee have scrutinized the public works projects and determined which ones should be continued in view of the deficit.

We are required to say that any items totaling $166 million cannot be judged on their merits in the normal manner. We should look at each project as say: Is it vital? How important is it? Is it important to continue, notwithstanding the fact that we have a war in Vietnam and that we have a Federal deficit this year, a gold problem and other things?

Mr. President, I commend the Senator for striking from his proposal 94 percent of what he had originally intended. I hope that, having done that, he will then show the good judgment to withdraw the entire proposal.

Public works projects should be judged like the poverty program or any other program. We should determine how much we want to spend in the same way in each instance.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from Delaware is recognized for 3 minutes.

Mr. WILLIAMS of Delaware. Mr. President, I always enjoy listening to the Senator from Louisiana. He never fails to amuse us, even though he does not always make good common sense.

I will say that the Senator from Louisiana has been consistent throughout. He said in the beginning that he was unalterably opposed to any proposal which would reduce spending and that he is opposed to any proposal which would raise taxes.

He has been consistent.

Mr. LONG of Louisiana. Will the Senator yield at that point?

Mr. WILLIAMS of Delaware. That is the position of the Senator. I yield.

Mr. LONG of Louisiana. Does not the Senator recall that we voted on an appropriations bill a while back? There was a suggestion that we cut an item. I voted to cut it. That is about the only vote on an appropriation bill this year that I recall.

Mr. WILLIAMS of Delaware. We still have another vote in a few minutes.

I respect the position of the Senator from Louisiana, and I frankly said that I have yielded some on this proposal.

I have no reason not to be frank. We should have a provision to resurvey existing projects, but I did yield on that point. Why? Because as was pointed out by the Senator from Ohio, I think we are faced with a crisis in this country, and this moratorium on public works is an import part of this package bill, which calls for expenditure reductions as well as a tax increase. The deletion of this section may very well lose enough votes for the overall package that it will be defeated.

There is no doubt in my mind but that the decision we make in the next half hour or so will determine to a large extent whether this bill passes or not. I think that if we fail to keep this provision in the bill, which would place some control over public works programs, it may very well spell defeat for this package which embraces the tax increase.

If there are those who want to do this this would be the way to do it. However, I think it would be a catastrophe to let the news go out to the world as the result of the rollcall votes here today that the U.S. Senate was not willing to go on record for curtailing expenditures and for the payment of higher taxes. Such a decision would be a catastrophe.

I want to make it clear that those who will do this should be willing to accept the responsibility.

This may very well be our last chance at this session of Congress to get any form of tax increase.

There are many of us who are on record as being opposed to any tax increase unless we have an expenditure reduction written in the law.

But I think it would be a disaster if we watered down the bill to the point where it would fail to get the support which it must have if we are going to act responsibly. I believe the House of Representatives would take the bill if these expenditure controls could be kept in it, but I do not think the bill would have a chance of being taken otherwise, even if it got by the Senate, which it might not do if the Senate throws all of these cuts out.

So far as I am concerned, I am willing to yield back the remainder of my time.

Mr. RANDOLPH. Mr. President, will the distinguished Senator from Delaware yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. RANDOLPH. I want to be very clear in my position in the Senate this afternoon. The Senator from Delaware and the Senator from Florida [Mr.

SMATHERS], a cosponsor of section 3, in modifying, through a perfecting amendment, their earlier proposal have said in effect that what we are attempting to do by the amendment which has been offered is not to think in terms of pork barrel legislation, but to think in terms of programs which are beneficial to America.

I for one do not want to have gain any momentum the thought that what we have been doing is not to concern ourselves with programs that are vital to the strength of America. The projects that we, including the Senator from Delaware, have been discussing are not pork barrel projects in any sense of the word. Would the Senator from Delaware agree with me on that point?

Mr. WILLIAMS of Delaware. Certainly there are some programs or projects which could be postponed. I do not propose to determine their merits and say whether they are pork barrel projects or not. Projects have been approved that I think would have been better left unapproved. There are projects, just as there are items in the budget of the family of the Senator from West Virginia and in my own budget which may have merit, but which we can postpone until we get the money to pay for them.

With a $28 billion deficit confronting us in this fiscal year and a $20 billion to $22 billion deficit in the next fiscal year we have no choice except to establish a list of priorities.

As I told the Senator from West Virginia earlier, I am going far in the hope that we can hold the package together and send it to the House, but that is as far as I can go. I think we can vote first on my amendment, as the Senator from West Virginia agrees. I think there is no controversy. Then I hope we can defeat the Senator's motion to strike. I cannot overemphasize that there is a lot riding on this vote. The fate of the 10-percent surcharge may be decided by the outcome of this decision.

Mr. RANDOLPH. Mr. President, will the Senator yield me 1 minute?

Mr. WILLIAMS of Delaware. I yield.

Mr. RANDOLPH. I do not want to refer to the adjustment of thinking by the Senator from Delaware, but I do feel that the strength of the amendment offered by my colleague from West Virginia [Mr. BYRD] and the Senator from Maine [Mr. MUSKIE] to strike section 3, by the very change the Senator has now made in the perfecting amendment, certainly weighs strongly in favor of what we have been attempting to do this afternoon.

Mr. WILLIAMS of Delaware. That is why I have gone as far as I did to meet the Senator's objection. I cannot overemphasize the importance of what we are doing. I hope that this particular amendment will be adopted and that, following its adoption, either the Senator from West Virginia will withdraw his amendment or it will be defeated.

Mr. LAUSCHE. Mr. President, will the Senator yield?

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. I yield to the Senator from Ohio.

Mr. LAUSCHE. Mr. President, when in 1965 we removed the 25-percent gold support securing deposits in the Federal Reserve System, it was argued that two other things should be done: One, the imposition of tax; two, the reduction of spending. We did neither. The $5 billion we released in gold is gone.

Now, in 1968, we were asked to remove the 25-percent gold support on every dollar of currency issued by the Federal Reserve System.

It was also argued that two other steps had to be taken: One, reduction of Federal spending; two, the imposition of a surtax. We have removed the gold cover of 25 cents on each dollar of Federal Reserve currency issued. That act has been accomplished and is over.

Two other acts must be performed: One, the imposition of the surtax; two, the reduction of spending. I am not going to be caught in the trap of voting for the removal of the gold cover, voting for the imposition of the tax, and not have a reduction in spending.

It makes no difference to me what sophisticated argument is made, what appeal to the heart strings is made—I will not have my neck in that trap. You are not going to get me to vote for the removal of the gold support, for the imposition of the tax, and then find myself in the position where I will be caught answering to the public, "Why did you impose the tax and not support the reduction in spending?"

I want them done concomitantly, in one and the same bill.

An argument is made about the various public works projects. I want them. My people want them. But, over and above that, facing us is the question of whether we are going to preserve the integrity of the American dollar. That integrity is challenged, not only by what we are doing domestically but also by what we are doing internationally.

The PRESIDING OFFICER. How much time did the Senator yield?

Mr. LAUSCHE. I ask for 3 additional minutes.

Mr. WILLIAMS of Delaware. I yield 3 additional minutes to the Senator from Ohio.

Mr. LAUSCHE. Mr. Barr, the Assistant Secretary of the Treasury, representing the Inter-American Development Bank, testified on March 25, in answer to the questions of the Senator from Missouri [Mr. SYMINGTON]:

> We must eliminate these $20 billion back to back deficits we are running right now in fiscal year 1968 and fiscal year 1969. It is intolerable we can't do it. That goes to the question of preserving those life insurance dollars and your pension fund dollars. Unless we eliminate these two $20 billion back to back deficits, I can only tell you, Senator, there is going to be a severe erosion in the purchasing power of the dollar and in the value of these life insurance policies. That is number one.

Then Mr. Barr went on to say:

> Number two, unless we bring the dollars we are spending into the World Bank into equilibrium of the dollars we are earning in the world, there is going to be severe erosion in the international value of the dollar, and the consequences there, sir, can be even more severe, because, as you know, as you have been preaching, and I have heard you and Senator Lausche also, that the dollar is the focal point of the world's international monetary system.

He further said that it may bring about a collapse of the stock market and a collapse in the value of the dollar in the whole world.

Now, then, you can argue about your plums and your public works all you want.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LAUSCHE. I ask for 1 additional minute.

Mr. WILLIAMS of Delaware. I yield 1 additional minute to the Senator.

Mr. LAUSCHE. No problem is more important to the Nation than this one. You can wait with your public works for a year. It will take us 1 year or 2 years to put our monetary house in order, and we had better do it and forgo the immediate enjoyment of these public works about which so much has been said, Senator HICKENLOOPER.

Mr. SYMINGTON. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

The PRESIDING OFFICER. How much time does the Senator yield?

Mr. SYMINGTON. Mr. President, I appreciate the kind references of the distinguished Senator from Ohio, and would respectfully present to him that there is a difference between an investment in this country and an investment abroad, and that difference is very great when considering the question of balance of payments.

A recent balance-of-payments deficit was approximately 0.004 percent of the gross national product. The question of what we do in this country, however, and the question of what we do abroad are two different questions. The amount of fixed debt struck off on a balance sheet, as does a corporation, whether cost or market, would show our fixed assets as against our fixed liabilities in very good shape. The last figure I received from our former colleague, Senator Douglas, sometime back showed the net fixed position would be many billions of dollars in the black.

On the other hand, when we talk about gold, and the loss of it, we are talking about current assets as against current liabilities.

Mr. President, that is why it is now so terribly important for us to stop much of this spending abroad. That is where and why in the main we lose our gold. We do not lose it primarily because of the investment the American people make in this their own country, for a new dam in the State of Missouri or in the State of Ohio.

I thank the Senator for yielding.

Mr. WILLIAMS of Delaware. The Senator from Missouri is partly right, but I am sure he will agree that the money we spend in this country creating a deficit of $25 to $28 billion does create an inflationary situation in this country, a rising wage spiral. As the cost of goods rises it cuts back on our exports, and at the same time pouring extra money into the economy increases imports. Therefore, it has an effect on the balance of payments.

Mr. SYMINGTON. The Senator is correct.

Mr. WILLIAMS of Delaware. Spending for a dam in Missouri or a project in Delaware does make a contribution to

the inflationary spiral and has an effect on the economy and our balance of payments.

Mr. SYMINGTON. I accept that. The Senator from Delaware is also partly right, and he has been good enough to say that I am partly right, also.

Mr. WILLIAMS of Delaware. The Senator is correct.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. SMATHERS. Mr. President, I agree with both the Senator from Missouri and the Senator from Delaware.

It is important to remember that we cannot disassociate the dollar at home from the dollar overseas. There are many central bankers who have in their banks large sums of money which they have been holding because they are friends of ours. If, as a result of seeing us having large deficits and our gold supply diminishing to $10.6 billion, they should get to the point where they feel they can no longer hold the dollar with confidence, they would have to break from any arrangement they have and present those dollars for gold. Then all our gold would be gone.

In the consideration of the entire problem, it is important to remember that we have to protect the value of the dollar at home, which contributes to the value of the dollar overseas.

I thank the Senator.

Mr. WILLIAMS of Delaware. Mr. President, the Senator from Florida is correct.

It has been only a few days since there was an urgent meeting in the office of the majority leader. My good friend, the Senator from Missouri [Mr. SYMINGTON], was present. I was present, as was the chairman of the Committee on Finance. There were other Senators there. At that time, Mr. Martin made the statement that the removal of the gold cover alone would only buy time unless it was implemented further by two extra steps. The first step was to reduce spending, and the other step was to raise taxes.

Mr. Martin placed equal emphasis on both steps. He went further and said that to remove the gold cover, plus a raise in taxes, and then to refuse to cut spending would be a futile effort and serve no purpose except to postpone the crisis.

Mr. President, that is what we are up against now. This is a dual package, and we are ready to vote on the question. Do we want to control spending or not?

Mr. President, I am prepared to yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield to the Senator from Missouri.

Mr. SYMINGTON. Mr. President, one of our problems today is because in the past we have attacked the problem over the years from a monetary point of view almost exclusively.

I would mention and I am sure the able Senator from Delaware would agree, that as far as debt in this country is concerned, much of that problem could be either solved or largely ameliorated by the Federal Reserve putting a higher price on money.

It is our foreign expenditure which is the problem, basically, with respect to the loss of gold.

Let us note that as of yesterday we would have had no gold to pay off anybody with dollars from abroad if we had not taken off the gold cover. If someone had demanded gold for dollars at $35 an ounce, now there would not have been any gold left if we had not taken off the cover.

The big problem is to cut our gigantic expenditures abroad, year after year after year. That is the primary reason for the trouble is which the dollar now finds itself.

The PRESIDING OFFICER (Mr. CANNON in the chair). Who yields time?

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 1 minute.

It is easy to speak of cutting our foreign aid program, but if we cut out all of the foreign aid we would have a deficit of $17 to $18 billion, and next year it would be $25 billion. It is easy to talk about cutting out foreign aid; but what about a cut here at home?

We just cannot afford guns and butter while we still have a full-scale war to finance.

Mr. President, I am prepared to yield back the remainder of my time.

Mr. LONG of Louisiana. I am not quite ready to yield back the remainder of our time.

The PRESIDING OFFICER. How much time does the Senator yield to himself?

Mr. LONG of Louisiana. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 3 minutes.

Mr. LONG of Louisiana. Mr. President, I have been trying to understand how this Williams package has come to be in the fashion it now is in.

My impression is that the Senator undertook to start from the original budget message, the unified budget message, which indicated that there would be a deficit of $8 billion in fiscal 1969 if all the proposed revenue measures were adopted. Then, he suggested an $8 billion cut in spending, to achieve a balanced budget in a wartime year; this is something we have not had in the past two major wars.

Now, starting on the idea that we should have a balanced budget during wartime, the Senator made a proposal on which he could not get an agreement. Since he could not arrive at an agreement, and because he believed the administration would not accept his proposed $8 billion cut in expenditures, the Senator retreated, proposing a $6 billion expenditure reduction. Well, the administration does not buy the $6 billion reduction either. But in any event, the process which I have just described shows how the Senator came to recommend a $2 billion cut in public works projects. As I said, the proposal is based on the premise: That we should have a balanced budget during a time of war.

Now, having recommended a $2 billion cut in public works projects, on the theory that a balanced budget should be achieved, the Senator then proceeded to retreat from that $2 billion figure in the hope that others would agree with his proposal. With that premise, the Senator then retreated 94 percent away from his initial position.

The details of the Senator's reasoning, as reflected in his actions on the amendments before us, were as follows: The Senator from Delaware started out by saying that all public works should be stopped. Inasmuch as he comes from the State of Delaware, which does not have much in the way of public works, that is not a bad position for one to take.

Having started from the position that all public works should be stopped, something that those more familiar with the matter would not recommend, the Senator has said that we should make an exception if failure to either start or continue a project would result in irreparable injury to health and welfare. This, presumably, means that if there was a threat of Bubonic plague or some such thing, in that case it would be proper to go ahead with the project; if that were not the case, however, work on the project should stop in its tracks. The Senator, who does not serve on the Committee on Appropriations, has never studied these public works projects. To follow the approach he recommends would not seem to make good sense.

And having heard the debate, I am happy to know that the Senator also is persuaded that he is at least 94 percent wrong.

Now, I hope the Senator will go the rest of the way with us on this point and say that even on some new starts we should judge them as we would judge continuing projects. How important is it to continue that project? Or how important is it to continue it at that rate, rather than to slow it down? Compared with a new project, that is very important. In other words, I can easily show Senators a case, in the State of Louisiana, of a new proposal, for example, of an old levee needing an abutment in front of the levee to protect a big industry behind it. That is much more important than the millions of dollars it is costing to dredge in the Chapel Island Basin, which is a long-range program and very important; but slowing it down might be preferable to setting a levee back where it will help a major industry.

Mr. RANDOLPH. Mr. President, will the Senator from Louisiana yield?

Mr. LONG of Louisiana. I yield.

Mr. RANDOLPH. Let me illustrate what the proposed moratorium would do with reference to a specific project. We all remember with sadness that a few weeks ago, the Silver Bridge between Gallipolis, Ohio, and Point Pleasant, W. Va., went down. It was a terrible disaster, with 47 or more people losing their lives.

That bridge must be replaced. It is a matter of the greatest urgency that it be replaced. There are certain Appalachian funds, as well as certain funds from Ohio and from West Virginia, that would be used for the bridge reconstruction.

The PRESIDING OFFICER. The time of the Senator from Louisiana has expired.

Mr. LONG of Louisiana. I yield myself 5 additional minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 5 additional minutes.

Mr. RANDOLPH. If the Senator from Delaware does not go all the way, as is

indicated here, we could not rebuild the bridge as now planned.

Mr. LONG of Louisiana. Mr. President, the proposal of the Senator from Delaware exempts highways. When we really get down to it, Presidents Eisenhower, Kennedy, and even Johnson have found, on occasion, that in a budgetary squeeze it is sometimes desirable to slow down the rate at which we are building interstate highways and even primary highway systems. We slow the rate down somewhat by matching controls with expenditure controls toward a particular sum so that we can devote some funds to something more desperately needed. That is what the test should be. It should not be arbitrary. We should not say that no new starts under any conditions will be allowed, or that nothing will be allowed, unless it would do irreparable injury to the public health and welfare. It should be a question of how important it is to continue what we are doing compared with a new project which could be withheld but which might be sufficiently important so as to go ahead with it or perhaps slow it down, so long as we must economize to that extent.

Mr. WILLIAMS of Delaware. Mr. President, I yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time has now been yielded back on the amendment.

The question is on agreeing to the perfecting amendment of the Senator from Delaware.

On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Arkansas [Mr. FULBRIGHT], and the Senator from Maryland [Mr. LONG] are absent on official business.

I also announce that the Senator from South Carolina [Mr. HOLLINGS], the Senator from New York [Mr. KENNEDY], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], and the Senator from Alabama [Mr. SPARKMAN] are necessarily absent.

I further announce that, if present and voting, the Senator from Alaska [Mr. BARTLETT], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from South Carolina [Mr. HOLLINGS], the Senator from New York [Mr. KENNEDY], the Senator from Rhode Island [Mr. PASTORE], and the Senator from Rhode Island [Mr. PELL] would each vote "yea."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Utah [Mr. BENNETT], the Senator from Illinois [Mr. DIRKSEN], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] are necessarily absent.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator for Kansas [Mr. CARLSON], the Senator from Illinois [Mr. DIRKSEN], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] would each vote "yea."

The result was announced—yeas 79, nays 5, as follows:

[No. 87 Leg.]

YEAS—79

Aiken	Gruening	Morton
Allott	Hansen	Mundt
Anderson	Harris	Murphy
Baker	Hartke	Muskie
Bayh	Hatfield	Nelson
Bible	Hayden	Pearson
Boggs	Hickenlooper	Prouty
Brewster	Hill	Proxmire
Brooke	Holland	Randolph
Burdick	Hruska	Ribicoff
Byrd, Va.	Inouye	Scott
Byrd, W. Va.	Jackson	Smathers
Cannon	Javits	Smith
Case	Jordan, N.C.	Spong
Church	Jordan, Idaho	Stennis
Clark	Kennedy, Mass.	Symington
Cooper	Kuchel	Talmadge
Cotton	Lausche	Thurmond
Curtis	Long, La.	Tower
Dodd	Magnuson	Tydings
Dominick	McGee	Williams, N.J.
Eastland	McGovern	Williams, Del.
Ellender	McIntyre	Yarborough
Ervin	Miller	Young, N. Dak.
Fong	Mondale	Young, Ohio
Gore	Monroney	
Griffin	Montoya	

NAYS—5

Hart	Morse	Russell
Metcalf	Moss	

NOT VOTING—16

Bartlett	Hollings	Pastore
Bennett	Kennedy, N.Y.	Pell
Carlson	Long, Mo.	Percy
Dirksen	Mansfield	Sparkman
Fannin	McCarthy	
Fulbright	McClellan	

So the perfecting amendment of Mr. WILLIAMS of Delaware was agreed to.

The VICE PRESIDENT. The question recurs on the motion of the Senator from West Virginia [Mr. RANDOLPH] to strike section 3.

Mr. RANDOLPH. Mr. President——

The VICE PRESIDENT. Who yields time?

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from West Virginia.

Mr. RANDOLPH. Mr. President, I appreciate the continued presence of my colleagues on the Senate floor, anticipating a vote now on my amendment. I shall not speak over one and a half minutes.

It is important to indicate that those of us who, in many instances, went along with the adjustment to the perfecting amendment of section 3 as proposed by Senators WILLIAMS and SMATHERS recognize that in our fight here for equity today we have made our point. So at least in part, there was an adjustment in the position of the two Senators whom I have mentioned.

Before we vote now on what I think is the remaining part of the problem, an important part, it is necessary to note that the amendment on which Senators will soon be voting would allow us to continue planning efforts in resource development programs. We make no effort to withhold that. Also, construction programs could continue, but limited by section 4 of the pending bill.

This section takes $6 billion from the budget, and most of that cut would come from the area of public works, the important programs which we have been discussing here this afternoon.

So I trust, the Senate having now approved what in part meets the amendment we had earlier offered, it will now go the whole way, not just so that we can say we get everything, but that we have finished the job in the manner in which it should be finished.

Mr. LONG of Louisiana. Mr. President, I yield myself 2 minutes, and I trust I shall stay within that limitation.

The Williams amendment exempted from the proposed public works freeze the $2.358 billion that is to be spent on direct Federal civil public works projects that are already under way. All we are talking about now, is $166 million for new projects and features and part of a projected $84 million expenditure on advance planning. So we are talking about only 6 or 7 percent of the over-all amount that the Williams freeze would have applied to.

Mr. President, why would the Senate want to specify that construction should not commence on a project unless the Office of Emergency Planning said that to fail to start it would do irreparable injury to the public health and welfare? Why would we do that before we have examined the project? The project would have to come before us, here in the Senate. Why do we want to say in advance that we cannot judge? Why not at least examine the proposals before we say we cannot judge and give some man downtown the authority to decide if to omit the project would do irreparable injury?

Mr. President, involved here are Federal Aviation Agency and Coast Guard safety facilities, Post Office buildings, Forest Service projects, Office of Economic Opportunity projects, and a great many other items. Mr. President, these should be judged on their merits, just as the question of whether we should slow down an existing project should be judged on its merits.

The PRESIDING OFFICER (Mr. Moss in the chair). The Senator's time has expired.

Mr. MORSE. Mr. President, will the Senator yield me 3 minutes?

Mr. LONG of Louisiana. I yield 3 minutes to the Senator from Oregon.

Mr. MORSE. Mr. President, I want it understood that I approve what the Senator from Louisiana has said. The gimmick before us now, the sleeper before us now, is the language in the bill, as far as the Office of Emergency Planning is concerned, as found on line 24, page 4, requiring a showing that it will cause irreparable damage to the public health or welfare.

We are not going to be able to show that. In project after project—and I speak for the moment as chairman of the Subcommittee on Education—I do not think we know the damage we would do to the educational program by enacting this shocking bill. I voted against the Williams amendment because it does not improve it at all; it only gives us a carrot. The whole bill is bad, and I shall vote against the whole bill.

Look at what we are doing to the educational program under this bill. Do not

forget, we have authorized $6.7 billion, in round figures, for education. What is the administration doing in its budget for 1969? Cutting it back to $3.5 billion, in round figures.

Mr. LAUSCHE. Mr. President, will the Senator yield for a question?

Mr. MORSE. No, I shall not yield for anything until I finish my speech.

I ask my fellow Senators, Is that what you want to do to the boys and girls of this country and the college students of this country, in respect to their educational needs, at the same time that we propose to go over to Vietnam and build schools, as I said this afternoon, and spend a lot of money over there, where they have a government that cannot even get the support of the people?

I want to say again, I do not propose to sacrifice the educational program of this country, as the passage of this bill would do.

Take a look at some of the figures. Here is $315 million we authorized for grants for school construction. What is the administration proposing for fiscal year 1969? $52.5 million. Are we going to create a lost generation of young people in this country, and put that cutback in this bill, in order to help the bankers over in Europe who want us to raise taxes over here in order to protect the American currency they hold over there?

As the Senator from Missouri pointed out yesterday, we lose a net of $700 million a year to maintain those troops over there. As I said earlier this afternoon, I shall vote against this bill, as I shall vote against any proposal to put this kind of cut in the educational program, until we are willing to cut into a $79 billion recommendation by this administration for a defense program for 1969, when only some $26 billion of that is Vietnam oriented. Hundreds of millions to protect Europe. Hundreds of millions of dollars for Africa. Millions into Latin America. Billions into the subcontinent of Asia, as we proceed to build these permanent naval installations around the perimeter of the Indian Ocean.

Yet we have an administration that goes on television and says we seek no permanent military bases around the world; and some people are kind enough to refer to it as only a credibility gap. Of course, we all know it is a misrepresentation of facts. The American people are being deluded.

Mr. President, the place to make the cut is out of that $79 billion defense program.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. MORSE. I ask for 1 more minute.

Mr. LONG of Louisiana. I yield the Senator from Oregon 1 additional minute.

Mr. MORSE. The place to make the cut is out of that $79 billion proposed defense budget of this administration for 1969, and protect the domestic economy of this country.

I ask my fellow Democrats, Do you mean to tell me you want to go home and tell the people in your district that you want to make a cut of some $7.5 billion out of a $20 billion domestic economy, and then support a defense economy of $79 billion? I will tell you what will happen to a lot of you: you will get whipped at the polls, if you vote for this bill. Any Democrat who votes for it ought to get beaten, because, in my judgment, he will be letting down his party; and, though the President may not know it yet, he will be voting against the President, too.

Mr. President, I shall vote against the bill.

Mr. CLARK. Mr. President, will somebody yield me 2 minutes?

Mr. LONG of Louisiana. I yield 2 minutes to the Senator from Pennsylvania.

Mr. CLARK. May I say to my friend from Oregon, I completely agree with him; and, there being a good many Senators in the Chamber at the moment, I should like to advise them that when the Javits amendment is called up later during this debate, I shall propose an amendment to read as follows:

Insofar as may be practicable, the reservations from expenditures provided for in subsection (b) shall be made from authorizations for (1) the proposed supersonic transport, (2) the space program, and (3) the Department of Defense, to the extent that such reservations will in no way endanger the security of the United States or the safety of U.S. troops.

Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. Mr. President, I yield 4 minutes to the Senator from Florida.

Mr. SMATHERS. Mr. President, this is a very critical vote. It is not a particularly important amendment, but it is a very critical vote. I say that primarily for the attention of my colleagues on the Democratic side.

I have been working to bring about a little bit of, one might say, fiscal reform and monetary reform, for quite some time. I have worked, I think, rather diligently with some of the Members of the other side. I know that the only time some of them are going to vote for a tax increase, is if it is coupled with a sizable expenditure limitation.

And if we on this side happen to knock out what amounts to a sizable expenditure limitation, I know that that moment we will lose a number of votes on the other side, so that they will not vote for the surtax. We will end up having nothing, and the word will go out to the world that Congress took no meaningful action whatsoever.

So, it is of the greatest importance that on this particular vote, even though, as the Senator from Louisiana has said, we have given away 94 percent of the impact of the original provision concerning public works in the Williams-Smathers substitute, if we want to have a surtax charge increase passed in the Senate, we should approve the public works section as it now is.

Mr. President, I want to read something from a magazine which we all read and, I think, respect, because I think it is very significant here. I would like very much to have the attention of everybody.

It reads:

Red Sneers. From Budapest to Peking, Communists greeted the gold stampede with outright gloating—showing at least that Lenin's followers still heed his counsel: "The way to defeat the capitalist system is to debauch its currency." Crowed the Polish tradeunion council, Glos Pracy: "The dollar is doomed. It is possible that joint efforts by world financial circles will stave off the crisis temporarily, but this will only postpone the execution." Sneered the New China News Agency: "The capitalist monetary system has in fact collapsed."

France's Charles de Gaulle, who wants the Western world to return to the gold standard, was playing only a slightly different tune from the Red band. He called the present international monetary system "inequitable" and "henceforth inapplicable." Its continuance, he maintained, would "condemn the free world to grave economic, social and political trails."

The article also states:

Almost every private and public authority of the Western countries agrees that to avoid a genuinely serious threat to the dollar, the U.S. must dramatically pare the inflationary deficit in both its domestic budget and balance of payments. Says General Director Max Ikle of the Swiss National Bank: "The welfare of the world depends on confidence in the dollar, and this now depends on American fiscal policies."

Threatened Fabric. Most Europeans regard U.S. willingness to raise taxes as the gauge of its resolve to put its fiscal affairs in order. Technically, budget and payments deficits can be curbed by any combination of higher taxes and lower spending that bites deep enough.

The world is looking at us to see whether we are willing to take that necessary step toward self-discipline which will give the people of the world confidence in our dollar by reducing the sizable $22 billion deficit which we will otherwise have, with all of the resulting consequences.

I urge my colleagues on this side of the aisle not to break up the package, if we want the package. I do not know that it will pass in the House of Representatives. However, I do know that if we in the Senate tonight or tomorrow prove that we were willing to stand up and vote for a tax increase and for expenditure control, it will be very important over there.

I think we could then take satisfaction from having acted to save the integrity of our financial system in this country.

Mr. SYMINGTON. Mr. President, will the Senator yield?

Mr. SMATHERS. I yield.

Mr. SYMINGTON. Mr. President, nobody in this Chamber wants a sound dollar more than I.

It is clear the military budget should be cut wherever possible. It was cut this afternoon, in authorization, by several billion dollars as recommended in the Senate Armed Services Committee.

I would rather see this country take on some debt with respect to the future of America, as has just been so well presented by the Senator from Oregon, than go further in debt in an effort to help people all around the world, especially the foreign speculators who have been and are making raids on our gold.

I sit next to the able and distinguished Senator from West Virginia [Mr. RANDOLPH]. He has worked hard on this pending measure. Why is there such apprehension over the amendment, when the Senator from Delaware and the Senator from Florida have already offered an amendment recommending a cut of

some 90 percent of what was contained in their original recommendation?

They are now taking exception to funds totaling $250 million, when they themselves recommended exemptions from their original recommendation of sums totaling $2.38 billion. I agreed with the amendment of the able Senator from Florida and the able Senator from Delaware, and will vote also for the amendment of the Senator from West Virginia.

Let us make reductions as much as possible in places which do not hamper the future of the United States.

Mr. RANDOLPH. Mr. President, during the past 2 days, Mr. President, two able and distinguished members of the Committee on Armed Services have spoken eloquently in this forum on the propriety and the importance of making substantial withdrawal of troops of our country presently serving in Europe—the junior Senator from Kansas [Mr. PEARSON] on Tuesday and the senior Senator from Missouri [Mr. SYMINGTON] yesterday. In yesterday's colloquy, Senator PEARSON called attention to the numerous times he has heard Senator SYMINGTON warn in the Armed Services Committee and in this Chamber of the serious consequences of our deficit in the balance of payments. The Senator from Kansas appropriately remarked that if we had paid more attention to what the senior Senator from Missouri had been saying, perhaps we would have been better prepared for the gold crisis of the last 2 weeks.

And the senior Senator from Wisconsin [Mr. PROXMIRE], chairman of the Joint Economic Committee, not only commended our colleagues from Missouri and Kansas for their arguments for withdrawing substantially from our troop strength in Europe, but also said:

> There is no question that the conclusions of the Joint Economic Committee on the balance of payments problem is our overcommitment overseas. Today we have more commitments than this country can afford to support.

Now, Mr. President, I add my commendation to the approval I have heard expressed for the position statements by Senators SYMINGTON and PEARSON in which they urge cutting back the troop strength in Europe for other more necessary and timely deployment. And I not only associate my views with theirs on that subject, I share the opinion of the Joint Economic Committee as briefly outlined by the distinguished senior Senator from Wisconsin in his comment that the heart and soul of our balance-of-payments problem is in our overcommitment overseas. I am sure he referred as much to our excesses in foreign aid as he did to the excessive outflow of dollars for overdeployment of troops and dependents overseas.

In spite of these overcommitments which directly and adversely affect our balance-of-payments problems, we find in section 3 that the effort is being made to place the greatest burden of remedy on a moratorium proposed to be placed on this country's public works.

I am aware that there must be substantial reductions in budgets and expenditures across the broad spectrum of the vast Federal Establishment, and public works should suffer a share—but not two-thirds or more of the total reduction objective reflected in the provisions of the substitute measure.

Because the public works—from water and sewer projects to hospitals to flood control to airports to post offices and other public buildings, et cetera—are for the benefit of the people of the United States who pay the taxes, I see less merit in legislating a moratorium on them than in fixing a moratorium on space exploration, on development of a supersonic transport, or on many far less essential activities under the foreign aid program.

So, Mr. President, let us not abandon the time-honored authorizations and appropriations approach and certainly let us not resort to the bulldozer method—the inequitable one-category bulldozer approach—that section 3 of the substitute measure proposed. We must strike it. I urge an overwhelming rejection of all of section 3.

I reaffirm my support for increased taxes. I reaffirm my support for cutting waste and fat from the budget. But these resource development programs which serve humanity must not be subjected to this kind of ruthless and radical treatment. These programs must not be sacrificed on an altar of false economy. And I believe a majority of the Senate will agree.

Mr. WILLIAMS of Delaware. Mr. President, I would like to take 1 minute to correct what appears to be a slight confusion. Some Senators speak about $258 million being involved in this proposal. I do not recall the exact figures, but remember these are new starts—$200 million or $250 million for project starts means $2.5 billion in ultimate spending.

This section dealing with public works is a multibillion-dollar proposal, and unless Senators are willing to stand up and be counted in favor of a reduction on this program, which has a lot of political appeal back home, we should ask ourselves the question, Is there really going to be an expenditure reduction at this session of Congress?

That is the question here, and that is the reason why this particular vote is so important. It may very well be the deciding point in the ultimate decision that will be made on this legislation.

We are dealing with project starts, and once we commit $200 million for new projects we are committed to spend $2.5 billion more. That is what we are trying to stop at a time when we have this sizable deficit.

The Senator from Louisiana mentioned an $8 billion deficit for fiscal 1969; however, that $8 billion deficit referred to by the President is based on the fact that he is started with a deficit of $28.3 billion. He then said that if we enact a 10 percent tax increase and extend the excise taxes we will raise $12.9 billion and drop the deficit down to $15.4 billion.

They then take the $7.4 billion that is accumulating in the trust fund, which by no stretch of the imagination belongs to the U.S. Government, but for bookkeeping purposes they subtract that and then claim that we only have an $8 billion deficit.

I think that we should get these figures straight. If Congress does not enact a tax increase and cut spending we will be faced with a $28 billion deficit in 1969, and we already have a $20 billion deficit in 1968. That is a deficit of $48 billion in 2 years. That does not count the increased appropriations that will be asked for with which to finance the cost of the escalation of the war in the last few weeks.

I have taken the position that we in Congress cannot point the finger at the President of the United States and charge him with the sole responsibility for we too, have a responsibility right here in Congress. Nor can the President point his finger at Congress and say that it is the responsibility of Congress for he, too, has a responsibility to cooperate with us in making these cuts.

I regret that we have not had more of that cooperation. Nevertheless, we do have a responsibility. I said in the beginning that we on this side of the aisle could not sit back—which would be very easy to do because a tax increase is not popular—and say, "Well, it is the responsibility of the majority on the other side of the aisle. They have control of Congress."

We have a responsibility as well as do the Senators on the other side of the aisle. I do not think that any of us can sit back and point a finger at the other fellow.

I would hope that we can approach this matter not as Republicans, not as Democrats, but as Americans. I think we must do that and recognize that our country cannot continue to run a deficit at the rate of $2 billion a month without bankruptcy. Some semblance of control over spending or a tax increase or a combination of both is mandatory.

I recognize that politically it may not be popular. I hope that no one who votes for the package will be defeated. However, on the other hand, we are drafting men and sending them to Vietnam. Many of those men will get the Congressional Medal of Honor. They will get citations for bravery, and I shudder to think what would happen in Vietnam if they did not display any more courage than the political courage that is being displayed here tonight. Certainly we in Congress can display just a little of the same courage we are demanding from the boys over there. Being defeated at the polls because of voting for what we believe is right is not half as disastrous as a boy getting killed over there.

We must recognize that our country is in trouble, and I believe that if this package is defeated tonight it will be a disaster. I urge that the amendment be rejected because this one decision may very well be the key vote in this session of the Congress. This may be the straw that breaks the camel's back. The fate of the bill may very well ride on this one vote.

Mr. SMATHERS. Mr. President, will the Senator yield 4 or 5 minutes to the Senator from Mississippi?

Mr. WILLIAMS of Delaware. Yes.

The PRESIDING OFFICER (Mr. NELSON in the chair). How much time does the Senator yield?

Mr. WILLIAMS of Delaware. I yield 5 minutes.

Mr. STENNIS. Mr. President, when I reviewed the figures in the Smathers-

Williams amendment calling for the reductions and for the tax, I told the Senator from Florida that I felt compelled to vote for the proposal.

It is not my suggestion particularly of which I speak, but I am moved to tell the Senate what I see in this picture. I did not think that I would ever vote for a tax bill of any consequence that had not been gone over carefully by the House Ways and Means Committee and the Senate Finance Committee, and which was fully considered and firmly recommended. So this is an unusual conclusion for me in that respect. And I did not think I would ever appear to desert the ordinary formula and procedures for the Appropriations Committee and vote for a decrease of this type. That is the second major reason that drives me to this conclusion.

However, with all deference to everyone, I have seen us drift in the fiscal affairs of our Nation, year after year, with failure to come even close to balancing the budget. In fiscal 1967, our deficit was over $18 billion. One estimate is a deficit of approximately $20 billion for 1969, even with the passage of a tax bill. That figure is disputed somewhat, but even if we pass the tax bill, the deficit will be approximately $12 billion, according to the estimates of last fall. That assumes that this bill would raise $8 billion.

There is another, more compelling reason. We have been going carefully through the hearings on the major part of the defense appropriations for fiscal 1969. In whatever way one views this war, or in whatever way there is a new policy, or whatever reevaluation there is, if any, it does not make any difference. The war is going to cost a great deal more hard money, in my humble opinion, than the budget estimates so far show. It is going to show up in various places, and it will involve necessities that cannot be delayed.

The cupboard is bare of spare parts in many places where it should not be bare. We have exhausted military supplies. We are down to the bone in many places. It will take more money, even if there is no battle plan change, no policy change, no escalation. We are going to be faced with hard figures on the floor of the Senate, in my humble opinion, which will run to several billion dollars more than has yet been requested for fiscal 1969. I would not attempt to put a dollar value on it now, but I have looked into some of these matters. More helicopters will be required, for example. I would rather not go further than that, but that is a hardware matter that is readily seen.

So in view of these jarring facts—and they are facts and figures, not conjecture—I am compelled to desert the ordinary safeguards I would have with respect to approaching these matters, and I am going to vote for the bill on final passage, including the surtax and the limitation on spending.

Now, some people back home have said, "We want you to cut out that useless spending up there, and we don't want any more taxes until you do that." I believe that we should do both; that we must do both. We have gone along and gone along—I say this with all deference—and it seems to me that we have done the easy things and postponed the hard ones. This is a hard one. But it is time to act. Fate has swung development around to putting the Senate in front. But we must meet this issue on this bill, even it is is an unorthodox way to do it.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. STENNIS. I ask for 1 additional minute.

If we do not do this, the consequences will be very bad, as they have been in the past when we failed to meet the hard problems. I believe the finest thing we could do for our country tonight would be to lay aside all reference to party or election year or anything else and say we have the will to act and lay it on the line. I believe we will have changed the direction right there, if we follow it up, and we will be starting out of the woods.

I do not know why there should not be some leadership from Congress with respect to this problem as well as other sources. We have been slow, but it is not too late. So let us meet this issue headon and vote for this bill by a large majority, and show that we are aware of the facts and of our responsibility and that we are going to do what we can to meet the problem.

I thank the Senator.

Mr. LONG of Louisiana. Mr. President, ordinarily, Congress would take a look at the President's recommendations, examine the appropriation bills, and, after passing the appropriation bills, pass on the revenue bills required to pay the cost. If Congress did not want taxes to pay for all of the costs, it would raise the debt limit. That would be the procedure.

That is the way the House has been looking at it. They want to know how much is going to be appropriated. When they know how much is going to be appriated, they will readily decide what new taxes to recommend. That is the way the tax bill should start.

Mr. President, we will put the cart in front of the horse if we cut expenditures before we know how much is going to be appropriated. That is my reaction when a Senator suggests that we cut $6 billion in advance from the budget, not knowing precisely what is going to be cut.

Mr. RANDOLPH. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. RANDOLPH. May I have the attention of my distinguished colleague the Senator from Mississippi?

I am in agreement with him on the passage of this bill. I have been in favor of a tax increase and have advocated it for over 2 years. I do not understand that his strong advocacy of the passage of the bill is in anywise connected with the pending amendment to strike section 3, which I have offered, and upon which we are about to vote. I should like to have that clarified.

Mr. LONG of Louisiana. Let me make that clear. The Randolph amendment would do nothing one way or the other about the proposal to cut the budget by $6 billion.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. I yield myself 2 additional minutes.

It would do nothing at all about the proposal to cut $6 billion. It would not change the figure at all. All the Randolph amendment seeks to do is to put public works under the proposal in the same posture as all other expenditures.

That would be the situation if the amendment passes when they talk about cutting expenditures. They would take a look at all Federal expenditures, and determine how to cut $6 billion.

Under the approach now in the proposal this would not be the case Congress would have vetoed expenditures on new direct Federal civil public works features and projects and turned it over to some man downtown to determine if some of them should be undertaken because it is vital. The Senator offered the amendment to provide that all continuing projects would be judged on the same basis as other expenditures if we provide for an overall cut of $6 billion.

Mr. RANDOLPH. That is all.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. RANDOLPH. Mr. President, I yield 2 minutes to the Senator from Mississippi.

Mr. STENNIS. Mr. President the Senator from Florida suggested that I make some statements now that I have prepared in connection with the bill.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield to me for 2 minutes so that I may clarify the matter?

Mr. STENNIS. I beg the Senator's pardon. I came in late. My presentation was with respect to the bill.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Delaware is recognized.

Mr. WILLIAMS of Delaware. Mr. President, the original proposal that the Senator from Florida and I proposed was to put a moratorium, first, on new projects until they had been certified as being essential. Second, it was our proposal to ask for a reexamination of existing projects to see whether or not they can be slowed down or held down without jeopardizing the welfare of the country or resulting in an economic loss.

In order to effect a compromise we deleted from our proposal the request for reexamination of those projects already in existence, but we retained the moratorium on new projects as it was in the original proposal.

The Senator from West Virginia now wants to strike out even that part, which would leave no control as far as the new projects are concerned. If his amendment is approved it will be the signal for spending as usual.

That is the reason so much is riding on this vote—and I cannot overemphasize it. Normally, one vote would not be the key, but there are other factors involved in this instance. There are $6 billion in reductions in spending, which is important, and a proposal calling for the President to send down his proposed plan for reducing the budget by $10 billion; however, to implement that $10-billion reduction in appropriations will require

further action by Congress. The Senator from Mississippi recognizes that.

Mr. President, the reason so much is riding on this vote is that to many on this side of the aisle this is a key test. Will the Senate stand up when that recommendation for $10-billion reduction comes down, or will they take the politically expedient way of voting for full spending authority.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 2 additional minutes.

Public works projects have a lot of appeal in all of our States; but can the Senate afford to exempt them from being a part of the $6 billion reduction? This next vote will be an indication as to what the Senate will do later.

Therefore, if we lose this vote we may very well lose the bill. Therefore I say that there is very much riding on this vote. This is a very important moment.

The Senator realizes that we are not just talking about $250 million in new starts. It is not only the $250 million in starts, but we are committing a total of $2.5 billion.

However, the situation gets back to the one key point. Does the Senate want to control spending bad enough that Senators will vote to control a program which is popular in each of the 50 States? That is the point that is so important tonight.

The Senator from Florida and I have gone far to meet the objectives of the Senator from West Virginia in the hope that we could retain this part of the measure, which many of us feel is the most essential.

Mr. HARTKE. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. Mr. President, I yield 1 minute to the Senator from Indiana.

Mr. HARTKE. Mr. President, I wish to pay tribute to the chairman of the Committee on Finance, the distinguished Senator from Louisiana [Mr. LONG] for his clear statement with respect to what the problem really is. I think the statement by the chairman of the committee was quite clear.

The chairman of the Ways and Means Committee in the other body has been saying for a long time, "If you are going to have cuts show me the cuts you propose; and then we can talk about a tax increase."

I commend the Senator from Louisiana. If the Senate agrees to the Williams-Smathers amendment we might as well abolish the Congress because we would have no function except to take orders.

Mr. LONG of Louisiana. Mr. President, under the proposal of the Senator from Delaware, Congress would be powerless to initiate any new program. We would, in effect, tell the Committee on Appropriations and the Committee on Public Works that we are in such desperate shape that we cannot have new school buildings or a new dormitory for children.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 additional minute.

The PRESIDING OFFICER. The Senator from Louisiana is recognized.

Mr. LONG of Louisiana. Mr. President, we could not even start a new post office building. We would be telling the country we are in desperate shape. Mr. President, if we were in that situation, I would vote for the proposal. But in the present situation, I would hope that we would wait to see exactly what new starts would be considered and that we would decide the same as we would on anything else that is in the national interest.

Mr. CURTIS. Mr. President, will the Senator yield to me for 2 minutes?

Mr. WILLIAMS of Delaware. I yield 2 minutes to the Senator from Nebraska.

Mr. CURTIS. Mr. President, I shall only take 2 minutes. I shall oppose the Randolph amendment.

I come from a State that has had a great deal of public works. We hope to have more public works. We are very much interested in the conservation of our soil and water resources. However, first things come first and the war in Vietnam will not go away by merely pretending that it does not exist. The battle over the dollar and gold, and the problems in connection with a balanced budget will not disappear by mere oratory.

I suggested a couple of years ago that we have a moratorium on new social programs. However, those commitments have gone on. They will have to be met in good faith. There are a few places we could cut, and I am not about to desert the men who are fighting in Vietnam and further jeopardize the financial position of this country by taking the position that I do not want something cut that is dear to my heart and the people I represent.

I shall support the proposal of the Senators from Delaware and Florida.

SEVERAL SENATORS. Vote! Vote! Vote!

Mr. KUCHEL. Mr. President, will the Senator yield to me for 2 minutes while Senators are in the Chamber waiting to vote?

Mr. WILLIAMS of Delaware. I yield.

Mr. KUCHEL. Mr. President, a number of Senators on this side of the aisle, I wish to say to my friend from Louisiana, are interested in how late we are going to stay tonight.

I count nine more amendments that are available to be taken up, at an hour a piece maximum, plus one which the Senator from New York has on which, under the unanimous-consent agreement, 2 hours have been allotted. That, roughly, plus the 4 hours available on the substitute, would be about 13 hours before third reading would be reached.

I also understand, I will say to my able friend from Louisiana, that the House has now adjourned, apparently until Monday. Therefore, I think the Senate should have some idea how long my able friend from Louisiana would want us to run before the hazard of rollcalls is waived.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 1 minute.

Mr. LONG of Louisiana. Quite a few Senators on both sides of the aisle have pleaded with me to try to get on with the bill and hold the Senate in session, if need be, so that we can vote.

I shall try to keep the Senate here until 9 o'clock to vote on as many amendments as possible. However, if the Senate is weary and tired, perhaps we could quit around 8 o'clock. I would hope that we could proceed to vote on as many amendments as possible, but when I detect that the Senate is weary, then we will go home and come back tomorrow.

Mr. KUCHEL. I thank my friend from Louisiana very much.

Mr. MILLER. Mr. President, will the Senator from Louisiana yield me 2 minutes?

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Iowa.

The PRESIDING OFFICER. The Senator from Iowa is recognized for 2 minutes.

Mr. MILLER. Mr. President, I think we all feel as strongly as anyone else about the relationship between what we are doing on the main Williams-Smathers amendment and the war in Vietnam. I do not see that it has any direct relationship to the pending amendment of the Senator from West Virginia [Mr. RANDOLPH].

If I understand the Senator from Louisiana correctly, he is saying this: that if we take the Randolph amendment then all public works, new starts, and continuing programs are fair game for the appropriations committees when it comes to cutting $6 billion which is in the Williams-Smathers amendment.

If that is so, I think there is a great deal of merit to the argument. There may be some new starts that are more important to the Nation's health and welfare than some of the continuing projects. If we do not take the Randolph amendment, then we prevent the appropriations committees from making that decision.

I think we can, in clear conscience, vote for the Randolph amendment and still hang tight to the $6 billion expenditure reduction.

Mr. MOSS. Mr. President——

The PRESIDING OFFICER. Who yields time?

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Utah.

The PRESIDING OFFICER. The Senator from Utah is recognized for 2 minutes.

Mr. MOSS. Mr. President, I have long supported a tax increase because I think it is the only reasonable thing to be done to halt the present inflation that threatens us and which, in fact, we are already experiencing.

Last year, I spoke out, as I did before we adjourned that I do not buy the argument we should wait until all appropriations are in to talk about a tax bill. That is the last thing we will do on the last day of this session, pass an appropriation bill. So that we would be putting off a tax increase for another year.

But I want to speak to the amendment of the Senator from West Virginia.

It seems to me it would be the height of folly to direct a cut to public works and

say that there will be no new starts and say that this is the place we have to cut the dollars, because I think, in so doing, we weaken the fabric of our economy. In fact, it would be disastrous in many places.

Not only that, but section 4, which remains in the Williams-Smathers substitute, provides for a cut.

It further provides that the cut may go any place Congress chooses to make it. So that if we are going to make a cut, we can determine whether we want the cut in the foreign field or in the military field, or wherever we want to cut, without weakening the economy.

If we now deprive ourselves of new starts in the field of schools, public projects—and there are three projects in my State—flood control projects, and all these other matters, we then have deprived ourselves, as a body of Congress, of determining where the cuts shall be made.

I shall vote for the amendment of the Senator from West Virginia.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from West Virginia [Mr. RANDOLPH].

On this question the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. MILLER (after having voted in the affirmative). On this vote, I have a live pair with the Senator from Illinois [Mr. DIRKSEN]. If he were present and voting, he would vote "nay"; if I were permitted to cast my vote, I would vote "yea." I withdraw my vote.

Mr. BYRD of West Virginia. I announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Arizona [Mr. HAYDEN], the Senator from New York [Mr. KENNEDY], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Wyoming [Mr. MCGEE], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], and the Senator from Virginia [Mr. SPONG] are necessarily absent.

I also announce that the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Missouri [Mr. LONG], and the Senator from Texas [Mr. YARBOROUGH] are absent on official business.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY] would vote "yea."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from Virginia [Mr. SPONG]. If present and voting, the Senator from Rhode Island would vote "yea" and the Senator from Virginia would vote "nay."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], the Senator from Illinois [Mr. DIRKSEN], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] are necessarily absent.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Kansas [Mr. CARLSON], the Senator from Massachusetts [Mr. BROOKE], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] would each vote "nay."

The pair of the Senator from Illinois [Mr. DIRKSEN] has been previously announced.

The result was announced—yeas 42, nays 37, as follows:

[No. 88 Leg.]

YEAS—42

Bayh	Hill	Monroney
Bible	Holland	Montoya
Brewster	Hollings	Morse
Burdick	Inouye	Moss
Byrd, W. Va.	Jackson	Mundt
Clark	Javits	Muskie
Dodd	Jordan, N.C.	Nelson
Ellender	Kennedy, Mass.	Randolph
Ervin	Long, La.	Symington
Fong	Magnuson	Talmadge
Gruening	McGovern	Tydings
Harris	McIntyre	Williams, N.J.
Hart	Metcalf	Young, N. Dak.
Hartke	Mondale	Young, Ohio

NAYS—37

Aiken	Eastland	Prouty
Allott	Gore	Proxmire
Anderson	Griffin	Ribicoff
Baker	Hansen	Russell
Boggs	Hatfield	Scott
Byrd, Va.	Hickenlooper	Smathers
Cannon	Hruska	Smith
Case	Jordan, Idaho	Stennis
Church	Kuchel	Thurmond
Cooper	Lausche	Tower
Cotton	Morton	Williams, Del.
Curtis	Murphy	
Dominick	Pearson	

PRESENT AND GIVING A LIVE PAIR, AS PREVIOUSLY RECORDED—1

Miller, for.

NOT VOTING—20

Bartlett	Hayden	Pastore
Bennett	Kennedy, N.Y.	Pell
Brooke	Long, Mo.	Percy
Carlson	Mansfield	Sparkman
Dirksen	McCarthy	Spong
Fannin	McClellan	Yarborough
Fulbright	McGee	

So Mr. RANDOLPH's amendment was agreed to.

Mr. RANDOLPH. Mr. President, I move to reconsider the vote by which the amendment was adopted.

Mr. LONG of Louisiana. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. JACKSON. Mr. President, I offer an amendment, which is at the desk.

The PRESIDING OFFICER. The amendment offered by the Senator from Washington will be stated.

The LEGISLATIVE CLERK. It is proposed, on page 3, line 18, after the first comma, to insert "the Central Intelligence Agency".

Mr. JACKSON. Mr. President, I am offering this amendment for myself and the distinguished Senator from North Dakota [Mr. YOUNG].

The amendment is obvious. On page 3, Members of the Senate will note that the Williams-Smathers substitute exempts from the employment freeze the Department of Defense, Postal Field Service, and the Federal Bureau of Investigation, among others. I do not think it is necessary for me to explain the obvious reason why we should exempt the Central Intelligence Agency from this personnel limitation.

It is my understanding that the able Senator from Florida [Mr. SMATHERS] is prepared to accept the amendment.

Mr. SMATHERS. Mr. President, I think we should inquire of the Senator from Delaware [Mr. WILLIAMS].

Mr. WILLIAMS of Delaware. Mr. President, I would have no objection to accepting it, but if any other Senator has any other exemptions to propose, he had better bring them up at this time.

Mr. LONG of Louisiana. Mr. President, I yield back my time.

Mr. JACKSON. Mr. President, I yield back my time.

The PRESIDING OFFICER. All time on the amendment has been yielded back.

The question is on agreeing to the amendment of the Senator from Washington.

The amendment was agreed to.

AMENDMENT NO. 676

Mr. MONRONEY. Mr. President, I desire to call up my amendment at the clerk's desk, No. 676.

The PRESIDING OFFICER. The amendment will be stated by the clerk.

The legislative clerk proceeded to read amendment No. 676.

Mr. MONRONEY. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with, and that it be printed in the RECORD at this point.

The PRESIDING OFFICER. Without objection, it is so ordered.

Amendment No. 676 is as follows:

On page 27, strike out the table following line 14 and insert the following:

"Calendar year	Percent	
	Individuals	Corporations
1968	3.375	4.5
1969	2.25	2.25".

On page 28, line 1, strike out "10 percent" and insert "4.5 percent".

On page 35, after line 2, insert the following new sections:

"SEC. 14. INCREASE IN TAX ON DISTILLED SPIRITS.

"(a) TAX INCREASE.—Section 5001(a) (relating to rate of tax on distilled spirits) is amended by striking out '$10.50' each place it appears therein and inserting in lieu thereof '$15.50'.

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall take effect on April 1, 1968.

"SEC. 15. INCREASE IN TAX ON CIGARETTES.

"(a) TAX INCREASE.—Section 5701(a) (relating to tax on cigarettes) is amended—

"(1) by striking out '$4 per thousand' in paragraph (1) and inserting in lieu thereof '$5 per thousand'; and

"(2) by striking out '$8.40 per thousand' in paragraph (2) and inserting in lieu thereof '$10.50 per thousand'.

"EFFECTIVE DATE.—The amendments made by subsection (a) shall take effect on April 1, 1968.

"SEC. 16. REIMPOSITION OF CERTAIN EXCISE TAXES.

"(a) RETAIL TAXES.—There is hereby imposed upon articles sold at retail which were taxable under—

"(1) subchapter B of chapter 31 (relating to furs), and

"(2) subchapter C of chapter 31 (relating to toilet preparations),

as such provisions were in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(b) MANUFACTURERS TAXES.—There is hereby imposed upon the sale by the manufacturer, producer, or importer of articles which were taxable under—

"(1) subchapter C of chapter 32 (relating to entertainment equipment), and

"(2) part II of subchapter D of chapter 32 (relating to photographic equipment),

as such provisions were in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(c) ADMISSIONS AND CLUB DUES.—There is hereby imposed on amounts paid which were taxable under subchapter A of chapter 33 (relating to admissions and club dues) as such provision was in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(d) OCCUPATIONAL TAXES.—There is hereby imposed on each activity which was taxable under—

"(1) subchapter B of chapter 36 (occupational tax on coin-operated devices), and

"(2) subchapter C of chapter 36 (occupational tax on bowling alleys, billiard and pool tables),

as such provisions were in effect on the day before the date of the enactment of the Excise Tax Reduction Act of 1965, a tax at the rate which was in effect on such day.

"(e) EFFECTIVE DATE.—This section shall take effect on April 1, 1968.

"(f) REGULATIONS.—The Secretary of the Treasury or his delegate shall prescribe such regulations as may be necessary to carry out this section."

Mr. MONRONEY. Mr. President, I think I would save the time of Senators if I were just allowed to explain it.

AMENDMENT NO. 680

Mr. DOMINICK. Mr. President, will the Senator yield?

Mr. MONRONEY. I am glad to yield.

Mr. DOMINICK. Mr. President, I send an amendment to the desk for printing. The amendment concerns the nonpayment of gold to nations who owe us money and have not paid in accordance with the terms of their obligations.

The PRESIDING OFFICER. The amendment will be received and printed, and will lie on the table.

Mr. MONRONEY. Mr. President, briefly, my amendment seeks to cut down what I feel is an oppressive amount of surtax, 10 percent, as provided in the amendment of the Senator from Delaware [Mr. WILLIAMS].

My major difference is that I propose to cut the 10-percent surtax down to 4½ percent for individuals and corporations.

My amendment contains the same provisions for accelerated corporate income tax payments, with estimated revenues of $300 million, that is in the committee bill and the substitute proposal by the Senator from Delaware.

It includes the retention of automobile and telephone excise taxes, of $2.7 billion.

Then these are new taxes:

We increase, in my amendment, the tax on cigarettes by 25 percent, from 8 cents to 10 cents per pack, which will raise $500 million, according to Treasury figures. After all, we are trying to discourage the smoking of cigarettes. We print on each package of cigarettes that smoking may be injurious to health, and I think this is a luxury that could well stand the 2-cents-a-package increase, and produce $500 million.

We increase the tax on alcoholic beverages by approximately $1 a fifth. This is an increase of 50 percent. Many of my friends say, "Well, surely it is worth that much." But whether it is or not, it will produce revenues of $1.5 billion. This, I think, is a legitimate objective.

We reimpose the luxury taxes that we repealed. Bear in mind, we did not raise these: we merely reimposed those that we repealed in 1965.

I believe it is undeniable that conditions are different now than when we repealed these luxury taxes. So the taxes on phonograph records, musical instruments, radios, TV sets, phonographs, and photographic equipment will amount to $400 million.

The tax on furs, at 10 percent, and on toilet preparations—this includes men's shaving lotions as well as ladies' cosmetics, and we do not include baby oil; I remember we were hooked on the baby oil many times when this was originally instituted—will produce $300 million.

On amusements, we include again the tax we once had of 10 percent on moving pictures, on night clubs, on the theater, and on recreational types of things, and we raised $236 million in that manner.

This brings us out with new revenues of $10.3 billion. That compares with new revenues to be produced by the amendment of the distinguished senior Senator from Delaware of $12.8 billion. So we are $2.5 billion below that figure.

I think when we consider the tremendous impact that a 10-percent surtax on top of the already high prevailing personal tax rates would have, this would be a more satisfactory substitute. We have always had luxury taxes in time of war. They are accepted. They have been a part of our tax structure in wartime as long as any of us can remember; and I believe the people prefer that type of tax, rather than have the increase built into the income tax structure.

People with whom I have talked are fearful that if we add a 10-percent surtax to the income taxes, we may be forever in getting that 10-percent surtax off; but they know from past experience that we will take the luxury tax off. Once imposed in time of war, it tends to reduce as the emergency decreases.

There were many other taxes we could have added, but which were not put in. They would have produced another $1.5 billion; but the reason we did not include them was because they deal largely with household furnishings like refrigerators, which are necessary, with household appliances, room air conditioners, light bulbs, jewelry, luggage, and things of that kind. If we need to consider additional sources of revenue, I have a list that would produce another $1.5 billion, and we would then be within $1 billion of what the amendment of the Senator from Delaware will produce, under the 10-percent surtax.

I believe this is a good piece of legislation. The Treasury has helped in supplying these figures, and I personally know, from discussing the matter throughout my State and talking about the difference between the two types of taxes, and where the burden will fall on luxuries, that my constituents far prefer to have luxury taxes.

They say, "This is a tax we do not have to pay unless we want to buy that gin, or go to this night club, or buy a fur coat, or go to a movie."

So I believe this is a very logical way to meet the crisis caused by the war in Vietnam. It will not be an unusually heavy tax, with a 4.5-percent surtax, and certainly the luxury burden will fall very lightly on the general public of this great country.

Mr. President, I reserve the remainder of my time.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that there be a short quorum call, charged to neither side.

The PRESIDING OFFICER. Is there objection?

Mr. LONG of Louisiana. Mr. President, may we have it understood that the Senator is not going to insist on bringing the full 51 Senators into the Chamber?

Mr. WILLIAMS of Delaware. We cannot have a vote without 51 percent.

Mr. LONG of Louisiana. Is the Senator ready to yield back his time and vote, or does he want to debate?

Mr. WILLIAMS of Delaware. No, but there is no point in debating to an empty Chamber.

Mr. LONG of Louisiana. I hope the Senator will not insist on a quorum call. It will take a considerable amount of time.

Mr. WILLIAMS of Delaware. It should not take much time. We had 70 Senators for the last vote, and they are around when it comes time to vote. If we can not get 51 Senators, we are not going to be able to vote tonight, anyway.

Mr. LONG of Louisiana. Would the Senator be willing to take the time for the quorum call out of both sides?

Mr. WILLIAMS of Delaware. Well, no. I think we can have it without it being charged. I ask that the time not be charged to either side.

The PRESIDING OFFICER. Is there objection? The Chair hears none. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. HARRIS in the chair). Without objection, it is so ordered.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. WILLIAMS of Delaware. I yield.

Mr. MONRONEY. Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. SMATHERS. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 5 minutes.

Mr. SMATHERS. Mr. President, it grieves me very much ever to be in opposition to the distinguished senior Senator from Oklahoma. I do not know of any finer public servant anywhere. I know that no Senator gives any greater thought to the problems of his State than does the Senator from Oklahoma.

I do not think there is a finer expert to be found anywhere in the United States on matters of transportation than the distinguished Senator from Oklahoma.

So, as I say, it bothers me to be in any fashion in opposition to him. The only reason I am in opposition to him on the particular proposal is because I believe the matter of how we should levy these taxes, if we can get taxes, is a matter on which we should have some hearings before either the Senate Finance Committee or the House Ways and Means Committee.

We have at least had hearings on the matter of a 10-percent surtax charge, and the people who opposed it because they felt that it would hit them most heavily, have had the opportunity to come in and testify. However, the particular proposal of my distinguished and good friend, the Senator from Oklahoma, concerns certain taxes in the excise field.

The people who would be drastically affected by it have not had an opportunity to be heard.

An excise tax is a more regressive tax than a surtax for the simple reason that it weighs far more heavily on the little man than it does on the big man. A surtax, in my judgment, is a fairer tax because it falls on those who are most able to pay.

If the Senator won acceptance of his suggestion that we lessen the surtax and substitute excise taxes, I think he would accomplish what I know he did not intend to accomplish. I refer to the fact that he would put a greater burden on the little people than he would on those who can better afford to pay.

I think we should be reminded that the special 10-percent surtax also does not apply, as it is now proposed, in the same way with regard to all tax groups.

A family of two can have a taxable income of $2,000, before it will be affected at all by the proposed 10 percent surtax.

I believe that we need hearings on this proposal that the distinguished Senator from Oklahoma has advanced. I think those people who would be affected by it should have an opportunity to come in and be heard. I therefore respectfully and regretfully, because the Senator from Oklahoma is the sponsor of the measure, urge the Senator to reject the amendment.

Mr. MONRONEY. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized for 5 minutes.

Mr. MONRONEY. Mr. President, I am deeply grateful to my very gracious friend. I had the honor of serving with the Senator from Florida in the House and had the honor of going on the Commerce Committee of the Senate with him on the same day that we both came to the Senate. I deeply appreciate his very kind words. I appreciate also the sincerity and the great ability that he has to make the points against my amendment.

I have one important point to make. There are no new taxes contained in here. There is nothing new to the Senate or to the taxpayer, because these are taxes that we relieved the taxpayers from paying in 1965. That proves generally my point that an excise tax is easier to get rid of than is a tax that is built into the regular tax structure, like a surtax that can go on and on like a babbling brook. I have seen that done. I have seen the rates maintained through the machinery here.

I do not think there is any reason to wonder about whether a tax on the slot machines is burdensome or not. One will hear testimony to the effect that it is. However, everybody stands in line at Las Vegas and other places to put their money in the slot machines.

In the case of amusements, the pool halls do a great business. There is a tremendous business at the race tracks and at all athletic events. There is no sport that is not prospering as it has never done before.

The night clubs in Washington are the only places that are really busy, and whether it is for the lack of anything else to do in the rather dull Nation's Capital, I do not know, but certainly they are packing them in and doing a big business.

While I do not patronize them, I understand that a check for a nice little evening meal, and a little entertainment can reach $50 or $100 very easily for a rather small party.

I see no reason to have hearings. It would help to pep up the committee hearings if some of the performers could come in and testify in costume, I am told. And I think we might have to take the largest hall we have to accommodate the crowd in that event. I do not think that there is anything strange about any of these things relating to the amusement tax.

We know what a fur coat is. We know that fur coats will be sold whether there is a 10-percent tax or not. And with respect to all of the wildlife in Wisconsin or Alaska which is used for the raising and propagation of furs and fox skins and things of that kind, the tax will not involve a magnitudinous question of the survival of the industry.

I explained the toilet preparation tax. We want to be equally fair to the women and to the men. For that reason we will tax shaving soap and men's toilet preparations the same as the toilet preparations and cosmetics for the ladies.

There will be no baby oil tax involved in this. This is a straight cosmetic type tax.

We are taxing the hobbies a bit, and particularly the phonograph records, which is one of the biggest booming businesses we have in the country. Certainly the records that I buy sell for about twice what they sold for not so many years ago.

With respect to the musical instruments—I believe from the number of bands and particularly the high school bands, that there is no reason to believe this industry cannot stand a tax.

Sales of radio and television sets are going good.

Phonographs are still selling well. Photographic equipment has never had quite such a boom as it enjoys now.

The tax on amusement includes not only all nightclubs and race tracks, but it will also include the legitimate theater.

We used to pay about $3.50 for seats downstairs. However, I think the seats are now about $6.60, and the plays are not that much better. Still, we are entitled, I think, to place a luxury tax on such items.

Certainly, Mr. President, the moving picture industry can easily bear the tax. Incidentally, I believe it is high time to put on a tax, not for our displeasure, but perhaps to say that this industry is not living up to the cultural needs of this country. If one looks through tonight's newspaper, he will see the pornographic pictures of lust and nudity advertised blatantly. If this industry is going to continue along this track, it could very easily pay the 10-percent admission tax that is proposed to be added.

I recall going to see a week of the Greta Garbo festival at the Apex, and I enjoyed the show, and the ticket cost me $2.50. As a movie critic back in the old days on the Oklahoma News, I saw that picture—no difference whatever—for 25 cents. Can anyone tell me that the cost to rerun that picture has risen from 25 cents to $2.50?

These people have brought their prices up to the sky. They are producing the lowest level in junk that the movie industry has ever produced. Certainly, this is a source of income we should have.

I believe the tax on alcohol is justified. Every government of which I know feels that this is an item that is not of great benefit to the people and that it should carry a higher excise tax than other items normally do.

Certainly, the addition of $1 a fifth would not be detrimental to the industry. It might help a little to reduce the consumption, and that would probably be good for the health of the Nation. But, be that as it may, it would produce $1.5 billion, and I believe that is quite important in the situation in which we find ourselves.

Mr. COOPER. Mr. President, will the Senator yield?

Mr. MONRONEY. I yield.

Mr. COOPER. The Senator has said that the increase in the excise tax on distilled spirits, which he proposes, would produce an additional $1.5 billion in taxes?

Mr. MONRONEY. Yes, excise taxes. An additional $1 a fifth.

Mr. COOPER. What does the present excise tax on distilled spirits produce for the Treasury?

Mr. MONRONEY. Roughly, $3 billion.

Mr. COOPER. The increase proposed by the Senator's amendment is from $10.50 to $15.50 a gallon? That would be a $5 increase. That would produce a total from distilled spirits of how much?

Mr. MONRONEY. It is a 50-percent increase. It would have to be $4.5 billion, if I calculate correctly.

Mr. COOPER. I note that the Senator also proposes to increase the tax on cigarettes, from $4 per thousand to $5 per thousand.

Mr. MONRONEY. Two cents a package.

Mr. COOPER. I gather from the questioning of the distinguished Senator from Florida [Mr. SMATHERS] that these excise tax increases, several in number, were not proposed by the Senator from Oklahoma before the Senate Finance Committee.

Mr. MONRONEY. No, I did not, because I did not know a surtax was going to be offered to this bill. I would have held this up until we considered a surtax, had it not been for Senator WILLIAMS of Delaware and Senator SMATHERS presenting this proposal. I doubt very seriously that the surtax was heard a great deal. This came from the House as a simple extension of the expiring excise taxes, as the Senator is aware.

Mr. COOPER. In addition to the Senator's proposals to increase the Federal tax on distilled spirits and cigarettes, his amendment would reimpose to the wartime level certain other excise taxes, which have been removed by Congress in past years. But as I understand, the tax he proposes on distilled spirits and cigarettes would exceed even the wartime level.

Mr. MONRONEY. All those existed—I do not believe to this degree on alcohol or cigarettes. I am not certain what that tax was.

Mr. COOPER. What would be the total effect of the Senator's amendment upon revenues, if it should be adopted?

Mr. MONRONEY. My amendment, if adopted, with a 4.5 percent surtax, would raise the total amount of $10.3 billion.

Mr. COOPER. Is the Senator speaking on limited time?

Mr. MONRONEY. I have plenty of time.

Mr. COOPER. In stating my position, I should like to point out, that I have supported and continue to support the 10 percent surtax recommended by the administration, continuation of the excise taxes as recommended by the administration on automobiles and telephones, and that I also support a substantial reduction in expenditures of at least $6 billion. We had a very important test a few minutes ago on reduction of expenditures—in which we were really saying whether we would consent to reductions on those projects which would affect us in our own States. I believe we were called upon to say by our vote whether we would make a decision which would really hurt us a little. Unfortunately, the Senate did not make that decision.

The Senator's proposal affects two industries in my State. One is the distilled spirits industry, and the other is the cigarette industry—and more precisely, the burley tobacco industry.

They are legal and productive industries. Whatever moral views people may hold, these are legal industries. Together, they already produce an enormous amount of tax revenues for the Federal Government, and for State and local governments. But there is a limit to the tax they can be asked to bear.

The excise tax on a gallon of distilled spirits is $10.50. The tax already is many times the cost of a gallon of distilled spirits. Also, it is the only product I know on which the producer is required to pay the excise tax before it is sold. The industry pays out hundreds of millions of dollars to the Federal Government and to the State government when the bonding period has ended, before sale.

The situation with respect to the tax on cigarettes is similar. The tax on cigarettes is much greater than the value of the tobacco. For example, farmers receive only about 3 or 4 cents for the tobacco in a pack of cigarettes, from which the Federal Government receives 8 cents.

Both distilled spirits and cigarettes are taxed very heavily, and much more heavily than other products. This has occurred, I assume, because it seems easy to tax these products. But they should not be burdened with even heavier and inequitable taxes, simply because it seems an easy thing to do. That would be unfair.

So I urge that the Senate reject the pending amendment, for two reasons: First, because the Senate has not had sufficient opportunity to consider the amendment. Second, because the Senator's proposal with respect to these products is inequitable.

The proposal has often been made to take advantage of these two products; I have opposed these proposals in the past and do so now.

The Senator's proposal at this late hour would be similar to my offering an amendment tonight to reduce the 27.5-percent depletion allowance on oil. These votes tonight have been very close; such an amendment might pass. I think the Senator ought not begin to single out products.

Mr. MONRONEY. Mr. President, will the Senator yield?

Mr. COOPER. I yield.

Mr. MONRONEY. We have an amendment at the desk by the Senator from Delaware that would seek to reduce the allowance from 27.5 to 20 percent.

Mr. COOPER. The Senator is going to oppose that proposal, is he not?

Mr. MONRONEY. Yes. It is as important to me as whisky is to some other States. When I read all of these big ads about Cabin Still and Four Roses at $3.25 a fifth, surely that is worth $4.25, because they were once higher than that. I am sure that the great product of Kentucky has such a reputation with those who wish to imbibe that they would be willing to accept the great sacrifice and pay $1 more in the future for a fifth, rather than to have the 10-percent surtax on all of their income.

Mr. COOPER. I would be happy to listen to the Senator's argument in connection with the depletion amendment. I must oppose his amendment to substantially increase the Federal tax on distilled spirits and cigarettes—which are already very large—and ask that it be defeated by the Senate.

Mr. SMATHERS. Mr. President, I yield back the remainder of my time.

Mr. MONRONEY. Mr. President, will the Senator yield to me for 1 minute?

Mr. SMATHERS. I yield.

Mr. MONRONEY. Mr. President, due to the absence of so many Senators from the Chamber, I am sure that few Senators have heard the issues joined.

My feeling is that the bill will come out of the House of Representatives with hardly any of the additions or changes that the Senate might make in the bill. Therefore, I hope to have this amendment in the bill when it goes to the House so they will have some idea as to what it is all about. Then, when they write their revenue bill, it will receive some priority along with the suggestion for a 10-percent increase in the individual and corporate taxes, or a surtax charge.

I yield the floor.

The PRESIDING OFFICER. All time having been yielded back, the question is on agreeing to the amendment of the Senator from Oklahoma. On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Alaska [Mr. BARTLETT], the Senator from South Carolina [Mr. HOLLINGS], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Wyoming [Mr. MCGEE], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Virginia [Mr. SPONG], and the Senator from Maryland [Mr. TYDINGS] are necessarily absent.

I also announce that the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Missouri [Mr. LONG], the Senator from Texas [Mr. YARBOROUGH], and the Senator from Ohio [Mr. YOUNG] are absent on official business.

I further announce that, if present and voting, the Senator from South Carolina [Mr. HOLLINGS] and the Senator from Rhode Island [Mr. PASTORE] would each vote "nay."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], the Senator from Illinois [Mr. DIRKSEN], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] are necessarily absent.

The Senator from Iowa [Mr. HICKENLOOPER] and the Senator from Kentucky [Mr. MORTON] are detained on official business.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], the Senator from Kansas [Mr. CARLSON], the Senators from Illinois [Mr. DIRKSEN and Mr. PERCY], and the Senator from Arizona [Mr. FANNIN] would each vote "nay."

The result was announced—yeas 13, nays 62, as follows:

[No. 89 Leg.]

YEAS—13

Byrd, W. Va.	Harris	McIntyre
Church	Hayden	Monroney
Clark	Hill	Randolph
Cotton	Inouye	
Gore	Lausche	

NAYS—62

Aiken	Gruening	Mundt
Allott	Hansen	Murphy
Anderson	Hart	Muskie
Baker	Hartke	Nelson
Bayh	Hatfield	Pearson
Bible	Holland	Prouty
Boggs	Hruska	Proxmire
Brewster	Jackson	Ribicoff
Burdick	Javits	Russell
Byrd, Va.	Jordan, N.C.	Scott
Cannon	Jordan, Idaho	Smathers
Case	Kuchel	Smith
Cooper	Long, La.	Stennis
Curtis	Magnuson	Symington
Dodd	McGovern	Talmadge
Dominick	Metcalf	Thurmond
Eastland	Miller	Tower
Ellender	Mondale	Williams, N.J.
Ervin	Montoya	Williams, Del.
Fong	Morse	Young, N. Dak.
Griffin	Moss	

NOT VOTING—25

Bartlett	Kennedy, Mass.	Pell
Bennett	Kennedy, N.Y.	Percy
Brooke	Long, Mo.	Sparkman
Carlson	Mansfield	Spong
Dirksen	McCarthy	Tydings
Fannin	McClellan	Yarborough
Fulbright	McGee	Young, Ohio
Hickenlooper	Morton	
Hollings	Pastore	

So Mr. MONRONEY's amendment was rejected.

Mr. DOMINICK. Mr. President, I call up my modified amendment, and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated, as modified.

The ASSISTANT LEGISLATIVE CLERK. At the end of the bill insert the following new section:

SEC. 8. FOREIGN NATIONS INDEBTED TO THE UNITED STATES

(a) The Secretary of the Treasury shall promptly after the date of enactment of this Act make demand on all countries which are more than 90 days in arrears in the payment of principal or interest on obligations owing to the United States (including obligations incurred during World War I or World War II) for the amount of any such arrearages.

(b) During any period in which any foreign nation is in arrears, as determined by the Secretary of the Treasury, in the payment of principal or interest on obligations owing to the United States (including obligations incurred during World War I or World War II), dollars held by such nation, or any instrumentality thereof, which are presented for redemption in gold to the United States, or any officer or agency thereof, shall, in lieu of such redemption, be credited against the amount by which such nation is in arrears in the payment of principal or interest on such obligations.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 1 minute.

Mr. LONG of Louisiana. Would the Senator from Colorado agree to a lesser time limitation than 1 hour on each side? This amendment was at issue during debate on the gold cover. I know that Senators are anxious to vote and I would hope that this would be the last vote this evening.

Mr. DOMINICK. I would be happy to restrict myself in the time allotted for my amendment. I think 20 minutes would be sufficient to take care of other Senators who may wish to talk.

Mr. LONG of Louisiana. Mr. President, I thank the Senator.

Mr. President, I ask unanimous consent that the time on this amendment be limited to 20 minutes on each side.

Mr. YOUNG of North Dakota. Mr. President, I object.

The PRESIDING OFFICER. Objection is heard.

Mr. DOMINICK. Mr. President, I gather, then, that the Senate is now operating under the 1-hour time limitation. I shall try to be as brief as I can.

First of all, let me say to my colleagues, this is very nearly the same amendment I offered during the recent gold cover debate. At that time, many Senators felt that we should not make any change in the proposed bill then before us because if we did, it would have to go back to conference and as a consequence some Senators felt obligated to vote against my amendment although they may have done otherwise under different circumstances.

It seems perfectly obvious from what we have been doing here that the pending bill will go to conference and, therefore, that argument no longer applies.

Mr. PEARSON. Mr. President, may we have order in the Senate?

The PRESIDING OFFICER (Mr. CHURCH in the chair). The Senate will please be in order.

Mr. DOMINICK. Mr. President, I concur with what the distinguished Senator from Mississippi said earlier today. It seems to me that we are in the eye of an economic hurricane and unless we do something about it we will find our whole economic situation deteriorating and we will lose the remaining gold we have.

I might say, for the benefit of those who are here, that we have already lost gold since March 14 when we passed the gold cover bill. Since that time the central banks have met in an attempt to form some kind of agreement under which they could solidify the rest of their holdings.

Senators will remember what they said was twofold: "One, we are no longer going to support a gold pool; two, we will trade freely between central banks at $35 an ounce, but any bank that sells privately shall be automatically excluded from the right of exchanging gold within the central bank system.

That was fine as far as the six central banks are concerned, but there a great many of them in the International Monetary Fund, and some of those countries are still overdue to us in their obligations.

I am not asking that we as a country immediately require that they pay all the debt that is due us. I am simply asking that they pay their arrearages before they get any gold from the United States.

This amendment is similar to the amendment I called up on March 14 during the course of the debate on the removal of the gold cover. I have added a provision requiring that the Secretary of the Treasury make demand for the past due debts. My original amendment was defeated by a narrow two-vote margin.

The arguments in support of this amendment are, in my judgment, even more compelling today than on March 14.

The arguments I advanced earlier have been strengthened by subsequent events.

On the other hand, Mr. President, the arguments advanced in opposition to this amendment on March 14 have lost their relevancy. The "old" arguments of March 14 have been victimized by the passage of time—a brief 2-week period in this country's history, the impact of which, in my judgment, will adversely affect the economic future of this country.

We are in the eye of an economic hurricane; we must act and act responsibly—now—during the lull—to protect ourselves against the next economic storm.

We have accomplished little in the past 2 weeks to correct our economic dilemma except perhaps to purchase more time in which to set our economic house in order.

We bought time with the removal of the gold cover.

Everyone who attended and everyone who reported the historic meeting between the seven central banks in Washington March 16 and 17 agreed that the maximum result achieved was the purchase of time.

But must the price of that time be the last ounce of gold in Fort Knox? I think not.

We all pay lipservice to the economic truth that two things must be accomplished before we can extricate ourselves from our present dilemma. First, the balance-of-payments deficit must be closed. Second, our domestic deficit must be cut.

Hopefully, we will move forward in both areas immediately.

But I fail to comprehend how we can ask our constituents to tighten their belts and pay more taxes—to protect our monetary system—and then turn around and let countries who are past due in their debts walk off with our gold supply.

Mr. President, I would like to meet head on the arguments advanced against my amendment on March 14.

First, it was urged that the gold cover bill could not be amended because of the crisis then confronting us. The marching orders were issued and the desired result was achieved. That argument is not applicable here. This bill has been amended both in committee and on the floor.

Now every Senator can cast his vote on the issue. The amendment can be voted up or down on its merits.

Second, the convertibility question. It was argued by the Treasury in a memo I placed in the RECORD as well as by several of my colleagues on the floor that this amendment would damage the convertibility of the dollar.

That argument is now moot.

Major restrictions were placed on the convertibility of the dollar by the United States with the concurrence of the major central bankers on March 17. If any central bank sells in the private market, we will not exchange dollars for gold with that central bank. This is a major condition on the convertibility of the dollar—mine by comparison is a most minor condition.

Now we come to the gold pool question. The gold pool is defunct. No country needs our gold to support their interest in that pool. The only reason a country can possibly have for exchanging dollars for our gold is to benefit their own gold reserve position to the detriment of our reserve position. They have the right to do this; but in my judgment as a condition precedent, they should meet their existing obligations to us.

But it should also be recognized that, if our friends—for example Great Britain

or Italy—need gold to strengthen their reserve positions, they can turn to South Africa. South Africa has—according to the Wall Street Journal of March 25—announced that they will sell their gold under a two-price system. Private sales will be conducted at the market rate, while central banks may purchase gold from South Africa at $35 an ounce. This will then enable Great Britain and other countries to obtain their gold at the U.S. price if they feel they cannot meet the conditions imposed by my amendment.

I ask unanimous consent to have printed at thmis point in the RECORD an article from the Wall Street Journal of March 25.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

SOUTH AFRICA'S GOLD: KEY PRODUCING COUNTRY PLANS TO SELL THE METAL AT BOTH THE PRICE LEVELS—MOVE LIKELY TO NARROW GAP BETWEEN "TIERS," BOLSTER NEW DUAL-PRICING SYSTEM—GOOD NEWS FOR THE DOLLAR

(By J. Russell Boner)

CAPETOWN.—South Africa will do its best to make the two-tier gold-pricing system workable.

That's the definite impression given by Nicholaas Diederichs, the finance minister of the nation, which produces more than two-thirds of the free world's gold. Mr. Diederichs disclosed South Africa's new and still sketchy gold policy in an interview in his office here.

The policy has two key points: The nation will supply gold to the private market in London, at whatever the going price is, and it will sell to central banks at $35 an ounce, which is the price that central banks have agreed to use in dealing amongst themselves.

The South African decision will tend to keep the two gold prices relatively close by keeping the private market well supplied. Economists say this could give a long life to the two-tier system, which was established eight days ago after speculators drove the price of gold up sharply in the hope that the U.S. would have to increase the price it paid for gold (and thus devalue the dollar) to more than $35 an ounce. Rather than increase the price, though, the U.S.—and most nations other than France—simply agreed they would no longer buy or sell gold on the open market, letting supply and demand set the private market price while nations continued to deal with each other on the second tier at $35 an ounce.

AVOIDING DEVALUATION

These economists say that as long as the two tiers remain close in price, the U.S. will face little pressure to devalue the dollar. But they say that if the price rises sharply, to, say, $70 an ounce, investors and traders might consider the official price untenable, and this might force the U.S. to devalue the dollar.

South Africa produces so much gold—about $1.1 billion of the $1.5 billion annual market in the metal—that it could pretty much determine the immediate fate of world gold plans. So why doesn't it force the price up, getting as much as it can? "We would give much higher priority to a stable price of a permanent nature than a high price at the moment," says Mr. Diederichs, the country's key figure in gold-selling policies.

It may indeed partly be altruism, but there is more to South Africa's decision than that. If it decided to sell all its gold on the open market, the supply would be so great that the private market price might plummet. This might cause speculators—who now hold billions of dollars worth of gold—to start unloading. This in turn would lower the price even further, perhaps to under $35. And a price of less than $35 an ounce is the last thing that South Africa wants.

THE OFFER TO BANKS

So, by selling part to the free market and part to central banks, it sustains a $35 floor on gold, actually keeps the price somewhat above that by not flooding the market—and builds good will, all at the same time. It also is perfect for the South African economy, officials here say. A sharply higher price would only add to the inflation that now is troubling the nation, they say.

The offer to sell to central banks at $35 an ounce could help them replenish their diminished gold stocks. The seven members of the informal "gold pool"—the nations that agreed to furnish gold from their stocks to satisfy demand for the metal on the London market until eight days ago—had said they had enough gold to last them. But they didn't rule out buying more, and it probably would please them no end if they continue to buy at $35.

Presumably, South Africa stands willing to sell gold at $35 an ounce to France, too, even though France refused to go along with the decision by most big nations not to buy or sell gold in the private market. This means that France could buy gold from South Africa for $35 an ounce, and sell it in private markets for more. Some economists question whether France would do this, though, for that would only tend to increase the supply of gold in the private market and further weaken the price. France, they point out, wants the gold price in the private market to remain high in order to cast doubt on the dollar.

LONDON REMAINS KEY MARKET

But the new South African program does have one apparent blow to France. Mr. Diederichs says that South Africa probably will sell heavily on the private market at London. French officials had been hoping that Paris or Zurich could replace London as the key private market. This would have little monetary effect but would simply tend to diminish the prestige of London and the British financial system.

There are European gold markets in Frankfort, Brussels and Amsterdam along with London, Paris and Zurich, but the key one has long been in London. It has been both a retail and a wholesale market—supplying the continental markets—and British officials have been anxious that it retain its importance under the new setup.

In the past, South Africa has marketed all of its gold through the Bank of England. It isn't known how the marketing will be done under the two-tier system, but it is known that officials of the Reserve Bank of South Africa and the Bank of England are holding negotiations. Other aspects of gold-buying under the new system—such as how much gold will the central banks seek or get—still aren't known, either.

Mr. Deiderichs says that if South Africa takes in considerably more money as a result of any sharp rise in the gold price the nation may relax import controls and loosen restrictions on foreigners' taking money home from investments here. Both these moves would tend to offset any inflationary aspects of higher foreign exchange earnings—and both would be good news for U.S. exporters and investors.

Mr. DOMINICK. Fourth, this then brings us to the loophole or enforcement argument advanced by several of my colleagues on March 14. I think it would be helpful here to compare the loopholes in my amendment with the loopholes of our new gold policy announced by the central banks through their communique of March 17.

The communique of March 17 is fraught with loopholes. France has already stated its opposition and no country is bound with the exception of those six who joined us in the communique.

The agreement will be very hard to police—who can be sure who is trading gold to whom and for what purpose?

Our Treasury is going to have a most difficult time playing gendarme for the entire international monetary system.

So what we are really talking about to a large extent is good faith—and as my senior colleague stated on March 14, we will have our little black notebooks out and ready to make notes in this regard.

But the point is the public has a right to demand that we do all we can to protect their interests—and that is what this amendment does.

So much for the arguments of March 14 which have now drifted into history.

Let me now touch on the arguments in favor of my amendment which are more relevant today than on March 14.

I ask unanimous consent to have printed in the RECORD at this point the communique issued Sunday, March 17, by the seven participating countries.

There being no objection, the communique was ordered to be printed in the RECORD, as follows:

COMMUNIQUE

The Governors of the Central Banks of Belgium, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States met in Washington on March 16 and 17, 1968 to examine operations of the gold pool, to which they are active contributors. The Managing Director of the International Monetary Fund and the General Manager of the Bank for International Settlements also attended the meeting.

The Governors noted that it is the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the U.S. balance of payments is a high priority objective.

They also noted that legislation approved by Congress makes the whole of the gold stock of the nation available for defending the value of the dollar.

They noted that the U.S. Government will continue to buy and sell gold at the existing price of $35 an ounce in transactions with monetary authorities. The Governors support this policy, and believe it contributes to the maintenance of exchange stability.

The Governors noted the determination of the U.K. authorities to do all that is necessary to eliminate the deficit in the U.K. balance of payments as soon as possible and to move to a position of large and sustainted surplus.

Finally, they noted that the Governments of most European countries intend to pursue monetary and fiscal policies that encourage domestic expansion consistent with economic stability, avoid as far as possible increases in interest rates or a tightening of money markets, and thus contribute to conditions that will help all countries move toward payments equilibrium.

The Governors agreed to cooperate fully to maintain the existing parities as well as orderly conditions in their exchange markets in accordance with their obligations under the Articles of Agreement of the International Monetary Fund. The Governors believe that henceforth officially-held gold should be used only to effect transfers among monetary authorities and, therefore, they decided no longer to supply gold to the London gold market or any other gold market. Moreover, as the existing stock of monetary gold is sufficient in view of the prospective establishment of the facility for Special Drawing Rights, they no longer feel it necessary to buy gold from the market. Finally, they agreed that henceforth they will not sell gold to monetary authorities to replace gold sold in private markets.

The Governors agreed to cooperate even more closely than in the past to minimize flows of funds contributing to instability in the exchange markets, and to offset as necessary any such flows that may arise.

In view of the importance of the pound sterling in the international monetary system, the Governors have agreed to provide further facilities which will bring the total of credits immediately available to the U.K. authorities (including the IMF standby) to $4 billion.

The Governors invite the cooperation of other central banks in the policies set forth above.

Mr. DOMINICK. Mr. President, despite the super sales public relations job, only two things of a concrete nature were accomplished by that meeting.

First. The gold pool was ended and the two-price system for gold was then issued.

Second. It was decided that any country selling gold privately could no longer exchange dollars for gold with the United States.

This will work as long as not too large a spread exists between our price of $35 an ounce and the private market price. If a large spread develops, some countries will very likely sell—but let me assure you it will only be after they have accumulated as much of our gold as possible.

My amendment does not require the collection of any debts, but it simply says that any nation which is in arrears cannot get our gold until it is up to date on its overdue debts.

Now, this seems to me to be eminently fair. It makes no sense to me to invite the drain on our gold by countries who would rather exchange their dollar holdings for gold than to pay their overdue obligations to the United States.

It is said that we have an obligation to redeem dollars for gold, and I would certainly agree, but countries in debt to the United States have an equal obligation to pay those debts to us on time.

Does it make any sense to let countries use their dollars for buying gold rather than to pay their past-due obligations to us? I think not.

Many of these countries have been aided by the United States through long-term interest loans—low-interest loans, I may add—dating back more than 20 years to World War II. Many of them have made installment payments over a long period of time, and where countries have legitimately needed assistance, we have renegotiated the loans and stretched out the payments.

The time has now come when we need assistance, and all I am asking is that they pay their overdue debts, rather than use our currency to drain our gold reserves.

What countries, in fact, are delinquent in their payments to us for World War II and post-World War II debts? Since the debate on March 14 the Treasury has furnished me with a more up-to-date chart which goes through June 30, 1967.

I ask unanimous consent to have that chart printed in the RECORD at this point.

There being no objection, the chart was ordered to be printed in the RECORD, as follows:

STATUS OF FOREIGN LOANS AND OTHER CREDITS FROM U.S. GOVERNMENT AGENCIES AS OF JUNE 30, 1967: PRINCIPAL AND INTEREST DUE AND UNPAID 90 DAYS OR MORE

[In dollars or dollar equivalents]

Country and credit program	Total due and unpaid 90 days or more			Principal [1]			Interest [1]		
	Total	Due in dollars	Due in foreign currencies	Total	Foreign government [2]	Private	Total	Foreign government	Private
Argentina under Export-Import Bank Act	5,492,600	5,492,600		4,990,300		4,990,300	502,300		502,300
Bolivia under Foreign Assistance (and related) Acts: Country program loans	871,806	46,332	825,474	536,642		536,642	335,164		335,164
Chile under Agricultural Trade Development and Assistance Act: Long-term dollar sales	5	5		5	5				
China:									
Surplus property sales:									
Sales of overseas surplus	4,648,157	4,648,157		2,585,128	2,585,128		2,063,029	2,063,029	
Lend lease pipeline	50,214,159	50,214,159		30,206,981	30,206,981		20,007,178	2,007,178	
Colombia under Export-Import Bank Act	294,400	294,400		210,400		210,400	84,000		84,000
Costa Rica:									
Under Foreign Assistance (and related) Acts: Country program loans	398,685	398,685		296,883		296,883	101,802		101,802
Under Export-Import Bank Act	118,100	118,100		100,000		100,000	18,100		18,100
Cuba, under Export-Import Bank Act	30,088,500	30,088,500		15,617,100		15,617,100	14,472,300		14,472,300
Czechoslovakia, surplus property sales: Sales of overseas surplus	4,660,025	4,660,025		2,921,921	2,921,921		1,738,104	1,738,104	
Dominican Republic, under Agricultural Trade Development and Assistance Act: Long-term dollar sales	50,661	50,661		50,661	50,661				
El Salvador, under Agricultural Trade Development and Assistance Act: Long-term dollar sales	122	122					122	122	
Greece, surplus property sales: Merchant ship sales	41,971	41,971		30,591		30,591	11,380		11,380
Guatemala, under Foreign Assistance (and related) Acts: Financing of military sales	68,041	68,041		68,041	68,041				
Haiti:									
Under Foreign Assistance (and related) Acts: Country program loans	28,821		28,821	21,933		21,933	6,888		6,888
Surplus property sales: Sales of domestic surplus	136,884	136,884		103,039	103,039		33,845	33,845	
Hungary, surplus property sales: Sales of overseas surplus	3,030,153	3,030,153		3,030,153	3,030,153				
India:									
Under Foreign Assistance (and related) Acts: Country program loans	30,033	25,946	4,087				30,033	4,087	25,946
Under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	1,834,404		1,834,404	1,172,415		1,172,415	661,986		661,986
Under Export-Import Bank Act	44,900	44,900		25,600		25,600	19,300		19,300
Surplus property sales: Sales of overseas surplus	1,866,680		1,866,680	1,866,680	1,866,680				
Indonesia:									
Under Foreign Assistance (and related) Acts: Country program loans	6,313,121	5,297,249	1,015,872	4,992,898	4,571,747	421,151	1,320,223	1,198,075	122,148
Under Agricultural Trade Development and Assistance Act: Currency loans to foreign governments	720,824		720,824	191,818	191,818		529,006	529,006	
Under Export-Import Bank Act	22,941,000	22,941,000		17,172,800	17,172,800		5,768,200	5,768,200	
Surplus Property Sales: Sales of overseas surplus	5,500,886	5,500,886		4,167,338	4,167,338		1,333,548	1,333,548	
Iran:									
Under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	78,578		78,578	57,778		57,778	20,800		20,800
Surplus property sales: Sales or overseas surplus	32,261,913	32,261,913		23,388,181	23,388,181		8,873,733	8,873,733	
Lend lease pipeline	711,753	711,753		711,753	771,753				
Israel, under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	859,333		859,333	859,138		859,138	195		195
Korea, surplus property sales: Sales of overseas surplus	6,468,318	6,468,318					6,468,318	6,468,318	
Liberia:									
Under Foreign Assistance (and related) Acts: Country program loans	204,036	204,036		158,040		158,040	45,996		45,996
Under Agricultural Trade Development and Assistance Act: Long-term dollar sales	60,140	60,140		41,116	41,116		19,024	19,024	
Pakistan, under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	574,325		574,325	517,711		517,711	56,614		56,614
Paraguay:									
Under Foreign Assistance (and related) Acts:									
Country program loans	35,017		35,017	27,466	27,466		7,551	7,551	
Financing military sales	230,484	230,484		217,438	217,438		13,046	13,046	
Under Agricultural Trade Development and Assistance Act:									
Long-term dollar sales	405,374	405,374		374,491	374,491		30,882	30,882	
Currency loans to private enterprise	324,131		324,131	117,914		117,914	206,217		206,217

Footnotes at end of table.

STATUS OF FOREIGN LOANS AND OTHER CREDITS FROM U.S. GOVERNMENT AGENCIES AS OF JUNE 30, 1967: PRINCIPAL AND INTEREST DUE AND UNPAID 90 DAYS OR MORE—Con.

[In dollars or dollar equivalents]

Country and credit program	Total due and unpaid 90 days or more			Principal [1]			Interest [1]		
	Total	Due in dollars	Due in foreign currencies	Total	Foreign government [2]	Private	Total	Foreign government	Private
Philippines:									
Under Foreign Assistance (and related) Acts: Country program loans	3,491,691	3,436,840	54,851	2,468,110	54,851	2,413,259	1,023,581		1,023,581
Under Agricultural Trade Development and Assistance Act:									
Currency loans to foreign governments	55,117		55,117	55,117	55,117				
Currency loans to private enterprise	209,330		209,330				209,330		209,330
Somalia, under Foreign Assistance (and related) Acts: Country program loans	32,369	32,369					32,369		32,369
Sudan, under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	531,827		531,827	452,508		452,508	79,317		79,317
Syria, under Foreign Assistance (and related) Acts: Country program loans	64,405	64,405		52,000		52,000	12,405		12,405
Tunisia, under Foreign Assistance (and related) Acts: Financing military sales	458,100	458,100		440,481	440,481		17,619	17,619	
Turkey:									
Under Foreign Assistance (and related Acts):Country program loans	252,468		252,468	155,000		155,000	97,468		97,468
Under Agricultural Trade Development and Assistance Act: Currency loans to private enterprise	7,209,558		7,209,558	6,217,486		6,217,486	992,072		992,072
United Arab Republic:									
Under Foreign Assistance (and related) Acts: Country program loans	2,299,208	2,299,208		1,971,417	1,971,417		327,791	327,791	
Under Agricultural Trade Development and Assistance Act: Currency loans to foreign governments	248		248				248	248	
Under Export-Import Bank Act	2,752,700	2,752,700		1,812,500	1,812,500		940,200	940,200	
Soviet Union, lend lease pipeline	65,886,244	65,886,244		65,886,244	65,886,244				
Uraguay, under Export-Import Bank Act	40,500	40,500		24,800		24,800	14,100		14,100
Vietnam, under foreign assistance (and related) acts: Country program loans	1,586,773		1,586,773	615,639	615,639		971,134	971,134	
Venezuela, under Export-Import Bank Act	164,100	164,100		150,000	150,000		14,100	14,100	

[1] Does not include amounts charged off as uncollectable as of the date of this report. Does not include amounts rescheduled or deferred according to agreements. In several instances agencies have stopped reporting accruals of interest when credits have gone into default.

[2] Includes amounts where payment is owed or guaranteed by a foreign government or any agency of a foreign government such as a central bank.

Note: Collections under the above programs are generally the responsibility of the following agencies:

Under foreign assistance (and related) acts:	
Country program loans	Agency for International Development.
Financing of military sales	Department of Defense.
Under Agricultural Trade Development and Assistance Act:	
Long-term dollar sales	Department of Agriculture.
Currency loans to foreign governments	Agency for International Development.
Currency loans to private enterprise	Do.
Under Export-Import Bank Act	Export-Import Bank.
Surplus property sales:	
Sales of oversea surplus	Treasury Department.
Sales of domestic surplus	The only outstanding credit (Haiti) in this program was turned over by the General Service Administration to the General Accounting Office and the Department of State for collection.
Merchant ship sales	Department of Commerce.
Lend lease pipeline	Treasury Department.

Source: Treasury Department compilation of data submitted by the responsible agencies.

Mr. DOMINICK. So much for World War II and subsequent debts. What about World War I? There is a prevalent myth concerning these debts that they are somehow untouchable. Most debtors to the United States have acknowledge the validity of these debts, and, as far as I know, most of those countries, even today, are willing to admit these debts are due and owing. Some history is helpful in understanding the background of the World War I debts.

In this connection, I would like to start with the Hoover moratorium and insert into the RECORD a very brief memorandum prepared by the Economics Division of the Library of Congress, Legislative Reference Service:

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

THE LIBRARY OF CONGRESS,
LEGISLATIVE REFERENCE SERVICE,
Washington, D.C., March 6, 1968.

To: The Hon. PETER H. DOMINICK.
From: Economics Division.
Subject: "Hoover Moratorium" on servicing World War I indebtedness.

The Hoover Moratorium on servicing Allied World War I debts to the United States was the result of a chain of factors originating in the Great Depression of the 1930's. That period of economic crisis seriously affected all nations, whether they were creditors or debtors. Its impact was especially serious in Germany which had barely recovered from the runaway inflation and financial collapse of 1923 and was, in addition, burdened by the obligation of making reparation payments to the European Allies.

In these circumstances the reparation burden became almost impossible to bear, and Germany, in early 1931, ceaselessly tried to impress upon the Allies that their insistence on the continued reparation payments would spell an end to Germany's economic viability and result in her total economic collapse. On the other hand, there did not appear to be much chance that the Allies would be willing to compromise on the issue of reparations unless the United States were willing to modify its claims in the sphere of Allied debts to the United States.

The United States, in its turn, was interested in maintaining the health of the German economy, especially because its collapse would endanger some $5,250 million in American short- and long-term loans to Germany. Prompted by this situation and by a direct request made by the German President von Hindenburg, President Hoover, in June 1931, proposed that a one-year moratorium be declared on all inter-governmental obligations, reparations as well as inter-Allied debts.

The U.S. Congress authorized the moratorium with a Joint Resolution (Pub. Res. 5, 72d Congress, 1st session; 47 Stat. 3; copy enclosed), and moratorium agreements with most debtor nations were signed in May and June 1932. They provided for a suspension of all payments due to the United States during fiscal year 1932, and their repayment in ten equal annuities bearing a 4-percent rate, beginning in fiscal year 1934. The Resolution also underscored the interdependence of Allied debts to the United States and Allied claims on their debtors (sec. 3), and emphasized the absolute opposition of the Congress to any cancellation or reduction of the Allied indebtedness to the United States (sec. 5).

After the expiration of the one-year moratorium, most debtor nations did not resume making any payments, and of those that did, only Finland has been servicing its debt in accordance with the consolidation and moratorium agreements.

VLADIMIR N. PREGELJ,
Analyst in International Trade and Finance.

Mr. DOMINICK. Mr. President, I call the Senate's attention to the joint resolution of Congress which established the moratorium. That resolution spells out the payment provisions expected from those countries by Congress. I call especial attention to section 5 which reads as follows:

SEC. 5. It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner canceled or reduced; and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

Approved, December 23, 1931.

I ask unanimous consent that the entire resolution be printed in the RECORD at this point.

There being no objection, the resolution was ordered to be printed in the RECORD, as follows:

[Chapter 5]

Joint resolution to authorize the postponement of amounts payable to the United States from foreign governments during the fiscal year 1932, and their repayment over a ten-year period beginning July 1, 1933

Resolved by the Senate and House of Representatives of the United States of America in Congress assembled, That in the case of each of the following countries: Austria, Belgium, Czechoslovakia, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Italy, Latvia, Lithuania, Poland, Rumania, and Yugoslavia, the Secretary of the Treasury, with the approval of the Presi-

dent, is authorized to make, on behalf of the United States, an agreement with the government of such country to postpone the payment of any amount payable during the fiscal year beginning July 1, 1931, by such country to the United States in respect of its bonded indebtedness to the United States, except that in the case of Germany the agreement shall relate only to amounts payable by Germany to the United States during such fiscal year in respect of the costs of the Army of Occupation.

SEC. 2. Each such agreement on behalf of the United States shall provide for the payment of the postponed amounts, with interest at the rate of 4 per centum per annum beginning July 1, 1933, in ten equal annuities, the first to be paid during the fiscal year beginning July 1, 1933, and one during each of the nine fiscal years following, each annuity to be payable in one or more installments.

SEC. 3. No such agreement shall be made with the government of any country unless it appears to the satisfaction of the President that such government has made, or has given satisfactory assurances of willingness and readiness to make, with the government of each of the other countries indebted to such country in respect of war, relief, or reparation debts, an agreement in respect of such debt substantially similar to the agreement authorized by this joint resolution to be made with the government of such creditor country on behalf of the United States.

SEC. 4. Each agreement authorized by this joint resolution shall be made so that payments of annuities under such agreement shall, unless otherwise provided in the agreement (1) be in accordance with the provisions contained in the agreement made with the government of such country under which the payment to be postponed is payable, and (2) be subject to the same terms and conditions as payments under such original agreement.

SEC. 5. It is hereby expressly declared to be against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced; and nothing in this joint resolution shall be construed as indicating a contrary policy, or as implying that favorable consideration will be given at any time to a change in the policy hereby declared.

Approved, December 23, 1931.

Mr. DOMINICK. Mr. President, that is pretty clear. To make certain of it, I also have a memorandum sent to me by the Treasury, which explains the Treasury position on both World War I and World War II debts, as well as other collateral matters. This memorandum makes it equally clear that the United States has never recognized that there was any connection between World War I obligations and the debtor nations' reparation claims against Germany. In my judgment, this memorandum reaffirms the fact that there is no legal reason why the United States has failed to press its claim for payment of World War I debts; and I ask unanimous consent that the memorandum from the Treasury Department to which I have referred be printed in the RECORD at this point.

There being no objection, the memorandum was ordered to be printed in the RECORD, as follows:

GOLD LOSSES AND DEBT REPAYMENT

REPAYMENT OF WORLD WAR I AND II DEBT

In its effort to halt the loss of gold the Administration has given special attention to the potential contribution of debt repayment. Virtually all of the loan agreements and settlements made with foreign countries since the beginning of World War II established fixed amortization schedules which call for regular payments over a period of years. We expect both principal and interest on post-World War II obligations to be paid in accordance with these schedules, and with relatively few exceptions these payments are being made. Receipts from such scheduled debt repayments amounted to more than $800 million in 1966. Only in a few cases has it become impossible for debtor nations to meet scheduled payments, making it necessary to negotiate a rescheduling of the obligation. Some of the loan agreements provide for postponing payments under certain circumstances. Where disputes arise resulting in payment delays, efforts are made to reach agreement in order that payments may be resumed. There have been a few instances, notably in the case of the Republic of China and the USSSR, where it has not yet been possible to reach agreement involving comprehensive settlement of World War II Lend-Lease and related accounts. (The USSR is making payments on Lend-Lease items which were in production or storage in the United States before V–J Day.)

The United States has encouraged the governments of nations which are in a strong financial position to make payments in advance of the scheduled due dates and since 1959 advance repayments of nearly $3 billion have been collected. Several countries, among them Germany, Italy and Sweden have now prepaid all or nearly all of their World War II and postwar debt obligations to the United States.

The situation is different with respect to World War I debts. Most governments fulfilled their commitments under their World War I debt agreements until the depression. Debtor governments stopped making payments in 1932, following the expiration of the one-year moratorium on debts owed to the United States negotiated by President Hoover in an effort to mitigate the effect of these debt obligations on Europe's economic health. Although some countries made token payments until the beginning of World War II, Finland is the only country which is presently meeting its obligations in full.

While the countries which have large World War I obligations to the United States have never denied the juridical validity of their debts, there is a view widely accepted among them that the payment of these debts should be dependent on reparation payments by Germany. Resolution of the problem of governmental claims against Germany arising out of World War I was deferred "until a final general settlement of this matter" by the London Agreement of 1953, to which the United States is a party.

The Government of the United States has never recognized that there was any connection between the World War I obligations of those countries and their reparations claims on Germany. While the London Agreement would not prevent the United States from raising, on a bilateral basis, the question of payment of any of the debtor countries' World War I obligations (except in the case of Germany), it must be recognized that any effort on the part of the United States to collect these obligations would undoubtedly raise the problem of Germany World War I reparations. From the practical viewpoint, therefore, there does not seem to be any possibility of reaching an agreement on repayment in the absence of an over-all settlement of the World War I reparations problem, with its wide-ranging political ramifications.

FRENCH DEBT

The French hold to the generally prevailing view with regard to their debts to the United States. They not only have been servicing debts incurred after World War II regularly but have paid more than $880 million in advance of the due date. As of June 30, 1967 France's obligations to the United States (excluding World War I debts) were roughly $300 million.

The World War I indebtedness of the Government of France due and unpaid as of June 30, 1967 was $5,077 million, including $2,091 million of the principal sum and $2,986 million on interest arrearages. Unmatured principal was $1,773 million. No payments have been made since 1931. The total obligation which might be said to have been outstanding on June 30, 1967, including both matured and unmatured principal and interest arrearages to that date was $6,850 million.

The French Government has never contested the juridical validity of its obligation to the United States growing out of World War I. Within the framework of international law, it is clear that this obligation is not conditioned upon France's receipt of German reparation payments, and the highest officials of our Government have consistently denied any such relationship. The argument has been made, however, that there is a direct connection between the French World War I obligation to the United States and the receipt of German reparation payments. When the French Chamber of Deputies authorized the ratification of the 1926 agreement on funding the World War I debt to the United States, it also passed as a separate action, not affecting the validity of the unconditional ratification, a resolution stating that the French debt to the United States was to be paid "exclusively by the sums that Germany shall pay France." Furthermore, that body passed a resolution on December 14, 1932, deferring payment of the installment due to be paid to the United States the following day and inviting the convocation of a general conference with Great Britain and other debtors for the purpose of adjusting all international obligations and putting an end to all international transfers for which there was no compensating transaction.

U.S. GOLD POLICY

The established policy of the United States is to buy and sell gold to foreign governments and monetary authorities for legitimate monetary purposes at the fixed price of $35 per ounce. This policy provides the foundation for the international position of the dollar and the maintenance of its value in world markets. The stability of the dollar and its convertibility into gold at the fixed price has also resulted in its widespread use as a world trading currency and as the principal currency held along with gold in reserves of other countries. Any restriction on the convertibility of the dollar for monetary purposes or change in its value in terms of gold would create serious difficulties in world financial and exchange markets and consequently undermine the stability of the entire world monetary system.

If the United States placed conditions on its willingness to sell gold to a foreign monetary authority, however merited the condition might seem in an individual instance, the result would be to make the dollar only a partially convertible currency. This would inevitably shake confidence in its continued convertibility for other purposes at a fixed price, and it would no longer be considered, by the bulk of the world, to be "as good as gold". Thus the decision to convert dollars into gold has to remain that of the monetary authority concerned, each of which should be fully aware of the responsibility it shares in maintaining an effective and stable international payments system within the framework of international monetary cooperation.

The accumulation of dollar balances by foreigners and thus their ability to buy gold is a consequence of our balance of payments deficits. The best way to stop gold losses by the United States is, therefore, to have both deficit and surplus countries get back into balance of payments equilibrium. This is the

course of action which the United States is pursuing, both in formulating its own policies and in the framework of international cooperation. President Johnson, in his New Year's Day Message to the Nation on the balance of payments, made the position clear. He said:

"The time has come for decisive action designed to bring our balance of payments to—or close to—equilibrium in the year ahead.

"The need for action is a national and international responsibility of the highest priority."

His message, a copy of which is attached, outlined a comprehensive program, beginning with enactment of the anti-inflation tax proposals now pending before Congress, for the achievement of this objective.

Mr. DOMINICK. Mr. President, it would be helpful, I believe, if a precise list of the countries which owe us money on World War I debts be placed in the RECORD at this point, so that we can see just whom we are talking about. I ask unanimous consent that such a list be printed.

There being no objection, the list was ordered to be printed in the RECORD, as follows:

PART I.—INDEBTEDNESS OF FOREIGN GOVERNMENTS

INDEBTEDNESS OF FOREIGN GOVERNMENTS TO THE UNITED STATES ARISING FROM WORLD WAR I AS OF JUNE 30, 1967

	Original indebtedness	Interest through June 30, 1967	Total	Cumulative payments		Total outstanding	Unmatured principal	Principal and interest due and unpaid
				Principal	Interest			
Armenia	$11,959,917.49	$28,587,070.35	$40,546,987.84	$17.49		$40,546,970.35		$40,546,970.35
Austria [1]	26,843,148.66	44,058.93	26,887,207.59	862,668.00		26,024,539.59	$882,626.31	25,141,913.28
Belgium	419,837,630.37	318,884,720.47	738,772,350.84	19,157,630.37	$33,033,642.87	686,531,077.60	197,580,000.00	488,951,077.60
Cuba	10,000,000.00	2,286,751.58	12,286,751.58	10,000,000.00	2,286,751.58			
Czechoslovakia	185,071,023.07	111,060,093.17	296,131,116.24	19,829,914.17	304,178.09	275,997,023.98	86,355,000.00	189,642,023.98
Estonia	16,466,012.87	21,869,780.01	38,335,792.88		1,248,432.07	37,087,360.81	9,007,000.00	28,080,360.81
Finland	8,999,999.97	11,476,565.96	20,476,565.93	[2] 4,292,999.97	[2] 11,476,565.96	4,707,000.00	4,707,000.00	
France	4,089,689,588.18	3,246,978,853.39	7,336,668,441.57	226,039,588.18	260,036,302.82	6,850,592,550.57	1,772,868,667.43	5,077,723,883.14
Great Britain	4,802,181,641.56	6,980,131,958.11	11,782,313,599.67	434,181,641.56	1,590,672,656.18	9,757,459,301.93	2,433,000,000.00	7,324,459,301.93
Greece	[3] 34,319,843.67	3,230,509.84	37,550,353.51	983,922.67	3,143,133.34	33,423,297.50	21,205,921.00	12,217,376.50
Hungary [4]	1,982,555.50	2,775,445.76	4,758,001.26	73,995.50	482,924.26	4,201,081.50	1,095,545.00	3,105,536.50
Italy	2,042,364,319.28	339,839,470.22	2,382,203,789.50	37,464,319.28	63,365,960.88	2,281,373,909.34	1,168,900,000.00	1,112,473,909.34
Latvia	6,888,664.20	9,250,660.91	16,139,325.11	9,200.00	752,349.07	15,377,776.04	3,801,800.00	11,575,976.04
Liberia	26,000.00	10,471.56	36,471.56	26,000.00	10,471.56			
Lithuania	6,432,465.00	8,612,114.16	51,044,579.16	234,783.00	1,003,173.58	13,806,622.58	3,487,367.00	10,319,255.58
Nicaragua [5]	141,950.36	26,625.48	168,575.84	141,950.36	26,625.48			
Poland	207,344,297.37	279,443,464.38	486,787,761.75	[6] 1,287,297.37	21,359,000.18	464,141,464.20	115,807,000.00	348,334,464.20
Rumania	68,359,192.45	51,261,664.70	119,620,857.15	[7] 4,498,632.02	[7] 292,375.20	114,829,849.93	31,923,000.00	82,906,849.93
Russia	192,601,297.37	476,089,679.51	668,690,976.88		[8] 8,750,311.88	659,940,665.00		659,940,665.00
Yugoslavia	63,577,712.55	25,825,277.92	89,402,990.47	1,952,712.55	636,059.14	86,814,218.78	35,389,000.00	51,425,218.78
Total	12,195,087,259.92	11,917,685,236.41	24,112,772,496.33	761,037,272.49	1,998,880,514.14	21,352,854,709.70	5,886,009,926.74	15,466,844,782.96

[1] The Federal Republic of Germany has recognized liability for securities falling due between Mar. 12, 1938, and May 8, 1945.
[2] $6,360,250.26 has been made available for educational exchange programs with Finland pursuant to 20 U.S.C. 222–224.
[3] Includes $13,155,921 refunded by the agreement of May 28, 1964. The agreement was ratified by Congress Nov. 5, 1966.
[4] Interest payments from Dec. 15, 1932, to June 15, 1937, were paid in pengo equivalent.
[5] The indebtedness of Nicaragua was canceled pursuant to the agreement of Apr. 14, 1938.
[6] Excludes claim allowance of $1,813,428.69 dated Dec. 15, 1929.
[7] Excludes payment of $100,000 on June 14, 1940, as a token of good faith.
[8] Principally proceeds from liquidation of Russian assets in the United States.

Mr. DOMINICK. Mr. President, among others, starting at the beginning, this list includes Austria, Armenia, Czechoslovakia, France, a large number of nations, some of which now have different boundaries but still recognize their obligations, but have thus far refused to pay us anything.

The total amount due us and unpaid is over $15.4 billion.

I think it is finally time to realize that we have a little crisis of our own going in the United States. I think it is time we end our role as the world's pool for bad debts. The gold pools are in London, Paris, and Zurich—the bad debt pool seems to be in Washington and we are supporting this pool singlehandedly.

Admittedly, there are countries who are draining our gold who owe us nothing. My amendment will not affect that problem. But, by adopting this amendment we will have fulfilled an obligation to the taxpayers who just cannot understand why we let our gold be drained by countries who do not choose to first pay their overdue obligations to the United States.

At the rate our gold is being drained away we will soon be out of gold and will then be unable to exchange any dollars for gold with or without restrictions. What does the Treasury plan to pay for dollars when our gold reserves are entirely exhausted? I have been asking this question repeatedly over the past several days and have yet to receive a satisfactory answer. I will ask it again: What are we going to exchange for dollars when our gold reserves are exhausted? We will either be forced to end the foreign convertibility of dollars for gold or we will have to obtain a new source of supply of gold at substantially increased prices. We have heard time and time again during this debate the argument that, if we will only release our gold cover, the run on our gold reserves will soon end.

On March 14 I placed several newspaper articles in the RECORD which indicated quite the opposite. While it is too early to tell, I think it is clear that the run on the gold may well develop again in the near future, and this view is widely held in financial circles. For example, in last Sunday's Washington Post Hobart Rowen in his column stated the following:

> The mad rush for gold could start all over again, despite the courageous steps taken by seven leading nations in Washington last weekend to defeat the speculators. There is still a big testing period ahead for the dollar. Confidence in our currency has been waning because of continued deficits in the U.S. balance of payments.

Mr. President, I shall not try to detain the Senate any longer, but I would like to summarize the matter.

My amendment if agreed to would not prevent any nation from getting gold for dollars if it is current in its obligations to us. Countries which are overdue in their obligations to our country can still turn in their short-term dollar holdings, except that they will not get gold for them, but will receive a credit on their debt to us. And further, the Secretary of the Treasury would have to make a demand on these countries for their post-due debts.

It seems to me that this is eminently fair and sensible. It will help our balance of payments, reduce our gold outflow, and start correcting the general overseas impression that Uncle Sam is at all times a complete sucker.

I reserve the remainder of my time, except for answering questions.

Mr. LONG of Louisiana. Mr. President, I yield 5 minutes to the Senator from Wisconsin [Mr. PROXMIRE].

Mr. PROXMIRE. Mr. President, when this issue came up during the consideration of the gold cover bill, the distinguished Senator from Alabama [Mr. SPARKMAN], who is chairman of the Banking and Currency Committee, led the opposition to it. Senator SPARKMAN cannot be here. He has asked me to oppose the amendment.

Mr. President, it is vitally important that the Senate vote down this amendment which would link our long-established policy of free convertibility between gold and the dollar to our displeasure over the atttiude of a great many countries toward their World War I debts.

This amendment was appropriate and proper on the gold cover bill. It certainly is not to this bill.

It has long been U.S. policy to convert dollars into gold at $35 per ounce for foreign monetary authorities. That pledge is a cornerstone of the international monetary system. It does not relate to our like or dislike of another country's policies. It has no connection with another country's debt to us.

If we placed such a limitation on our gold sales even to one country such as France—and there are many countries in this position—the results for the in-

ternational monetary system might well be very grave.

In fact, it is my understanding that every major country in Europe, with the exception of Germany, Switzerland, and Finland, would be in the position of not being able to redeem their dollars with gold.

Other countries would feel that they might also be limited in their ability to convert dollars into gold at some future time because of some bilateral political problem we have with them.

The result of such uncertainty would very likely be more gold conversions from these countries. The total of potential gold conversions would, under these circumstances, be far greater than potential French conversions. Countries other than France hold far more dollars than the French. It is also noteworthy that France has not converted any dollars into gold since September 1966.

It is especially important that we do not pass this amendment tonight or tomorrow. Why? Because tomorrow we begin a very important monetary conference in Stockholm, trying to activate the very special drawing rights. If that conference is to succeed, we need to have the good will of other countries with regard to our position on the dollar, and with regard particularly to redeeming dollars for gold.

The United States will be negotiating in Stockholm on a vital element in the future growth and stability of the international monetary system—the plan for the creation of the new special drawing rights. The special drawing rights are a new form of international reserve asset designed to supplement gold and dollars. They should serve to help take the pressure off both in the future by helping to meet the world's reserve needs in a rational and stable way. These will be very difficult and extremely important negotiations, culminating 4 years of intensive studies and efforts.

If the Senate were to pass this amendment tonight—24 hours or less before that conference begins—it would cast doubt on the international convertibility of the dollar, it would seriously endanger our negotiating position at Stockholm; and indeed, would feed right into the hands of the French—who would say, "See, we told you so, you can't trust those Americans."

Passage of this amendment would also place in jeopardy the agreement of a two-tier gold system reached by the central bank governors 2 weeks ago in Washington, just after we acted on the gold cover bill.

Central banks would no longer be sure of the convertibility of their dollars into gold at the U.S. Treasury, and they would have strong incentives to buy gold from the private market, thereby playing right into the hands of the speculators by pushing the gold price up. The result could well be a return to the kinds of widespread speculative activity on the gold and exchange markets which the Washington meeting stanched 2 weeks ago. Moreover, the mere psychological impact of the passage of this amendment could well stir up the speculators, because they would quickly understand the logical effects on central bank decisions of this move. We must vote down this amendment.

In my view, this amendment would mean that we would just go off the gold exchange standard—if it worked. I suppose there is one compensation—that is, that the amendment probably will not work, because even if a country still owes us something, it can secure gold very simply by taking its dollars to a third country—Switzerland or some other country—and redeeming the dollars there, then Switzerland could redeem the dollars here. If we were to say Switzerland could not redeem these dollars in gold because they came from another central bank, then we indeed are off the gold exchange standard even for those countries that owe us nothing.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. PROXMIRE. May I have 1 more minute?

Mr. LONG of Louisiana. I yield 1 minute to the Senator from Wisconsin.

Mr. PROXMIRE. Finally, Mr. President, I should like to reemphasize what I said before: Every major country in Europe and many countries in South America are in this position. It is not simply France or De Gaulle whose policies annoy us. It is simply a question of the United States abandoning its position of being the financial leader of the free world.

So I hope the Senate will reject the amendment.

Mr. LONG of Louisiana. Mr. President, I yield 3 minutes to the distinguished Senator of Missouri.

Mr. SYMINGTON. Mr. President, when the able and distinguished Senator from Colorado brought his amendment up before on the gold cover bill, I asked him if he would except the British because of the relationship they had incident to the Bretton Woods Agreement. He said he would; therefore, I voted for his amendment.

In this case there has been discussion of the question of France. As the able Senator knows, in the depression of the early 1930's, President Hoover canceled out the German reparations obligations. The French immediately took the position that inasmuch as that was where they were going to get the money to pay us back, automatically their debt was canceled to us.

I have heard good international lawyers say that they felt their position on that question was good, because it was we who had undertaken the action to cancel the debt that was expected to be paid by the Germans to them after World War I.

So far as World War II is concerned, it is interesting to note that France is one of the few countries which not only has paid up with respect to its obligations to us in World War II, but is $800 million ahead of its payments. Therefore, this amendment would not reach France.

The final reason why I cannot vote for the amendment at this time is the same reason I would not have voted for it before if the British were not excepted, because as a result of the Bretton Woods Agreement, the pound was made synonymous with gold and the dollar, and we all know the British are in very deep trouble.

I would hope there would be some other way in which the wise desire of the Senator from Colorado could be accomplished without going to the rather stringent methods characteristic of this amendment.

Mr. DOMINICK. Mr. President, I want to answer some of the statements made, because they do have some impact, looked at in the abstract.

First, I have great respect for both the Senator from Missouri and the Senator from Wisconsin; nevertheless I say this: Special drawing rights do not have a thing to do with what I am trying to accomplish. As a matter of fact, I know this is true, because I had a conversation with the head of the Federal Reserve Board, who is going to lead the conference. I asked him whether he had any objections to this amendment, and he said, "No, we have enough troubles now; this could not possibly create any more problems than we already have."

Mr. PROXMIRE. Mr. President, will the Senator yield at that point?

Mr. DOMINICK. I yield.

Mr. PROXMIRE. The people with whom I have been conferring are in the Treasury Department, and they have been very much involved in the negotiations concerning the SDR's and will be in Stockholm. They will be present at the Stockholm conference, and they fear that the adoption of this amendment would seriously weaken their bargaining power. They fear it would indicate that we are not sincere in standing behind the monetary system and in trying to develop it, with special drawing rights supplementing gold and the dollar.

Mr. DOMINICK. The second point I wish to make is that I do not care what anybody else says; I am tired of having our country constantly hold the bag for every other country in the world. I see no reason why other countries which owe us money should not make their payments to us on time, before we lose all of our gold.

We have spent billions of dollars bailing them out of one problem after another, one country after another, with one economic development problem after another. But when we ask that they pay their just debts, at a time when we are in trouble, they say, "No, we want your gold, we do not want your dollar."

That, to me, is wrong; and I would say, Mr. President, that before we take that action, before we impose another tax on our people, and before we say we are not going to build any more schools or anything else of that nature, it is time that the Senate stand up and say to other countries that owe us money, "Pay us your money before you come over and take our gold."

Mr. SYMINGTON. Mr. President, will the Senator yield?

Mr. DOMINICK. I am happy to yield to the Senator from Missouri.

Mr. SYMINGTON. Mr. President, the able Senator knows of my great respect for his knowledge in this field. I do wish to add one point, however.

It seems to me that this amendment is offered at a particularly inopportune

time, because in Stockholm, over this weekend, negotiations are actually going on, and whether or not we reach an agreement as to the special drawing rights, primarily because of the Vietnam war the future of the dollar is very difficult indeed.

If, at the same time that the Secretary of the Treasury and the Chairman of the Federal Reserve Board are trying to work out an arrangement at Stockholm over this weekend, we adopt an amendment of this character, it could be the straw that broke the camel's back of an agreement. If we do not reach an agreement on the SDR's, then the problem of the dollar will be very much increased.

I would hope that we would cooperate as much as possible with the very able public servant the Senator mentioned, the Chairman of the Federal Reserve Board, who at this very time is negotiating on the SDR's.

For that reason, I cannot agree on the amendment itself.

Mr. DOMINICK. Mr. President, I cannot see how this amendment has a thing to do with the SDR's. I can understand the Senator is talking about the psychological impact. All we are doing is to say to the nations that we have helped from time immemorial, from World War I on, with billions of our dollars, "We are in a kind of a crisis now, our friends; all we are asking is not to pay the total amount; we are not saying that, because you are overdue on one payment, the total amount immediately becomes due. All we say is, pay what you are behind on. Once you pay what you are behind on, you can turn your dollar holdings in for gold, if you want to. If you do not want to do that, there is no reason we should give you our gold."

It seems to me that that is both elementary and fair.

Let me cite an example: The great country of Chile. Do Senators know how much Chile is behind, in arrearages, as of June 30, 1967? Five dollars. Is there any reason why Chile should not pay us $5, and become up to date, so they can go ahead and turn their dollars in for our gold? Not a bit. It does not hurt my consience to require that.

Let me state another example. The country of Bolivia is behind $46,000. If Bolivia, with all the aid we have been giving them, cannot come up with $46,000 in order to be able to get gold out of us, it is certainly in worse shape than this country, and I did not think any country could be in worse shape than we are in, economically, at the moment.

I could go on with many other examples.

Mr. SYMINGTON. Mr. President, will the Senator yield?

Mr. DOMINICK. Mr. President, I think the Senator had better get some time from the other side, as we are working under a time limitation.

Mr. LONG of Louisiana. Mr. President, I yield 5 minutes to the Senator from Missouri.

Mr. DOMINICK. I have the floor at the moment, and would appreciate the opportunity to continue. I want to point out some other things.

This is not a question of convertibility, as the distinguished Senator from Wisconsin has said. We no longer have that problem. We no longer have any obligation to put gold into the London Gold Pool. We have removed that obligation. We no longer have to supply gold to the pool for private sales. But we do have to give it to central banks, and those central banks can do whatever they want with it. However, we have placed a condition on the convertibility. If they sell it privately, we have announced we will no longer exchange dollars for gold with that central bank.

To say that they can turn in their dollar holdings to us and get gold from us, although they cannot pay their debts, at a time when we are in trouble such as we are in Vietnam, and such as we may be in the Middle East, and in other places, and when we are having economic problems at home, and asking our own people to pay additional taxes, seems to me to be wrong.

Mr. President, I reserve the remainder of my time.

Mr. SYMINGTON. Mr. President, the Senator from Colorado mentioned psychology. It takes 15 percent of those who are involved in the special drawing rights to negate any decision that is made in Stockholm. The Common Market countries control 17 percent of the votes, and General de Gaulle, who in my opinion, at least economically, is the greatest problem that this country faces today, has proved his control over the countries of the Common Market by his ability to keep the British from joining the Common Market for many years.

The Senator from Colorado is exactly right. The psychology of adopting this amendment tonight would make it much more possible for General de Gaulle, who opposes the whole SDR principle, to utilize the entire vote of the Common Market to negate any decision made.

I am one who believes that the special drawing right decisions made in Buenos Aires, which are being debated at this time in Stockholm, are important for the future integrity of the dollar.

Mr. MUNDT. Mr. President, will the Senator yield 1 minute?

Mr. DOMINICK. I yield 1 minute to the distinguished Senator from South Dakota.

Mr. MUNDT. Mr. President, I requested this time, not so much to tell the Senator from Colorado that I shall support his amendment—as I shall—but to call the attention of all Senators to a headline in tonight's Evening Star. I wish it had come out a little earlier, so that I could have used it in the course of the debate on the proposed special war tax for those who are exporting goods to Communist countries.

The headline reads: "Russia Stepping Up Hanoi Aid." It is a UPI release, datelined London, and begins as follows:

> Russia said officially today that Soviet ships will carry 20 percent more cargo to Communist North Vietnam this year.

I ask unanimous consent that the entire article be printed in the RECORD, on this fateful day when we have cast this highly significant vote.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

> RUSSIA STEPPING UP HANOI AID
>
> LONDON.—Russia said officially today that Soviet ships will carry 20 percent more cargo to Communist North Vietnam this year.
>
> The supplies will be shipped to Haiphong in obvious defiance of American bombing of the port.
>
> "The sea routes between the two countries (Russia and North Vietnam) are functioning faultlessly," a statement said. It did not mention the closing of the Suez Canal since June, which adds thousands of miles to the sea trip from Western Russia.
>
> The statement was contained in Soviet Weekly, the Soviet Embassy's official publication, released here today. It was attributed to an official of the Soviet Ministry of Merchant Marine, Anatoly Goldobenko.

Mr. DOMINICK. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from Colorado is recognized for 3 minutes.

Mr. DOMINICK. Mr. President, I want to give a couple of figures as examples of what the situation really is.

Czechoslovakia owes us $4.6 billion. Is there any reason why we should give gold to Czechoslovakia, a Communist-controlled country?

Greece owes us $41,971. Is there any reason why Greece should not give us that amount of money in return for all that we have done for them if they want to get gold for our dollars? That is most certainly not a very large figure in the Greek budget.

India owes us a great deal of money. We have over $850 million tied up in rupees in India. The total amount they owe us on their obligation in terms of dollars is approximately $72,000. Is there any reason why they should not pay us $72,000 before they get more of our gold and redistribute it on the open market and make more money out of us?

I am no enemy to India. I hope that it is a country and a democracy that will continue to exist and that it has a bright future. However, that does not mean that we have to sit here like Uncle Sam, the sucker, and let everybody around the world take our dollars and give them back to us in return for gold.

Mr. LONG of Louisiana. Mr. President, I yield 1 minute to the distinguished Senator from Oregon.

Mr. MORSE. Mr. President, I say to the Senator from South Dakota, who just quoted from a newspaper article, that all I draw from his statement is that he concludes that because Russia is increasing her aid to Hanoi we ought to step up our aid to Saigon and come nearer and nearer to an all-out war in Asia. What a fallacy.

We should recognize that we had better deescalate now and work out a settlement through the United Nations or the Geneva Conference without further escalation.

I find nothing persuasive about his argument, except an argument for enlarging the war on our part. Of course, Russia is going to give more help to Hanoi. Russia is not losing Russian boys in Vietnam, but already about 22,000 precious American lives have been lost. How many more are we going to sacrifice before we come to our senses and recognize that we should not be killing American boys in an undeclared war in

Asia. When are we going to recognize that our intervention with American troops in Asia will only lead to more and more escalation, until we finally end up in a war with China, to the delight of Russia. Now is the time to stop the escalation by stopping the bombing and adopting the recommendation of General Ridgeway, General Gavin, General Shroup, and many other experts who are urging that we stop escalating this war.

Mr. LONG of Louisiana. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. LONG of Louisiana. Mr. President, how much time have I remaining?

The PRESIDING OFFICER. The Senator from Louisiana has 18 minutes remaining.

Mr. LONG of Louisiana. Mr. President, I yield myself 3 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 3 minutes.

Mr. LONG of Louisiana. Mr. President, I shall vote for the amendment offered by the Senator from Colorado. The Senator offered substantially the same amendment on the gold cover bill, and that amendment failed by only one single vote. A number of Senators at the time were urged to vote against any amendments because it was thought that the gold cover bill had to be passed and signed by the President that night, so that it would become law the following morning. The circumstances were such that some Senators might have voted contrary under other circumstances.

There is now but not to the same extent because the tax can be retroactive for a short period in the event we fail to pass it exactly by the deadline.

There are two things contained in the amendment of which I approve.

I approve very much of the first part of the amendment. The first part says that we will ask these people to pay us. I would be curious to know what will happen when we ask them. I know that we are not going to get any money if we do not ask them.

I am very much in favor of asking these people to pay us the $17 billion. Some may laugh at us for this. However, I think the State Department personnel should take off their Santa Claus costumes and put on pairs of overalls and go to work for Uncle Sam, and let us see if we can get something of the $17 billion they owe us.

I would like to know, if not, why not? Up to now, it seems that the State Department and the Treasury Department have not been willing to take us seriously on the matter of collecting the $17 billion.

I think that if we vote for the amendment and go to conference, we can talk this time and really mean it. We want to know why those countries will not pay and why the Treasury Department will not ask for the money. That is part 1 of the amendment.

If we ask them and they do not pay it, then we can tell them that if they bring their dollars here, we will sell them cotton or wheat or something like that, but that we will not pay them in gold until they have paid us what they owe us. We will just credit the amount of their payment against their debt.

It has been suggested that they might transfer the dollars to Switzerland or some other country which does not owe us money and operate through that country. We could handle that. If they use those countries as conduits, it would be easy enough to say, "We will take your dollars in exchange for gold, but not any dollars from France or any of the other countries that are back on their debts because we want them to pay us."

We will have to change our way of doing business anyway in view of the fact that we do not have enough gold to redeem the $34 billion outstanding in Europe and Asia.

Why should we not ask them? We never know whether we will get any of the $17 billion unless we ask. We should ask them and see if they are willing to pay. If they are not willing to pay, then let us explore the idea of crediting any payment they make before we give them gold for the dollars.

I believe that if the Senate votes for the amendment, the administration will have to take us seriously about this matter. Let the Secretary of State, the Chairman of the Federal Reserve Board, and the others understand that Congress really is serious about collecting some of that $17 billion those people owe us. We might get some money as a result.

I know that we will not get 5 cents unless somebody finally marches up here and says, "Let us ask them for the money."

We ought to at least do that much. Then we can hear their arguments.

I would be curious to know when and where we forgave that $17 billion. So far as I know, I have seen no convincing evidence anywhere that we forgave the $17 billion.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 additional minute.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 1 additional minute.

Mr. LONG of Louisiana. Mr. President, so far as I know, they owe us that money, and I think that the American people would feel unkindly toward us if we were to forgive the debt without having made at least some effort to collect some part of it.

I would be willing to urge that the House accept the amendment. We have plenty of other amendments to talk about here. I do not believe that any Senator can argue that I am guilty of making the pending measure a Christmas tree bill or an Easter basket bill.

I have generally opposed amendments but nevertheless we have had all sorts of amendments. One more amendment will not do any harm. And who knows, it might do good.

Mr. DOMINICK. Mr. President, I ask for the yeas and nays on the amendment.

The yeas and nays were ordered.

Mr. PROXMIRE. Mr. President, will the Senator from Louisiana yield me 1 minute?

Mr. LONG of Louisiana. Mr. President, I yield 1 minute to the Senator from Wisconsin.

The PRESIDING OFFICER. The Senator from Wisconsin is recognized for 1 minute.

Mr. PROXMIRE. Mr. President, this is a very far-reaching amendment. If we vote for the amendment and the House accepts the amendment, we are virtually off the gold exchange standard. It will mean that the U.S. promise to redeem dollars in gold is invalid. We will welsh on our promise. We are deliberately undermining the dollar.

Some economists say that we ought to be off the gold standard.

But this is a very complicated and far-reaching step for us to take at 3 o'clock at night after long and weary debate without having any advice from any congressional committee, without any hearings, without any committee report, without any record, guided only by a desire to spite De Gaulle. Oh yes, it's popular. We have letters, hundreds of them, asking us to do this. But we know it is wrong. It will undermine the dollar. It will weaken U.S. negotiators at Stockholm.

It may be that we ought to be off the gold exchange standard. However, I plead with the Senate tonight not to take this late action now at this late date and on this basis.

Mr. GORE. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Tennessee.

The PRESIDING OFFICER. The Senator from Tennessee is recognized for 2 minutes.

Mr. GORE. Mr. President, our country went off the gold standard a long time ago. I am one who believes that it is unnecessary, and I am one who also believes that it will be wise when appropriate action can be taken to demonitize the gold internationally. But how can we do it until some international fund or medium of exchange is established. To do it unilaterally as one agent tonight would create, it seems to me, economic chaos throughout the free world.

Mr. PROXMIRE. Particularly on the eve of the very vital Stockholm conference.

The PRESIDING OFFICER. All time having expired, the question is on agreeing to the amendment of the Senator from Colorado. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk proceeded to call the roll.

Mr. PROUTY (when his name was called). On this vote I have a pair with the Senator from Illinois [Mr. DIRKSEN]. If he were present and voting, he would vote "yea." If I were permitted to vote, I would vote "nay." I therefore withhold my vote.

The legislative clerk resumed and concluded the call of the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Missouri [Mr. LONG], the Senator from Texas [Mr. YARBOROUGH], the Senator

from Ohio [Mr. YOUNG], are absent on official business.

I also announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Indiana [Mr. BAYH], the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Wyoming [Mr. MCGEE], the Senator from New Hampshire [Mr. MCINTYRE], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Virginia [Mr. SPONG], and the Senator from Maryland [Mr. TYDINGS] are necessarily absent.

I further announce that, if present and voting, the Senator from Massachusetts [Mr. KENNEDY], the Senator from New York [Mr. KENNEDY], the Senator from New Hampshire [Mr. MCINTYRE], the Senator from Rhode Island [Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Maryland [Mr. TYDINGS], the Senator from Texas [Mr. YARBOROUGH], and the Senator from Ohio [Mr. YOUNG] would each vote "nay."

On this vote, the Senator from Indiana [Mr. BAYH] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from Indiana would vote "yea," and the Senator from Rhode Island would vote "nay."

Mr. KUCHEL. I announce that the Senator from Kansas [Mr. CARLSON] is absent on official business.

The Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], the Senator from Illinois [Mr. DIRKSEN], the Senator from Arizona [Mr. FANNIN], and the Senator from Illinois [Mr. PERCY] are necessarily absent.

The Senator from Iowa [Mr. HICKENLOOPER] and the Senator from Kentucky [Mr. MORTON] are detained on official business.

If present and voting the Senator from Massachusetts [Mr. BROOKE], the Senator from Kansas [Mr. CARLSON], and the Senator from Illinois [Mr. PERCY] would each vote "nay."

The pair of the Senator from Illinois [Mr. DIRKSEN] has been previously announced.

On this vote, the Senator from Arizona [Mr. FANNIN] is paired with the Senator from Utah [Mr. BENNETT]. If present and voting, the Senator from Arizona would vote "yea," and the Senator from Utah would vote "nay."

The result was announced—yeas 48, nays 25, as follows:

[No. 90 Leg.]

YEAS—48

Allott	Cannon	Fong
Anderson	Church	Gruening
Baker	Cotton	Hansen
Bible	Curtis	Hartke
Boggs	Dodd	Hatfield
Brewster	Dominick	Hill
Burdick	Eastland	Hollings
Byrd, Va.	Ellender	Hruska
Byrd, W. Va.	Ervin	Jordan, N.C.
Jordan, Idaho	Montoya	Smith
Kuchel	Mundt	Stennis
Lausche	Murphy	Talmadge
Long, La.	Randolph	Thurmond
Magnuson	Ribicoff	Tower
McGovern	Russell	Williams, Del.
Miller	Scott	Young, N. Dak.

NAYS—25

Aiken	Holland	Muskie
Case	Inouye	Nelson
Clark	Jackson	Pearson
Cooper	Javits	Proxmire
Gore	Metcalf	Smathers
Griffin	Mondale	Symington
Harris	Monroney	Williams, N.J.
Hart	Morse	
Hayden	Moss	

PRESENT AND GIVING A LIVE PAIR, AS PREVIOUSLY RECORDED—1

Prouty, against.

NOT VOTING—26

Bartlett	Kennedy, Mass.	Pastore
Bayh	Kennedy, N.Y.	Pell
Bennett	Long, Mo.	Percy
Brooke	Mansfield	Sparkman
Carlson	McCarthy	Spong
Dirksen	McClellan	Tydings
Fannin	McGee	Yarborough
Fulbright	McIntyre	Young, Ohio
Hickenlooper	Morton	

So Mr. DOMINICK's amendment was agreed to.

Mr. DOMINICK. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. CURTIS. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. DOMINICK. Mr. President, I move that the amendment be considered as an amendment to the bill as well as to the substitute Williams amendment.

The PRESIDING OFFICER (Mr. BURDICK in the chair). The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. DOMINICK. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER (Mr. BURDICK in the chair). Without objection, it is so ordered.

Mr. DOMINICK. Mr. President, the amendment is the same amendment. I want to have the amendment attached to the bill as well as to the substitute. I move that the amendment be made a part of the bill.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Colorado. [Putting the question.]

The motion was agreed to.

Mr. DOMINICK. Mr. President, I move to reconsider the vote by which the motion was agreed to.

Mr. WILLIAMS of Delaware. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

AMENDMENT NO. 681

Mr. LONG of Louisiana. Mr. President, I am considering offering an amendment tomorrow. I send the amendment to the desk. I ask that the amendment and an explanation of how the amendment would operate be printed at this point in the RECORD.

The PRESIDING OFFICER. The amendment will be received and printed and will lie on the table; and without objection, the explanation will be printed in the RECORD.

The explanation, ordered to be printed in the RECORD, is as follows:

EXPLANATION OF AMENDMENT BY SENATOR RUSSELL B. LONG TO THE WILLIAMS SUBSTITUTE

The purpose of this amendment is to delete the 10 percent surtax provisions from the substitute, and in their place insert provisions to directly increase individual and corporate income tax rates and the capital gains rate.

INDIVIDUAL INCOME TAX

Specifically, the Long amendment would restore individual income tax rates to the level which applied in 1964 *after* the first stage of the 1964 tax cuts became effective. This individual income tax increase would be roughly equivalent to one-third of the total rate reductions enacted in 1964. This higher tax would apply for the same period as the surtax under the substitute—that is, from April 1, 1968 through June 30, 1969.

CORPORATE INCOME TAX

For corporations, this amendment would add 4 percentage points to the regular corporate surtax, increasing it from 26 percent to 30 percent. This would make the combined corporate normal tax and surtax equal 52 percent—the same maximum rate corporations paid before the 1964 tax reductions. This tax rate increase, too, would apply in the case of corporations for the same period as the surtax under the substitute—that is, from January 1, 1968 through June 30, 1969.

CAPITAL GAINS TAX

The alternative capital gains tax of 25 percent would be increased under this amendment to 27.5 percent, thus conforming to the effect which would occur under the 10 percent surtax proposal. This tax would apply for the same period as the higher rates—in the case of individuals from April 1, 1968 through June 30, 1969; and in the case of corporations, from January 1, 1968 through June 30, 1969.

REVENUE ESTIMATES

This amendment is estimated to increase Federal revenues by $8.3 billion in a full year of operation (as contrasted to $9.8 billions under the surtax). Of this the individual income and capital gains tax hikes account for $5.4 billion and the corporate tax increases amount to $2.9 billion. (Under the surtax individuals would have paid $6.9 billion and corporations would have paid $2.9 billion.)

REASON FOR THE AMENDMENT

If there is to be a tax increase it would be far simpler for the average taxpayer if it were done by an increase in the rates. A surtax is a tax on a tax. It is complicated. It involves additional and unnecessary computations on the tax return. It requires the tax payer to compute a tax, compute a surtax, add the two together and determine the total tax. Resorting to a simple rate, on the other hand, permits tax to be calculated in the same manner as is done today.

The 1964 tax rates are still in the law—no new rate tables are necessary in the statute. Applying them at this time (as this amendment does) is similar to a recapture of one-third of the total individual 1964 tax rate reductions. The surtax on the other hand would recapture about one-half of that reduction.

COMPARISON OF INDIVIDUAL INCOME TAX RATES UNDER PRESENT LAW (1967) AND UNDER THE LONG AMENDMENT

Taxable income bracket		Tax rate (percent)	
Single person	Married (joint)	Present law	Long amendment
0 to $500	0 to $1,000	14	16.0
$500 to $1,000	$1,000 to $2,000	15	16.5
$1,000 to $1,500	$2,000 to $3,000	16	17.5
$1,500 to $2,000	$3,000 to $4,000	17	18.0
$2,000 to $4,000	$4,000 to $8,000	19	20.0
$4,000 to $6,000	$8,000 to $12,000	22	23.5
$6,000 to $8,000	$12,000 to $16,000	25	27.0
$8,000 to $10,000	$16,000 to $20,000	28	30.5
$10,000 to $12,000	$20,000 to $24,000	32	34.0
$12,000 to $14,000	$24,000 to $28,000	36	37.5
$14,000 to $16,000	$28,000 to $32,000	39	41.0
$16,000 to $18,000	$32,000 to $36,000	42	44.5
$18,000 to $20,000	$36,000 to $40,000	45	47.5
$20,000 to $22,000	$40,000 to $44,000	48	50.5
$22,000 to $26,000	$44,000 to $52,000	50	53.5
$26,000 to $32,000	$52,000 to $64,000	53	56.0
$32,000 to $38,000	$64,000 to $76,000	55	58.5
$38,000 to $44,000	$76,000 to $88,000	58	61.0
$44,000 to $50,000	$88,000 to $100,000	60	63.5
$50,000 to $60,000	$100,000 to $120,000	62	66.0
$60,000 to $70,000	$120,000 to $140,000	64	68.5
$70,000 to $80,000	$140,000 to $160,000	66	71.0
$80,000 to $90,000	$160,000 to $180,000	68	73.5
$90,000 to $100,000	$180,000 to $200,000	69	75.0
$100,000 to $150,000	$200,000 to $300,000	70	76.5
$150,000 to $200,000	$300,000 to $400,000	70	76.5
$200,000 and over	$400,000 and over	70	77.0

COMPARISON OF CORPORATION INCOME TAX AND CAPITAL GAINS TAX CHANGES UNDER PRESENT LAW (1967) AND UNDER THE LONG AMENDMENT (IN PERCENT)

	Corporation Income		Capital gains tax
	Normal tax	Surtax	
Present law	22	26	25
Long amendment	22	30	27½

Mr. LONG of Louisiana. Mr. President, if it appeared to be the judgment of the Senate that we should vote for a major tax increase, it would be much better, in my judgment, to collect the money as an increase in the rates rather than as a surtax.

As I point out in the memorandum, which is printed in the RECORD, a surtax would require a taxpayer to compute his tax, then multiply that amount by 10 percent, and finally add those figures to come up with the final tax.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that I may proceed for 2 minutes on the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LONG of Louisiana. Mr. President, if a major tax increase were to be voted, it is my judgment it would be much better simply to increase the rates so a taxpayer could make just one computation of what he owes. I also believe it would be more popular simply to increase the rates rather than to pile an additional tax on top of the existing tax.

The amendment would merely provide for the same rates which are presently provided in the tax schedules after the first rounds of tax cuts under the 1964 tax reduction bill. In other words, the amendment would leave in effect the first stage of the 1964 tax cut but not the second stage that occurred the next year. That would mean that two-thirds of the tax cut which was given taxpayers in 1964 would remain in effect and they would surrender one-third of the tax cut they have previously received. Those rates are still to be found in the law. The tables are there. No new tables are necessary. The effect of the amendment would be to leave the taxpayer with the first step in the 1964 tax cut, but not the second step.

The amendment would also provide that the tax on corporations would be the same as it was prior to the 1964 cut. That is, the top rate would again be 52 percent.

The alternative capital gains tax of 25 percent would be increased under the amendment to 27.5 percent, which is about the same size increase as would occur under the 10 percent surtax.

I believe my proposal is the logical way to handle a tax increase, and I think more acceptable to the public, in the event that a major tax increase is to be passed by Congress. It would not be as unpopular as the surtax which has been suggested.

Mr. HRUSKA. Mr. President, I yield myself 4 minutes on the bill.

The PRESIDING OFFICER. The Senator from Nebraska is recognized for 4 minutes.

QUOTA CONTROL SYSTEM ON IMPORT OF MEAT AND MEAT PRODUCTS

Mr. HRUSKA. Mr. President, upon acceptance earlier of the Hollings textile amendment a number of my colleagues who are cosponsors with me of my bill, S. 1588, which would improve the quota control system on the import of meat and meat products, have asked whether I intended to offer the substance of that measure as an amendment to the pending excise tax legislation.

After consultation with representatives of the cattle industry and more widely with a goodly number of my cosponsors, Mr. President, I have concluded that proposal of such an amendment would not be wise at this time.

It will be recalled that last year a similar amendment was offered by the Senator from South Dakota [Mr. MCGOVERN] and was accepted by the Senate by a vote of 55 to 19.

But after a number of amendments covering other matters had been added to the bill, the Senate sent the measure back to the Finance Committee, by a vote of 64 to 22, with instructions to drop all previously adopted floor amendments.

Mr. President, my purpose, and that of the 36 Senators who have joined me in sponsorship of S. 1588, is to achieve enactment of our bill. If we thought that adding it to the pending excise extension bill would achieve that purpose, we would offer the amendment.

But we must be realistic. Even if we were successful in obtaining Senate approval of our amendment, there is the greater likelihood that the amendment would be lost in the Senate-House conference.

In addition, a bill which is almost identical to S. 1588 has been introduced in the House by the distinguished chairman of the Ways and Means Committee, Mr. MILLS, who feels quite strongly that action should be taken on that measure before final action by the Senate.

Last year the Senate Finance Committee held hearings on a number of proposals to grant additional protection against imports to a number of key American industries suffering damage from such imports, including textiles, meat, dairy products, steel and petroleum. At that time, I and others appeared to explain the provisions of the bill S. 1588, introduced under the sponsorship of 39 members of the Senate, including myself and my colleague from Nebraska [Mr. CURTIS].

Following the completion of the three days of Finance Committee hearings on the various import control measures, it was indicated that some further hearings should be held. But they have not been held and the committee has not yet reported any legislation or made any reports of its findings in this matter.

Therefore, Mr. President, I respectfully urge the Senate Finance Committee to consider the meat import bill which it now has and report it favorably soon to the Senate where it can await action by the House.

This is the orderly and logical way to proceed. A good record has already been made in the Senate; an equally good one will be made in the House, and the issue will not be confused by having this bill added to a measure dealing with an entirely different subject. This bill on meat import quotas is a sound and workable measure, entirely capable of being considered on its own merits and should not be prejudiced because of the manner in which it was considered.

In the meantime, Mr. President, it is hoped that all will understand that the problems of the livestock industry require attention during this session of the Congress.

Mr. President, the Department of Labor reports that the average hourly wage for production workers in all manufacturing industries in February 1968 was $2.95. In 1958 the average hourly wage was $2.11. In 1948 it was $1.32, compared with $2.95 in February 1968. So wages of factory labor have increased by a good deal more than 100 percent in 20 years.

That is all right. I am glad to see the factory worker steadily getting a higher

wage, and improving his standard of living.

The farmer's wage, however, is measured by the price he receives for the product he sells.

In 1948—20 years ago—the average price received on the sale of choice slaughter steers in Chicago was $30.96 per 100 pounds. During the week ending March 24, 1968, the price was $27.71 per 100 pounds, $3.25 lower than the price received 20 years earlier. Meanwhile the price of everything he must buy has gone steadily upward.

The brutal fact is that the farmer and the rancher have not shared in the prosperity gained by every other group in our economy.

Mr. President, the figures on imports of meat for the full year of 1967 indicate a trend which is cause for serious concern.

Imports last year were by far the highest since the disastrous years of 1962–63. Quantity of imports of fresh, chilled, or frozen beef, veal and mutton, by years, has been as follows:

	Million pounds
1964	739.9
1965	613.9
1966	823.4
1967	894.9

Not just the quantity, but the upward trend is alarming. Furthermore, practically all of the increase in 1967 was recorded during the second half of the year. Imports during the last 6 months of 1967 were 517 million pounds, compared with 447 million pounds during the corresponding 6-month period of the previous year—an increase of 16 percent.

The Secretary of Agriculture has told us that imports next year will not be very different from this year. His formal estimate for all of 1968 is 900 million pounds. We must hope he is correct. If imports should continue to increase at the rate experienced during recent years and months, we should soon be in trouble again.

Public Law 88–482, the import quota law passed during the crisis of 1964, contained compromises which had to be made to win the administration's approval. It set a basic quota of 725.4 million pounds, but contained elaborate machinery permitting a growth factor for foreign suppliers, an overrun of 10 percent above the quota, and various other complex escape clauses. As a result, Secretary of Agriculture Freeman has announced that quotas will not actually be imposed for 1968 unless imports threaten to exceed the figure of 1,045,300,000 pounds. That is why a revision of law is urgently needed.

Mr. President, all of us are concerned about the critical problems resulting from our unfavorable balance of payments. If President Johnson is serious about our efforts to reduce this deficit, one of the most useful things he could do would be to withdraw his administration's stubborn opposition to meaningful legislation to curb the imports of meat from foreign countries.

The President has repeatedly expressed grave concern about the serious problem of our international balance of payments and what it means to our gold supply and the stability of the U.S. dollar. Among his proposals to ease the problem is a punitive tax on Americans traveling abroad which is estimated to cut tourist expenditures by about half a billion dollars a year.

Coincidentally, in 1967, our adverse balance of trade on meat and meat products was almost that same amount, $493 million. We imported $644 million worth of foreign meat and exported only $151 million.

I wish to stress, Mr. Presdent, that our bill, S. 1588, would not completely eliminate imports of foreign meat.

We have no intention of retiring behind an unrealistic protectionist barrier, but we do seek to limit imports to a proper historical level, with due consideration for additional growth each year. This would allow the American producer to compete with his foreign competition on even terms.

Despite the worsening balance-of-payments picture, the administration has shown no inclination to retreat from the position taken during hearings on S. 1588 last year when a parade of Cabinet officers expressed inflexible opposition to the measure.

SUMMARY

The bill for meat import limitation clearly should be enacted into law.

But this is neither the time nor the place to get that job done.

Time is very short for the enactment of the Tax Adjustment Act of 1968 as reported by the committee. Unless this is done by the end of this week, great disadvantage will result.

This bill is needed for its help to the beleagured dollar. The fiscal situation of the country is grave. We should not add to it by complicating and burdening matters by delay and additional extraneous subject matter.

It is better judgment to await a more orderly and timely occasion, which certainly will occur soon.

Unless other import quota or other highly nongermane amendments will be proposed and considered by the Senate, it is my intention not to propose an amendment embracing the substance of S. 1588, until such a more orderly and timely occasion occurs.

Mr. President, I yield back the remainder of my time.

ORDER OF BUSINESS

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that I may be permitted to proceed for 2 minutes without the time being charged to either side.

The PRESIDING OFFICER. Without objection, it is so ordered.

AMENDMENT OF NATIONAL TRAFFIC AND MOTOR VEHICLE SAFETY ACT OF 1966

Mr. BYRD of West Virginia. Mr. President, on behalf of the senior Senator from Indiana [Mr. HARTKE], I ask that the Chair lay before the Senate a message from the House of Representatives on S. 2029.

Mr. President, I understand that this matter has been cleared on both sides.

The PRESIDING OFFICER laid before the Senate the amendment of the House of Representatives to the bill (S. 2029) to amend the National Traffic and Motor Vehicle Safety Act of 1966 relating to the application of certain standards to motor vehicles produced in quantities of less than 500, which was to strike out all after the enacting clause and insert:

That title I of the National Traffic and Motor Vehicle Safety Act of 1966 is amended by adding at the end thereof the following new section:

"SEC. 123. (a) Upon application made by a manufacturer at such time, in such manner, and containing such information as the Secretary shall prescribe, he shall temporarily exempt a limited production motor vehicle from any motor vehicle safety standard established under this title if he finds that compliance would cause such manufacturer substantial economic hardship or that such temporary exemption would facilitate the development of vehicles utilizing a propulsion system other than or supplementing an internal combustion engine and that such temporary exemption would be consistent with the public interest and the objectives of this Act.

"(b) The Secretary shall require, in such manner as he deems appropriate, the notification of the dealer and of the first purchaser of a limited production motor vehicle (not including the dealer of such manufacturer) that such vehicle has been exempted from certain motor vehicle safety standards, and the standards from which it is exempted.

"(c) For the purposes of this section 'limited production motor vehicle' means a motor vehicle, produced by a manufacturer whose total motor vehicle production, as determined by the Secretary, does not exceed five hundred annually.

"(d) The authority of the Secretary under this section shall terminate three years after the date of enactment of this section, and no exemption granted under this section shall remain in effect after three years after the date such exemption is originally granted."

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that statements by the senior Senator from Indiana [Mr. HARTKE] and the junior Senator from Indiana [Mr. BAYH] in explanation of the bill be printed at this point in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

STATEMENT BY SENATOR HARTKE

S. 2029, as amended by the other body, would amend title I of the National Traffic and Motor Vehicle Safety Act of 1966 to add a new section 123 to that title.

Subsection (a) of the proposed section 123 requires the Secretary of Transportation to exempt temporarily a limited production motor vehicle from any safety standard established under title I if the Secretary finds *either* that compliance with the standard would cause a manufacturer substantial economic hardship *or* that the temporary exemption would facilitate development of vehicles utilizing a propulsion system other than or supplementing an internal combustion engine. Before such a temporary exemption could be granted, however, there must be a finding that the exemption would be consistent with the public interest and objectives of the Act.

The authority contained in this provision granting temporary exemption where this would aid the development of vehicles using in whole or in part propulsion systems other

than the internal combustion engine is not contained in the bill the Senate passed last November. It was added by the other body to insure that the invention and development of alternatives to existing propulsion systems would not be stifled or otherwise handicapped by rigid requirements of conformity to the various standards of testing and safety.

To be eligible for exemption, however, a vehicle using such an alternative propulsion system would still have to qualify as a limited production motor vehicle, defined in the bill as "a motor vehicle, produced by a manufacturer whose total motor vehicle production . . . does not exceed five hundred annually." Thus, as soon as a manufacturer produces more than five hundred vehicles, of any type, he is no longer eligible for temporary exemption.

Nothing in this bill is intended to prohibit the Secretary from issuing special or different safety standards for variant types of motor vehicles, under the organic act, regardless of quantity, where justified.

I ask that the Senate concur in the amendment of the House of Representatives.

STATEMENT BY SENATOR BAYH

I have no objection to the amendments made in S. 2029 by the House Committee on Interstate and Foreign Commerce and approved by the House. As I pointed out in my statement last year when I introduced this bill, the problems of complying with the requirements of certain safety standards would effectively preclude several small businesses from remaining a part of the industry.

It is the legislative intent of this amendment to authorize the Secretary, upon the receipt of proper justification, to afford additional time to the companies to meet certain requirements that are beyond their immediate capabilities because of their particular circumstances. It is my hope that the Secretary will take immediate steps to implement the amendment. Only in this way can the small companies survive.

Let me also express my appreciation to all of the Members and staffs of the Senate Committee on Commerce and the House Committee on Interstate and Foreign Commerce to Dr. William Haddon, the National Traffic Safety Agency, and the many parties who took an active interest in the problem and contributed to this amendment and its final consideration.

Mr. BYRD of West Virginia. Mr. President, I move that the Senate concur in the amendment of the House of Representatives.

The motion was agreed to.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corportions.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that I might suggest the absence of a quorum without the time being charged to either side.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LONG of Louisiana. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

AMENDMENT NO. 672

Mr. JAVITS. Mr. President, I call up my amendment (No. 672) and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. JAVITS. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered, and the amendment will be printed in the RECORD.

The amendment ordered to be printed in the RECORD is as follows:

On page 7, line 23, strike out the period and insert the following: ", except that the President shall not reserve from expenditure any amounts from appropriations or other obligational authority available for the following purposes:

"(1) education,
"(2) low-income housing,
"(3) water and air pollution prevention,
"(4) prevention and detection of crime,
"(5) the District of Columbia,
"(6) training and employment of disadvantaged persons,
"(7) war on poverty."

Mr. JAVITS. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from New York is recognized for 1 minute.

Mr. JAVITS. Mr. President, it is my understanding that the business for the day is completed. I have called up the amendment so that it will be the pending business and so that we may proceed with the matter the first thing in the morning. I therefore reserve the remainder of my time.

The PRESIDING OFFICER. Is this the 2-hour amendment?

Mr. JAVITS. I will designate it as the 2-hour amendment.

The PRESIDING OFFICER. It is so designated.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Bartlett, one of its reading clerks, announced that the House had agreed to the amendment of the Senate to the joint resolution (H.J. Res. 933) to proclaim National Jewish Hospital Save Your Breath Month.

ORDER FOR RECOGNITION OF SENATOR BYRD OF WEST VIRGINIA TOMORROW FOR 15 MINUTES AND FOR A 15-MINUTE PERIOD FOR TRANSACTION OF MORNING BUSINESS

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that when the Senate meets tomorrow, after the disposition of the Journal the Senator from West Virginia [Mr. BYRD] may be recognized for 15 minutes, and that thereafter there be a brief period for the transaction of routine morning business, not to exceed one-half hour, and that statements other than that to be made by the Senator from West Virginia [Mr. BYRD] be limited to 3 minutes.

The PRESIDING OFFICER. The Chair inquires of the Senator from Louisiana: Is that one-half hour beyond the period in which the Senator from West Virginia will speak?

Mr. LONG of Louisiana. No, Mr. President; 15 minutes to be assigned to the Senator from West Virginia and the other 15 minutes for Senators desiring to make 3-minute statements; one-half hour in all.

Mr. JAVITS. Mr. President, would the Senator allow me to make as part of my remarks a brief statement describing the amendment which I will be discussing tomorrow?

Mr. LONG of Louisiana. Of course.

Mr. JAVITS. I thank the Senator from Louisiana.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Louisiana? The Chair hears none, and it is so ordered.

RECESS UNTIL 9 A.M. TOMORROW MORNING—OBJECTION TO COMMITTEE MEETINGS

Mr. LONG of Louisiana. Mr. President, if there be no further statements to be made by Senators this evening, I move that the Senate stand in recess until 9 a.m. tomorrow morning.

Mr. BAKER. Mr. President, before the Senate recesses, I am instructed by the leadership on the Republican side to state—and I believe that this has been discussed with the Senator from Louisiana [Mr. LONG]—that there will be objection to any committee meetings after the convening of the Senate tomorrow.

The PRESIDING OFFICER. All committees?

Mr. BAKER. All committees.

Mr. BYRD of West Virginia. May I ask the Senator from Tennessee, am I to understand from what he has just said that no subcommittees will be permitted to meet during the session of the Senate tomorrow?

Mr. BAKER. That is correct. There will be objection to any committee meetings.

Mr. BYRD of West Virginia. Mr. President, I want the record to show that I asked this question of the Senator from Tennessee because of a request which was handed to me by the distinguished junior Senator from Connecticut [Mr. RIBICOFF], who wanted the Subcommittee on Executive Reorganization of the Committee on Government Operations to meet during the session of the Senate tomorrow.

Mr. BAKER. For the record, Mr. President, I distinctly regret having to make this request, but I have been instructed by the Republican leadership on this side of the aisle to object to any committee meetings tomorrow, and I do so object.

The PRESIDING OFFICER. Objection is heard.

The question is on agreeing to the motion of the Senator from Louisiana [Mr.

sufficient weapon. It has some superiority over planes we now have. But in the F–111B, the Navy will not be procuring the plane it needs. It is not a superior weapon, and the cost of it is outrageous.

Mr. BYRD of Virginia. Would the Senator estimate the amount of money he believes the Government may have lost in attempting to develop the F–111B into a satisfactory plane for the Navy—a plane which has never become satisfactory?

Mr. McCLELLAN. The fault has been the insistence that both planes be built of the same parts. They perform completely different missions, and the Navy plane, in my judgment, has been sacrificed in favor of the Air Force plane. It is also true that the Air Force plane has been degraded somewhat in its performance characteristics by the attempt to achieve commonality with the Navy plane. The tragic aspect of the total TFX program is that two separate weapons are required, and they should have been built separately. If that had been done, we would have had two superior planes now. We have two compromised weapons, with the compromise placing the heavier penalty upon the Navy plane.

Mr. BYRD of Virginia. I shall support the position of the Senator from Arkansas and will cast my vote to eliminate the Navy version of the TFX.

Mr. McCLELLAN. I thank the Senator. The time has come for decision.

Mr. MUNDT. Mr. President, I congratulate the chairman of our committee, who has been the sparkplug in keeping the attention of our staff and all committee members devoted to this most wasteful Government contract in the history of the Republic—wasteful not only in money, but now it appears also wasteful in life. The Senator from Arkansas has rendered a great public service.

Mr. McCLELLAN. I thank the Senator.

Mr. ALLOTT. Mr. President, I join in the remarks that the distinguished Senator from Arkansas has just made. Everyone knows that this country owes him the greatest debt for not letting loose of what he knew was the fatal defect in this concept of fighters and airplanes, in spite of the fact that he was being snowed under with figures and propaganda from the Defense Department.

The great irony and the great disappointment is that before the Committee on Appropriations last year—even as late as last year—in answers to questions submitted by me, they were still insisting that the F–111B was going to be a great plane and was going to be used for our Navy.

I shall certainly support the distinguished Senator from Arkansas. I believe it would be terrible if we continued to put up one additional dollar for the F–111B.

Mr. McCLELLAN. I thank the Senator.

Mr. MURPHY. Mr. President, I should like to join my colleagues in congratulating the Senator from Arkansas for the magnificent job he has done. The military experts do not want the aircraft, we do not want it, and I cannot understand why it is being forced by the Department of Defense.

I believe the Senator has performed a great service.

Mr. McCLELLAN. I thank the distinguished Senator from California.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. CARLSON. Mr. President, I wonder whether the Senator from South Dakota would be willing to lay aside temporarily the pending amendment and permit me to call up an amendment that I understand has been agreed to and approved by both sides.

Mr. MUNDT. In that event, I shall be happy to accept the unanimous-consent request that we consider this amendment out of order, and that my amendment be temporarily laid aside, with the understanding that if the time consumed is more than 5 minutes, we will have to get an extension of the full debate.

Mr. JAVITS. Mr. President, reserving the right to object—I shall not object, of course—I have arranged with the Senator, who has very graciously agreed that I may have 6 minutes to introduce a bill on behalf of Senator PROUTY and myself, after completion of action on Senator CARLSON's amendment; and I ask unanimous consent that that provision be added to the unanimous-consent request.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. CARLSON. Mr. President, I call up amendment No. 664, which is at the desk.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk read as follows:

At the end of the bill insert a new section as follows:

"TAX EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS

"SEC. —. (a) Section 501 of the Internal Revenue Code of 1954 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"'(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"'(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5).'

"(b) The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act."

Mr. CARLSON. Mr. President, this amendment was considered by the Committee on Finance. Previously it was reported to the Senate and passed in the social security bill which was passed last year. I understand that both the majority and the minority agree to it.

On Monday I introduced an amendment to be made to H.R. 15414, which would provide tax exemption for joint operations by our Nation's hospitals.

The seriousness of the ever-rising cost of hospital care is of grave concern to all of us, and has been made the subject of almost continuous discussion by leading members of the health field. Testimony before the Congress last year, at the time of the social security amendments, disclosed that hospital costs have risen some 15 percent per year and will continue to do so for at least a few years before salaries paid by hospitals reach those paid by industry generally.

Mr. President, as a result of this continuing increase, leaders of the hospital field have been working diligently to design ways to slow the ever-rising cost, and to make the operations of our hospitals more efficient.

One of the ways in which this can be accomplished would be greatly encouraged by my proposed amendment. In carrying out economy and efficiency in our hospitals, the hospital leadership is moving toward installing modern business practices. They are trying to meet the challenge presented by the Honorable WILBUR MILLS in his address before the National Conference on Medical Cost, held here in Washington last June 27 and 28. At that time, Mr. MILLS stated that, while Congress would expect that hospital costs would go down, Congress would not expect the hospital field to work very hard to keep the increase as low as possible, consistent with a high quality of hospital care. He pointed out that some of the answers to this were to install automation in the various segments of hospital operations such as, food preparation, laboratory operations, laundry, and maintenance. He noted that data processing has made great strides in industry and has a clear application to many of these hospital operations. As an example, he pointed out that the automated laboratory is already in existence in some hospitals.

Mr. President, I doubt there is a State or any large city in our Nation today whose hospitals are not moving in this general direction. And certainly my amendment would provide the hospital field a great incentive to proceed in this manner. All of you are aware that the use of computers is economical only when they are kept substantially in operation. It makes little sense for a hospital to install expensive computer equipment where it will be needed for only a few hours a day. Not only would this be uneconomical, Mr. President, but it would be pure waste. For this reason, hospitals are working toward joining together in joint enterprises to operate computer programs and other programs which provide through joint operations, a source of economy to the hospital field. In addition to the computer programs, central purchasing, central laundries, warehousing and many other programs adaptable to economy through joint operations, are being discussed today.

In Boston, Mass., they have already initiated a central service center which

they envision might in the future cover all the items I have discussed. They have already committed themselves to the leasing of one computer at $25,000 per month—but this computer is going to serve several hospitals, each of whom will pay their fair share of the operational cost. At some future time this service center might undertake all types of service for the individual member hospitals.

Much has been said about the operation of joint laundry facilities and I am sure that my esteemed colleague, the Honorable JOSEPH TYDINGS of Maryland, who is a cosponsor of my amendment will discuss this matter in more detail since his constituency in Baltimore is currently faced with that problem. However, I want to say that this is a substantial area for joint enterprises for hospitals. I am aware that in Los Angeles, Calif., seven area hospitals anticipate savings of $300,000 a year, by establishing a cooperative central laundry service. And it is understandable that hospitals could economize through the use of joint facilities in laundries. Hospitals for the most part have always operated their own laundry facilities because of the vital need to the hospital of an assured supply of laundry and particularly, an assured supply of bacteria free linen.

The American Hospital Association informs me that a survey conducted by the association of hospital operations for 1964, disclosed that of the voluntary nonprofit, short-term, general hospitals of 100 beds or more—which are deemed to be of sufficient size to justify economical operation of inhouse laundry facilities—less than 20 percent send their laundry out to commercial facilities. In those hospitals of 99 beds or less—which normally would not be presumed to be of sufficient size to justify the economic use of inhouse laundry facilities—the survey disclosed over 50 percent of such hospitals actually operate their own laundry facilities. The reasons are obvious. The hospitals require quality of cleanliness, assurance of availability of linens, and the need to have linens meet the bacteria-free requirements, even if it requires the hospitals to operate such facilities at a loss.

I am sure that this problem is facing all the hospitals in every State and large city in the country, and each of you Members of the Senate are as much concerned about this matter as I am. Only today, I have been informed that in western Kentucky, six rural hospitals have been attempting the establishment of a centralized laundry and purchasing facility. Also, on behalf of the people of Michigan, Congressman DINGELL introduced a bill to provide such tax exemption for joint enterprises for hospitals. In my own State of Kansas, as well as in Rhode Island, New York, Texas, Georgia, and I am sure in every State, hospitals are seeking to join hands in cooperative endeavors to hold down hospital costs.

Of course, these joint facilities can be initiated whether the joint enterprise is given the same tax exempt treatment as is accorded the individual member hospital, but there are many problems involved other than the question of direct Federal taxes. This exemption is necessary in order to attract grants from charitable foundations and gifts from individuals. The hospital field believes it could garner much support from these sources, but obviously neither source would be willing to donate without assurance of tax deductibility of the gift. Furthermore, without the appropriate Federal exemption in many States, the organization would be denied exemption status under State law and would be faced with real estate, sales, and income taxes.

My amendment is simple, gentlemen; it would give each hospital the same tax status as is enjoyed by the individual member hospital. It would not cost the taxpayers of this Nation any money and it will contribute greatly to stemming the serious ever rising cost of hospital care. The tax exemption which would be authorized by my amendment had the support of the then Surgeon General of the United States, Dr. Luther Terry who, under date of November 24, 1964, addressed the Internal Revenue Service in support of providing this exemption to joint hospital facilities. This position was also supported in a letter dated December 2, 1965, addressed to the Department of the Treasury by the Honorable Philip R. Lee, M.D., Assistant Secretary of the Department of Health, Education, and Welfare. The exemption was further supported by the Honorable HARLEY O. STAGGERS, chairman of the House Committee on Interstate and Foreign Commerce, in a letter addressed by him to the Internal Revenue Service under date of November 23, 1966.

Mr. President, nowhere could you find persons more concerned and familiar with hospital operations. Naturally, weight must be given to their recommendations.

Mr. President, I urge the Senate to adopt this amendment.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 1 minute.

Mr. LONG of Louisiana. Mr. President, I do understand the amendment. It is a meritorious amendment.

The amendment merely would permit organizations providing joint services to be exempt from the income tax. This is the same treatment now applied to hospitals. The provision was in the social security bill which was passed last year; and it has been approved by the Senate and the Committee on Finance on other occasions in previous years.

I have no objection to the amendment.

Mr. CARLSON. I am indebted to the distinguished Senator from South Dakota [Mr. MUNDT] and the distinguished Senator from Virginia [Mr. BYRD] for permitting me to take this action out of order.

Mr. TYDINGS. Mr. President, the amendment introduced by the Senator from Kansas [Mr. CARLSON], which I have cosponsored, is vitally important to the city of Baltimore as well as, ultimately, to almost every city of this country.

In Baltimore, six nonprofit hospitals have already combined their laundry operations in a tax-free building located adjacent to the Johns Hopkins Hospital. This combined laundry operation will save patients in these major hospitals hundreds of thousands of dollars in reduced costs. As Senator CARLSON has pointed out, hospital costs have been rising by some 15 percent per year or more and will continue to do so. Everyone agrees that it is in the public interest to help the hospitals reduce their costs.

I wish to make several points about this amendment using the facts as they apply to the Baltimore hospitals' laundry.

First, each of these six hospitals previously maintained their own individual, outmoded. and inefficient laundry prior to development of the new, modern, efficient, combined service.

Second, the development of this modern combined service has in no way resulted in a reduction of business to private laundries in Baltimore. Private commercial laundries in Baltimore have not objected to this combined laundry facility. And I emphasize that this combined laundry service takes no laundry from any other source. It serves the six hospitals and only the six hospitals.

Third, and this is the most important point—each one of the individual laundries had tax-exempt status; but unforeseen rigidities in the law have led the Internal Revenue Service to rule that the combined laundry service cannot receive tax-exempt status. It is my understanding that Treasury supports this amendment fully.

So, Mr. President, what we are merely doing here is correcting an unforeseen inequity. If it was appropriate and in the public interest for individual hospital laundries to have a tax-exempt status, then it surely is just as much necessary and in the public interest for the combined operation to have the same tax-exempt status.

I deeply hope that this amendment will be again adopted by the Senate—as it was adopted last year in the social security amendments—and that it will be retained in conference. If it is not enacted, the major hospitals of Baltimore will be additionally pressured to increase their already rapidly increasing charges.

On behalf of the people of the Baltimore area, I want to thank Senator CARLSON for his characteristic and farsighted leadership on this important question.

The PRESIDING OFFICER. The question is on agreeing to the amendment (No. 664). [Putting the question.]

The amendment (No. 664) was agreed to.

ORDER OF BUSINESS

Mr. JAVITS. Mr. President, I yield myself 4 minutes and I reserve 2 minutes of my 6 minutes for the Senator from Vermont [Mr. PROUTY].

The PRESIDING OFFICER. The Senator from New York is recognized.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 28 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. LONG of Louisiana to amendment numbered 662 proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: On page 27, beginning with line 1, strike out all through line 2 on page 35, and in lieu thereof insert the following:

SEC. 13. TEMPORARY INCREASE IN INDIVIDUAL AND CORPORATE INCOME TAX RATES.

(a) INCREASE IN INDIVIDUAL INCOME TAX RATES.—

(1) INDIVIDUALS OTHER THAN HEADS OF HOUSEHOLDS.—

(A) Paragraph (1) of section 1 (a) (relating to rates of tax on individuals) is amended by striking

out the matter preceding the table and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1964, AND TAXABLE YEARS BEGINNING BEFORE JULY 1, 1969, AND ENDING AFTER MARCH 31, 1968.—In the case of a taxable year (A) beginning on or after January 1, 1964, and before January 1, 1965, or (B) beginning before July 1, 1969, and ending after March 31, 1968, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:".

(B) Paragraph (2) of section 1 (a) is amended by striking out the matter preceding the table and inserting in lieu thereof the following:

"(2) OTHER TAXABLE YEARS.—In the case of a taxable year (A) beginning after December 31, 1964, and ending before April 1, 1968, or (B) beginning after June 30, 1969, there is hereby imposed on the taxable income of every individual (other than a head of a household to whom subsection (b) applies) a tax determined in accordance with the following table:".

(2) HEAD OF HOUSEHOLDS.—

(A) Subparagraph (A) of section 1 (b) (1) (relating to rates of tax on heads of households) is

amended by striking out the matter preceding the table and inserting in lieu thereof the following:

"(A) TAXABLE YEARS BEGINNING IN 1964, AND TAXABLE YEARS BEGINNING BEFORE JULY 1, 1969, AND ENDING AFTER MARCH 31, 1968.—In the case of a taxable year (i) beginning on or after January 1, 1964, and before January 1, 1965, or (ii) beginning before July 1, 1969, and ending after March 31, 1968, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:".

(B) Subparagraph (B) of section 1(b)(1) is amended by striking out the matter preceding the table and inserting in lieu thereof the following:

"(B) OTHER TAXABLE YEARS.—In the case of a taxable year (i) beginning after December 31, 1964, and ending before April 1, 1968, or (ii) beginning after June 30, 1969, there is hereby imposed on the taxable income of every individual who is the head of a household a tax determined in accordance with the following table:".

(3) OPTIONAL TAX ON INDIVIDUALS.—

(A) Subsection (a) of section 3 (relating to

optional tax if adjusted gross income is less than $5,000) is amended by striking out the matter preceding table I and inserting in lieu thereof the following:

"(a) TAXABLE YEARS BEGINNING IN 1964, AND TAXABLE YEARS BEGINNING BEFORE JULY 1, 1969, AND ENDING AFTER MARCH 31, 1968.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year (A) beginning on or after January 1, 1964, and before January 1, 1965, or (B) beginning before July 1, 1969, and ending after March 31, 1968, on the taxable income of every individual whose adjusted gross income for such year is less than $5,000, and who has elected for such year to pay the tax imposed by this section, a tax as follows:".

(B) Subsection (b) of section 3 is amended by striking out the matter preceding table I and inserting in lieu thereof the following:

"(b) OTHER TAXABLE YEARS.—In lieu of the tax imposed by section 1, there is hereby imposed for each taxable year (A) beginning after December 31, 1964, and ending before April 1, 1968, or (B) beginning after June 30, 1969, on the taxable income of every individual whose adjusted gross income for such year is less than $5,000 and who has elected for such year to pay the tax imposed by this section, a tax as follows:".

(C) (i) Each of the tables in subsection (a) of section 3 is amended by striking out "Taxable Years Beginning in 1964".

(ii) Each of the tables in subsection (b) of section 3 is amended by striking out "Taxable Years Beginning After December 31, 1964".

(b) INCREASE IN CORPORATE SURTAX RATE.—Section 11 (c) (relating to surtax) is amended by striking out "and" at the end of paragraph (2), and by striking out paragraph (3) and inserting in lieu thereof the following new paragraphs:

"(3) 26 percent, in the case of a taxable year (A) beginning after December 31, 1964, and ending before January 1, 1968, or (B) beginning after June 30, 1969, and

"(4) 30 percent, in the case of a taxable year beginning before July 1, 1969, and ending after December 31, 1967."

(c) INCREASE IN ALTERNATE TAX ON CAPITAL GAINS.—

(1) CORPORATIONS.—Section 1201 (a) (relating to alternate tax on corporations) is amended by inserting before the period at the end of paragraph (2) ", or, in the case of a taxable year beginning before July 1, 1969,

and ending after December 31, 1967, an amount equal to 27½ percent of such excess".

(2) INDIVIDUALS.—Section 1201 (b) (relating to alternate tax on individuals) is amended by inserting before the period at the end of paragraph (2) ", or, in the case of a taxable year beginning before July 1, 1969, and ending after March 31, 1968, an amount equal to 27½ percent of such excess".

(d) WAGE WITHHOLDING.—Section 3402 (a) (relating to income tax collected at source) is amended by adding at the end thereof the following new subsection:

"(n) WAGES PAID DURING TEMPORARY INCOME TAX INCREASE.—In the case of wages paid after the 10th day following the date of the enactment of the Balance of Payments and Domestic Economy Act of 1968, and before July 1, 1969, the amount required to be deducted and withheld under this section shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables set forth in subsections (a) and (c) (1)."

(e) CHANGES IN RATES DURING A TAXABLE YEAR.—Section 21 (relating to effect of changes) is amended by adding at the end thereof the following new subsection:

"(e) CHANGES MADE BY BALANCE OF PAYMENTS AND DOMESTIC ECONOMY ACT OF 1968.—In applying subsection (a) to a taxable year of an individual which (A) begins

before April 1, 1968, and ends after March 31, 1968, or (B) begins before July 1, 1969, and ends after June 30, 1969, the change in the tax imposed under section 3 shall be treated as a change in a rate of tax."

(f) EFFECTIVE DATES.—

(1) INDIVIDUALS.—The amendments made by subsections (a) and (c) (2) shall apply to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) CORPORATIONS.—The amendments made by subsections (b) and (c) (1) shall apply to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

(g) CALENDAR YEAR TAXPAYERS.—The Secretary of the Treasury or his delegate is authorized—

(1) to prescribe tax tables applicable for calendar years 1968 and 1969 under section 1 of the Internal Revenue Code of 1954 (as amended by subsection (a)), and

(2) to prescribe optional tables applicable for calendar years 1968 and 1969 under section 3 of such Code (as amended by subsection (a)).

In prescribing any such tables, the Secretary or his delegate shall apply the provisions of section 21 of such Code, but rates in the tax tables under section 1 of such Code may be

rounded to the nearest whole percentage point and the optional tax tables under section 3 of such Code may be rounded to the nearest whole dollar.

Amdt. No. 681 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. LONG of Louisiana to amendment numbered 662 proposed by Mr. WILLIAMS of Delaware (for himself and Mr. SMATHERS) to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 28 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued April 1, 1968
For actions of March 29, 1968
90th-2nd; No. 53

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HIGHLIGHTS: Senate committee reported bills to extend Public Law 480, extend and expand food service programs for children (including breakfast program), and prohibit certain cotton imports. Senate rejected amendments to tax bill to impose dairy import quotas, to set up commission to study budget priorities and procedures, and to exempt certain programs from proposed spending cutback.

SENATE

1. TAXATION; EXPENDITURES. Continued debate on H. R. 15414, the tax adjustment bill (pp. S3610-12; S3615-57; S3660-1, S3663). Agreed to an amendment by Sen. Javits to require the President to submit to the Congress proposals for a comprehensive tax reform (pp. S3610-11, S3616-17). Rejected, 37-38, an amendment by Sen. McGovern to limit dairy imports to the average of the 5-year period 1961 through 1965 (pp. S3643-56). Rejected, 36-40, an amendment by Sen. Javits

to set up a Commission on Federal Budget Priorities and Expenditure Policies (pp. S3640-43). Rejected, 22-55, an amendment by Sen. Javits to exempt certain programs from the proposed spending cutback including education, low-income housing, water and air pollution control, and the war on poverty (pp. S3618-26, S3638-40). Rejected, 17-62, an amendment by Sen. Clark (Pa.) that "insofar as practicable" expenditure reductions be from military, space, and Dept. of Defense programs (pp. S3626-38).

2. PUBLIC LAW 480. The Agriculture and Forestry Committee reported with amendments S. 2986, to extend Public Law 480 for 2 years (S. Rept. 1066). p. S3601

3. FOOD SERVICE. The Agriculture and Forestry Committee reported with amendments H. R. 15398, to amend the National School Lunch Act to strengthen and expand food service programs for children (S. Rept. 1067). p. S3601

4. LAND TRANSFER. The Agriculture and Forestry Committee reported with amendment H. R. 11527, to release conditions in a deed conveying certain lands to the University of Maine and permit the university, subject to certain conditions, to dispose of such lands (S. Rept. 1068). p. S3601

5. COTTON IMPORTS. The Agriculture and Forestry Committee reported with amendments S. 1975, to prohibit importation of extra-long-staple cotton from countries which have severed diplomatic relations with the U. S. (S. Rept. 1069). p. S3601

6. CONSERVATION. The Agriculture and Forestry Committee reported with amendments S. 1401, to provide that receipts from mineral leases on offshore lands be deposited in the land and water conservation fund (S. Rept. 1071). p. S3601

7. ADJOURNED until Mon., Apr. 1. p. S3663

EXTENSION OF REMARKS

8. LANDS; NATURAL RESOURCES. Sen. Allott inserted Sen. Jordan's address on a possible approach "to strike the proper balance to fit the needs of the greatest public interest in managing and utilizing our great national treasure of land and its related resources." pp. E2453-4

9. FARM PROGRAM. Sen. Harris defended the administration's farm program and stated the time has come "to set the record straight" and inserted this Department's letter "which sets forth the fallacy of employing parity levels as the sole measurement of agricultural economic health." pp. E2463-4

BILL INTRODUCED

10. ATOMIC ENERGY. S. 3262 by Sen. Anderson, to authorize appropriations to the Atomic Energy Commission in accordance with section 261 of the Atomic Energy Act of 1954, as amended; to Atomic Energy Joint Committee.

0

COMMITTEE HEARINGS APR. 1:

Food-for-peace program and crop insurance bill, H. Agriculture (exec); Agricultural appropriations, H. Appropriations (exec.) and S. Appropriations; Housing bill, H. Banking and Currency; Foreign aid authorization, H. Foreign Affairs (exec).

oOo

lars of private funds. The Human Investment Act that Republicans have introduced in the House and the Senate would give a tax incentive to any business that will invest in the hard core unemployed. The Job Corps costs $10,000 a man; for $500 to $800 a man, industry—every business involved here—can become involved in this job of hiring the despondent, the ill-educated and those who want work and can work if they are given a chance. We certainly must do far more in the way of fair housing. It is men like Joe Cook who have made possible, I think, a great forward movement in this area.

The University of Chicago has proven in the Woodlawn area that we can develop an integrated, fine community with property values soaring upward. Companies can do the same, as has Sears, Roebuck in the Homan Street area.

But we need far more. We haven't even begun to make the sacrifices we must make if we aren't to sacrifice the society we must build. John Gardner has said, "History is not going to deal kindly with a rich nation that will not tax itself to cure its miseries."

We must support necessary federal expenditures by paying our taxes—if necessary higher taxes—to cut back on this terribly burdensome debt we are carrying. But men like you can do much more. I can't tell you the inadequacy we feel as legislators, trying to pass laws to solve these problems. In Washington they don't understand the community of Chicago like you do. What would happen if the management in this room went to work on any given problem? Could any company afford it? No. But a group of companies, working with the city, can and must solve these problems.

That is why you must leave here feeling there there is something you can do.

I really feel that the Wallace theory epitomizes the very attitudes that must be combated if we are not to see our country follow the road of social chaos. He is all the more dangerous because he has a finely honed sense of what to say where.

Before this group he spoke in measured terms of the "breakdown of law and order," as an "issue which confronts our people." Contrast this with his view expressed in another forum, in a slightly different way, when he said, and I quote:

"Bam, shoot 'em dead on the spot! Shoot to kill if anyone throws a rock at a policeman."

I believe the experiences of Newark and Detroit bear out the Commission report conclusion that weapons designed to destroy, not to control, have no place in densely populated urban communities.

To the extent that the American people respond to the glib rhetoric and demagoguery of George Wallace, the future of the kind of society we must create is put in doubt.

How will we respond to this report? Will we respond by following the easy path outlined for us by George Wallace? I don't think we will. I don't think there is a man in this room that would feel it is that simple. I think we are going to follow the hard, tough, anguishing route of facing up to this problem and solving it. And doing that is going to make us grateful for having had the great opportunity to live and work in these times of great need; to feel there is something we can do about these problems—because there is.

Thank you.

GUESTS AND MEMBERS SEATED AT THE SPEAKER'S TABLE, MARCH 8, 1968

Luther I. Replogle, *President,* Replogle Globes, Inc.

Marshall Haywood, Jr., *President,* Haywood Publishing Company.

Peter G. Peterson, *President & Chief Executive Officer,* Bell & Howell Company.

Alexander White, *Chairman,* Young Republican Organization of Cook County.

Brian B. Duff, *Lawyer* (Republican Candidate for Secretary of State).

Jesse Owens, *Partner,* Owens-West & Associates (Winner of Four Gold Medals in the 1936 Olympics).

William Hodge, *President,* Hodge-Cronin & Associates, Inc.

Homer P. Hargrave, Jr., *General Partner,* Dean Witter & Company.

Everette A. Sisson, *President,* Workman Manufacturing Company.

Jack W. Gray, *Corporate Controller,* Allied Mills, Inc.

Frank M. Sims, *Vice President,* Harris Trust & Savings Bank.

Timothy P. Sheehan, *Chairman,* Republican Central Committee of Cook County.

Thomas J. Houser, *Special Counsel to* Senator Charles H. Percy.

Leonard Spacek, *Chairman of the Board,* Arthur Andersen & Company, (Member, Executive Committee of The Club).

Martin J. Koldyke, *Manager,* Corporate Finance Department, Paine, Webber, Jackson & Curtis (Secretary of The Club).

The Honorable Charles H. Percy, *United States Senator from Illinois* (Guest Speaker).

Charles J. Scanlon, *President,* Federal Reserve Bank of Chicago (President of The Executives' Club).

Richard B. Ogilvie, *President,* Board of Commissioners of Cook County.

Arthur C. Nielsen, Jr., *President,* A. C. Nielsen Company.

Robert A. Dwyer, *President,* Robert A. Dwyer Enterprises, Inc. (Republican Candidate for Lieutenant Governor).

William J. Scott, *Lawyer* (Former Treasurer of The State of Illinois).

G. Allan Julin, Jr., *Senior Vice President,* Chicago Title & Trust Company.

Blaine E. Rieke, *President,* Chicago Junior Association of Commerce & Industry.

John J. Markham, *Partner,* Hornblower & Weeks.

William B. Graham, *President,* Baxter Laboratories, Inc.

Richard L. Duchossois, *President,* Thrall Car Manufacturing Company.

Oliver S. Turner, *Chairman of the Board,* Turner, Bailey & Zoll, Inc.

William H. Fetridge, *President,* The Dartnell Corporation (President, United Republican Fund).

Morris Levinkind, *President,* Kahn-Levinkind, Inc.

James J. McCarty, *President,* Dukes Company, Inc.

William McGinley, *President,* Methode Electronics, Inc.

Walter L. Sorg, *Sales Executive,* McCormick & Henderson.

ORDER OF AHEPA HONORS SENATOR DIRKSEN

Mr. HRUSKA. Mr. President, on the evening of March 18, together with a number of my colleagues, it was my privilege to attend the 18th biennial national banquet of the Order of AHEPA at which our able minority leader, Mr. DIRKSEN, was presented the 1968 AHEPA Socratic Award.

AHEPA, a nationwide fraternal, civic, educational and charitable organization has, in the 46 years of its existence, established a splendid record of service and it was in keeping with this tradition that the award was made to Senator DIRKSEN.

The presentation was made by Mr. Andrew Fasseas, supreme president of AHEPA. I ask unanimous consent, Mr. President, to have printed in the RECORD a portion of the transcript of that evening's proceedings which includes Mr. Fasseas' presentation and Senator DIRKSEN'S response.

There being no objection, the proceedings were ordered to be printed in the RECORD, as follows:

Mr. FASSEAS. Mr. Toastmaster, Your Eminence, Your Excellency, Ambassador Palamas, Senator Dirksen, Governor Spiro Agnew, of Maryland, members of all capacities in the Order of AHEPA and AHEPA family, and friends of the AHEPA, and our guests of honor, the members of our Congress in this United States of America. [General applause.]

You know, we Laconians are supposed to speak briefly, and I'm going to live within that short speech tonight. I'm sure that most of you from throughout the country, you've seen me in your cities, in your chapters, in your affairs in the last two years, and I don't think I can add more to it. Tonight, however, I'm addressing myself to the representatives of our country in our Congress, and I will say to them, this banquet is one of the events which bring your constituents to the capital, meeting with you personally, discussing with you their local problems, yes, the national problems, and if you will, the international problems as well, for they look to you for the destinies not only of America but the destinies of the world.

And tonight, it is with great pride and pleasure that I have the privilege to bestow one of the greatest honors that the organization has to give. Only three such awards have been given. The last recipient was the present President of the United States, Lyndon Johnson. [General applause.]

And the recipient who receives it tonight is a man dedicated in his entire life not only for the problems of Illinois, not only for the problems of the Nation, but for the problems of the world, and I thank God that we have such a man in the Senate of the United States as Senator Everett Dirksen. [General applause.]

I am now unveiling the 1968 AHEPA Socratic Award to be given to this great man tonight.

Senator, this bronze bust of Socrates is symbolic of what you have stood for during your entire life. May you enjoy this and place it in a conspicuous place where everyone visiting your office will ask you, "What does this represent?" [General laughter.]

It is with my great pleasure to introduce to you the recipient of this great honor, the great man from Illinois, the second Lincoln of Illinois, Everett Dirksen, our beloved Senator from Illinois. [General applause.]

(Presentation by The Honorable Everett McKinley Dirksen, Senator from Illinois.)

Senator DIRKSEN. My friend, Andrew Fasseas before I say another thing I'm going to ask Governor Spiro Agnew whether he was born in Laconia. [General laughter.]

Spiro, can you imagine a United States Senator who came away with the traditions of Laconia? [General laughter.]

Why, it is hard to imagine. You couldn't fill enough pages in the Congressional Record to even mail it out. [General laughter.]

If that had been the case. But my friend, Andrew, and Your Eminence, Archbishop Iakovos, and perhaps I ought to pick out Mrs. Rummel first. Mrs. Rummel, where are you? The Grand President of the Daughters of Penelope. You see, I always [general applause] I always pick out the ladies first. [General laughter.]

And Miss Contos, Grand President of the Maids of Athena. Where is she? [General laughter.]

Oh, you better be here. [General laughter.]

And Mr. Stavrakas. That's not the way to pronounce that. It's Stavrakas. [General laughter.]

I have trouble with my Hellene, as you notice. My old friend, Mike Manatos, Assistant to the President of the United States. [General applause.]

Glad to see you, Mike. And Your Excellency, the Attorney General, Ramsey Clark. [General applause.]

Who comes from the greatest unfrozen state, namely Texas. [General laughter.]

And Mr. Ambassador—Andrew, did I leave anybody out? [General laughter.]

Well, I did. I got to add koumbaros. [General laughter.]

Because I'm a koumbaros, so why don't you salute me? [General applause.]

Well, anyway, I asked the distinguished Archbishop whether Socrates came from Laconia. [General laughter.]

And he said he didn't. He came from Athens, the very seat of culture, where they talked long and loud when it became necessary, and in that respect they found a reflection centuries later in the United States Senate. [General laughter.]

First I'm grateful for your hospitality. You've been very kind; you always have been, except on one occasion, and that is when you had your national convention in Minneapolis. You didn't let me get on the program until 2:00 o'clock in the morning. [General laughter.]

But you see, I didn't arrive here until 3:00 o'clock this morning. So, Mr. Batsakis, that was the reason for this special request, and I hope you won't be offended if after what brief remarks I have that—a little water, Andrew. [General laughter.]

That Mrs. Dirksen and I take our leave because there's an awful early breakfast and a lot of work to be done tomorrow, and so you'll indulge us and forgive us. But I thank you for your hospitality. As I think of it I think of that North Dakota farmer when it was forty degrees below zero, who went out to milk his only milk cow, and when his hands reached out to come in contact with those lactile conduits [General laughter] that old cow turned around and said, "Boss, thanks for the warm hand." [General laughter.]

So, tonight my Hellene friends, I thank you for the warm hand. [General laughter.]

This dinner is to honor the Congress and how delighted I am. First, we're so delighted to see you; but secondly, and that reminds me, Spiro, I forgot to include my Congressional colleagues tonight. I include them now. Besides we like to have you see us. You see, that's the intrinsic weakness in the political breed. It reminds me a little of the hired man who one night said to his boss farmer, "Boss, I'd like to borrow the lantern tonight." He said, "What for?" He said, "I want to go down the road and spark my girl." "Huh", he says, "Look young fella, when I was your age and sparked my wife I didn't take a lantern." He says, "I know you didn't and look what you got." [General laughter.]

So you see, we like to see you on these occasions. But we also like to have you see us.

First, I want to pay a tribute to this fellow sitting next to me, Andrew Fasseas. Andy, I don't know how long I've known you——

Mr. FASSEAS. Twenty-seven years.

Senator DIRKSEN. But every time he comes to my office he wears me out. [General laughter.]

Just to see him in action for five minutes wears me out, and Mike, I warn you, if he sees the President, you better tell the distinguished President what this fellow will do, because when he gets through with these gesticulations and this radiance of energy as if he were a ball of fire which he is, why everybody better take heed. Well, you've been my friend——

Mr. FASSEAS. And I'm proud of it.

Senator DIRKSEN. And I'm proud of your friendship, and what a public spirited citizen you've been. You really have, and tonight, as the Supreme President, I pay homage and tribute to you in the presence of your members. [General applause.]

But I'm doubly honored tonight with this Socratic award, one of the greatest minds that lived in the history of mankind. But what a singular thing about Socrates that he left scarcely a written line. It was that whole group of his pupils who told us about him so that he lived in history. Is there a greater name? Is Plato a greater name, who was really one who inscribed so much of his teachings? Or Aristotle? No. We go back to Socrates and to the Socratic philosophy because he taught it in his own very humble way and others recorded it, and that's the reason it came to us. So in our literature, in the literature of every country, in our culture, in the schools, the name of Socrates is so well and so familiarly known.

And there's a reason for it. He embodied the very best in the Greek mind. First its clarity that somehow made manifest to his pupils the principles by which they had to live; and then his moral concern for his own society in his day and time. Always he went about saying, "Know thyself," because that's where wisdom begins. When people know themselves everything will be added unto it. And that was the greatness of it. But you see, he was brilliant in life and perhaps even more brilliant and greater in death.

Someone said about him and wrote about him that when all is said and done, there were only two consistent minds in the whole history of mankind. One was the Christ, whose life was the greatest life ever lived, but whether in life or in agony, whether before Pilate to be tried, or whether carrying that heavy cross down the Via Dolorosa, always and always he hewed so steadfastly to a constant and consistent Christian principle. And so it was with him, with Socrates and his philosophy. When the judges condemned him to death, did he fulminate about it? No, he didn't. His friends said, "Look, there are two escapes that you have. One is you can escape." But he says, "I don't want to escape. The law—the law—has pronounced a sentence on me." And other friends said, "You are free to go into exile." "But I don't want to go into exile. The law has pronounced its judgment." They said, "But you've been unjustly condemned." He says, "But that's not the law, and that's not the state; that is merely the imperfection of the judges who condemned me."

That was his consistency. That was his steadfastness to principle. And that was his devotion to the law. And when the cup of hemlock came, he did not retreat, he did not haul back. No, steadfastly he abided by the law and its judgments. It's an interesting concept today. In the last couple of years you've heard in various quarters the new concept: "I'll obey the law if I agree with it." Governor Agnew, you've heard it in your state, haven't you? Indeed you have. What happens to free society when it is given to every man to be his own judge of his own sins, his own violations of the concepts of society? Then what happens? Then, of course, there comes not merely instability, but finally there comes anarchy and all that goes with it.

So, in a time like this when this strange and almost fantastic concept is seeping into the minds of people so many centuries after Socrates and the Socratic philosophy, isn't it time we get back to him? Isn't it time we go back and unearth those truths? Isn't it time that we feast our hearts and our minds with those very simple bits of philosophy on which a stable civilization must be founded? Then and only then can we in a free society in this country be sure that there will be survival.

So, Andrew, you honor me tonight with this Socratic bestowal. I'm deeply grateful to you, and it shall have a place of honor, and whenever I look, always and always it will be a reminder of those amazing truths that must be discovered and rediscovered in the interest of a free society and a stable civilization.

And so to you and all your associates and to all koumbaros my sincere thanks. [General applause.]

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

TAX ADJUSTMENT ACT OF 1968

The PRESIDING OFFICER. The Chair lays before the Senate the unfinished business, which the clerk will state.

The ASSISTANT LEGISLATIVE CLERK. Calendar No. 995, H.R. 15414, an act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The Senate resumed consideration of the bill.

TEMPORARY WITHDRAWAL OF PENDING AMENDMENT NO. 672, AND CONSIDERATION OF AMENDMENT NO 661

Mr. JAVITS. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from New York is recognized for 1 minute.

Mr. JAVITS. I wish to explain to the Senator in charge of the bill that it is so early in the morning I doubt very much that Senators are seriously prepared to address themselves to this most important amendment at this hour. I therefore temporarily withdraw amendment No. 672 which is the pending business, and call up my amendment 661 and ask that it be stated.

Mr. LONG of Louisiana. Mr. President, I yield myself 30 seconds.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 30 seconds.

Mr. LONG of Louisiana. Mr. President, if the Senator is not ready with the pending amendment, I believe that the Senator from California [Mr. KUCHEL] has a matter on which the Senate could act immediately.

Mr. JAVITS. I have already arranged that with the Senator from California. Inasmuch as I have four amendments to offer, I am sure it does not matter to the Senator from Louisiana which one is acted upon first.

The PRESIDING OFFICER. The pending amendment is temporarily withdrawn. The clerk will state amendment No. 661.

The assistant legislative clerk read as follows:

At the end of the bill insert the following:

"SEC. 8. SUBMISSION OF PROPOSALS FOR TAX REFORM.

"Not later than ninety days after the date of the enactment of this Act, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954."

The PRESIDING OFFICER. The Chair inquires of the Senator from New York whether that is the amendment which

was designated last night as the 2-hour amendment.

Mr. JAVITS. Mr. President, this is the 1-hour amendment.

The PRESIDING OFFICER. The Chair thanks the Senator from New York.

Mr. JAVITS. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from New York is recognized for 5 minutes.

Mr. JAVITS. Mr. President, the reason why we are acting as we are with respect to a bill which, for all practical purposes, would be a routine tax bill, is that we feel the country and the world are in a very serious situation with respect to the inflationary surge in our country, with respect to the serious imbalance of international payments, and with respect to the very serious imbalance in our budget.

It is interesting to me that the margin in respect of these matters is relatively narrow. The imbalance in our international payments represents about $3 billion between a good situation and a bad situation. The imbalance in our exports as contrasted with our imports has shown deterioration lately of about $3 billion. Even our deficit, large as it is, over $20 billion—variously estimated from $20 billion to $26 billion—when compared with the $800 billion or $850 billion economy in proportion is not going to shake the world. Nonetheless, the confluence of these events has brought us to the situation where, notwithstanding the mandate of the Constitution with respect to the authority of the other body to originate legislation of this character, the Senate wishes to manifest its will upon this subject.

I have no illusions about what we are doing here. We all know, because most of us have been around here a long time, that the conference which will ensue as we pass the bill today may very well confine itself to the excise taxes alone, perhaps because of the sheer exigency of time, but we also know that the Senate has clearly expressed its will to have an income tax increase and an expenditure reduction.

I have predicted a tax increase within 30 days. I do not know who is going to do what to whom, in terms of these two bodies, but I predict that within 30 days, if the Senate passes the Smathers-Williams substitute, there will be a tax increase, and there will be a requirement for an overall expense reduction.

Now, what has been discussed all the time so far is an expense reduction. What has not been discussed during all of this time is the very real problem of what to do about tax reform, which can also produce considerable money in the way of revenues.

We are talking about a surtax which will produce, in round figures, between $10 billion and $12 billion. We are talking about an expenditure reduction of $6 billion. That is not enough, of course, to overcome our deficit. Our deficit is well is excess of $20 billion. But it is enough to make measurable progress, to bring the deficit down to measurable proportions. But it seems, in all fairness to the people of our Nation, that we should not be content with merely giving them more taxation. and depriving them of some of the benefits of some of the legislation already on the books, but we should seek to tighten up our tax codes, to eliminate inequities, to deal with discrimination, and generally to make a much better posture for the situation than now exists.

In that regard, I wish to point out that the President, in his economic message of January 1967, stated that he would send a message to the Congress on tax reform during that session of Congress. Over a year has now passed, and we still have no such legislation before us.

I had contemplated introducing a series of tax reform proposals as amendments to the pending legislation. However, in view of the complexities of any such tax reform package, and the need to expedite passage of the present excise tax bill, I decided instead, to ask the Senate to go on record to urge the President to send a tax reform bill to the Congress within 90 days.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. JAVITS. I yield myself another 5 minutes.

I would like to point out that over 9 months ago, on June 20, 1967, Assistant Secretary of the Treasury Stanley Surrey stated:

> It seems clear our tax laws, as they stand today, impose burdens on some of our citizens which are clearly unfair. In other cases, they grant special preferences to individuals and groups which are just as clearly inequitable.

Secretary Surrey also recommended specific reforms at that time.

We have not had a tax reform message since January 24, 1963.

I might point out that former Commissioner of Internal Revenue Caplin said, not so long ago, in discussing the need for improvement of the tax system:

> The system, after all, requires voluntary assessment by each taxpayer of his own tax liability. Without fundamental public respect for the tax law, we cannot expect the broad-based tax compliance which is essential to the vitality of the system. Unfairness, discrimination, and abuse erode that respect; and in doing so, they present serious danger to the mechanism by which our federal government supports itself.

A number of proposals for tax reform have been introduced in the Congress. It seems apparent that until the administration sends up its own bill, no action will be taken. Even when a bill is introduced, it will undoubtedly take many months. Therefore, we should have a bill before us as early as possible if we are to get tax reform through even by this time next year.

The amendment, in my judgment, is very relevant to the measure which is before us. Again I quote Mr. Caplin this past January when he said:

> The subject of tax reform has special urgency at the present time. The Administration proposes and continues to press for a 10 percent surcharge upon the existing income tax. The additional revenue to be raised by the surcharge is considerable—an estimated $9.8 billion for fiscal 1969. When those who bear the burden of the present income tax are called upon for an additional contribution of that magnitude, it is hardly surprising that they give special attention to aspects of the tax law which enable others to pay less than their share. And, naturally enough, demands for reform have mounted.

This is a very simple approach to the problem. It simply asks the administration to give us its recommendations for tax reform within 90 days.

The manager of the bill felt that a longer period was required. I would not argue with him about that. It seems to me this is the kind of amendment which is very pertinent to this bill or any bill which imposes additional taxes, excise or income. We are proposing exactly that in the Smathers-Williams substitute.

Therefore, I hope this is one amendment that the managers of the bill will take, but I certainly feel that it is an amendment which deserves the affirmative action of the Senate, which I hope it will have.

As I said before, it is very hard to get our colleagues to be here much before 10 o'clock. Therefore, I ask unanimous consent that I may call for a quorum without the time being charged to either side.

The PRESIDING OFFICER. Is there objection?

Mr. LONG of Louisiana. Mr. President, what is the request?

Mr. JAVITS. I am asking for a quorum call without the time being charged to either side.

Mr. LONG of Louisiana. Can we let it be charged equally?

Mr. KUCHEL. Mr. President, will the Senator yield to me?

Mr. JAVITS. Mr. President, I will withhold my request momentarily.

The PRESIDING OFFICER. The Senator from California.

Mr. JAVITS. I will, provided I am assured that I will have a quorum call, when the Senator from California is through, without the time being charged. It is necessary to me as I want a rollcall on my amendment.

Mr. LONG of Louisiana. Mr. President, I will assure the Senator that when we get down to the time of approaching a vote, with perhaps 5 minutes left on both sides, I will be willing to have a quorum call in order to have the yeas and nays ordered. I am sure the Senator realizes the frustration of trying to keep Senators present on the floor. Within 10 minutes of the time for a vote, I will help him get a rollcall.

Mr. JAVITS. Mr. President, I ask unanimous consent that the amendment I have offered be temporarily laid aside and that when consideration of the amendment to be offered by the distinguished Senator from California is completed, the Senate may again turn to the consideration of my amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

AMENDMENT NO. 669

Mr. KUCHEL. Mr. President, I ask that the Chair lay before the Senate an amendment to the substitute offered by the distinguished minority leader [Mr. DIRKSEN], amendment No. 669.

The PRESIDING OFFICER. The clerk will state the amendment.

The assistant legislative clerk read the amendment (No. 669) as follows:

At the end of the bill insert the following:

"SEC. —. ADVERTISING IN A POLITICAL CONVENTION PROGRAM.

"(a) Section 276 of the Internal Revenue Code of 1954 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

"'(c) ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the office of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive directly as a result of such advertising or is reasonable in light of the business expected to be brought by such convention to the area in which the taxpayer has a principal place of business.'

"(b) This section shall be effective with respect to amounts paid or incurred on or after January 1, 1968."

The PRESIDING OFFICER. How much time does the Senator from California yield himself?

Mr. KUCHEL. Two minutes.

The PRESIDING OFFICER. The Senator from California is recognized.

Mr. KUCHEL. Mr. President, this amendment modifies section 276 of the Internal Revenue Code, to permit the deduction of certain amounts paid or incurred for advertising in a political convention program, where the convention is held to nominate candidates for President and Vice President of the United States.

Present law prohibits the deduction of all amounts paid for advertising in such a program, although they may constitute an ordinary and necessary business expense which otherwise would be deductible.

The amendment now pending is limited so as to maintain the prohibition against deduction of political contributions that are made in the guise of advertising expenditures in convention programs. To accomplish this, the amendment is applicable only if the amounts paid are reasonable in the light of the business the taxpayer may expect to receive as a result of the advertisement, or are reasonable in the light of the business expected to be brought by the convention to the area in which the taxpayer has a principal place of business.

In addition, the amendment applies only if the proceeds of the program are used solely to defray the costs of conducting the convention.

Mr. President, as I stated earlier, I introduce this amendment on behalf of the distinguished minority leader [Mr. DIRKSEN]. I might say that this proposal seeks to resolve an inequity in our tax laws. Prior to this moment, I have discussed it with my able friend, the distinguished senior Senator from Delaware, who is about to speak and indicate his approval. I am hopeful that the amendment will be adopted.

ORDER OF BUSINESS

Mr. MORSE. Mr. President, will the Senator yield for a moment, for a privileged matter?

Mr. KUCHEL. I yield.

Mr. MORSE. Mr. President, I ask unanimous consent that I may present to the Senate the conference report on H.R. 13042, and that the very brief time it will take not to be counted against either side on the pending amendment.

Mr. KUCHEL. I have no objection.

The PRESIDING OFFICER. Without objection, it is so ordered.

DISTRICT OF COLUMBIA ELECTED BOARD OF EDUCATION ACT—CONFERENCE REPORT

Mr. MORSE. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 13042) to amend the act of June 20, 1906, and the District of Columbia election law to provide for the election of members of the Board of Education of the District of Columbia. I ask unanimous consent for the present consideration of the report.

The PRESIDING OFFICER. The report will be read for the information of the Senate.

The assistant legislative clerk read the report, as follows:

CONFERENCE REPORT

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 13042) to amend the act of June 20, 1906, and the District of Columbia election law to provide for the election of members of the Board of Education of the District of Columbia, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment, insert the following:

"SHORT TITLE

"SECTION 1. This Act may be cited as the 'District of Columbia Elected Board of Education Act.'

"FINDINGS AND DECLARATION OF PURPOSE

"SEC. 2. The Congress hereby finds and declares that the school is a focal point of neighborhood and community activity; that the merit of its schools and educational system is a primary index to the merit of the community; and that the education of their children is a municipal matter of primary and personal concern to the citizens of a community. It is therefore the purpose of this Act to give the citizens of the Nation's Capital a direct voice in the development and conduct of the public educational system of the District of Columbia; to provide organizational arrangements whereby educational programs may be improved and coordinated with other municipal programs, and to make District schools centers of neighborhood and community life.

"AMENDMENTS TO DISTRICT OF COLUMBIA BOARD OF EDUCATION LAW

"SEC. 3. (a) Section 2 of the Act entitled 'An Act to fix and regulate the salaries of teachers, school officers, and other employees of the board of education of the District of Columbia', approved June 20, 1906 (D.C. Code, sec. 31–101), is amended by striking out the first paragraph of subsection (a) and inserting in lieu thereof the following:

"'SEC. 2. (a) The control of the public schools of the District of Columbia is vested in a Board of Education to consist of eleven elected members, three of whom are to be elected at large, and one to be elected from each of the eight school election wards established under the District of Columbia Election Act. The election of the members of the Board of Education shall be conducted on a nonpartisan basis and in accordance with such Act.

"'(b)(1) Except as provided in paragraph (2) of this subsection and section 10(e) of the District of Columbia Election Act, the term of office of a member of the Board of Education shall be four years.

"'(2) Of the members of the Board of Education first elected after the date of the enactment of this paragraph, three members elected from wards and two members elected at large shall serve for terms ending January 26, 1970, and the other six members shall serve for terms ending January 24, 1972. The members who shall serve for terms ending January 26, 1970, shall be determined by lots cast before the Board of Elections of the District of Columbia upon a date set and pursuant to regulation issued by the Board of Elections.

"'(3) The term of office of a member of the Board of Education elected at a general election shall begin at noon on the fourth Monday in January next following such election. A member may serve more than one term.

"'(4) The members may receive compensation at a rate fixed by the District of Columbia Council, which shall not exceed $1,200 per annum.

"'(c)(1) Each member of the Board of Education elected from a ward shall at the time of his nomination (A) be a qualified elector (as that term is defined in section 2 of the District of Columbia Election Act) in the school election ward from which he seeks election, (B) have, for the one-year period immediately preceding his nomination, resided in the school election ward from which he is nominated, (C) have, during the three years next preceding his nomination, been an actual resident of the District of Columbia and have during such period claimed residence nowhere else, and (D) hold no elective office other than delegate or alternate delegate to a convention of a political party nominating candidates for President and Vice President of the United States. A member shall forfeit his office upon failure to maintain the qualifications required by this paragraph.

"'(2) Each member of the Board of Education elected at large shall at the time of his nomination (A) be a qualified elector (as that term is defined in section 2 of the District of Columbia Election Act) in the District of Columbia, (B) have, during the three-year period next preceding his nomination, been an actual resident of the District of Columbia and have during such period claimed residence nowhere else, and (C) hold no elective office other than delegate or alternate delegate to a convention of a political party nominating candidates for President and Vice President of the United States. A member shall forfeit his office upon failure to maintain the qualifications required by this paragraph.

"'(3) No individual may hold the office of member of the Board of Education and also be an officer or employee of the District of Columbia government or of the Board of Education. A member will forfeit his office upon failure to maintain the qualification required by this paragraph.

"'(d) Whenever, before the end of his term, a member of the Board of Education dies, resigns, or becomes unable to serve or a member-elect of the Board of Education fails to take office, such vacancy shall be filled as

The recent reorganization of the District of Columbia government and final approval of the elected School Board bill ushers in an era of greater democracy for the Nation's Capital.

Much credit for these accomplishments must go to my distinguished friend from Nevada [Mr. BIBLE], the chairman of the District Committee, for the leadership he has shown, and to my distinguished colleagues, Senators PROUTY and DOMINICK for the great contributions they have made on behalf of home rule and elected School Board proposals over the years. My friend from Colorado, since coming to the Senate, has been in the forefront of efforts to secure an elected School Board for the Nation's Capital. I also wish to pay tribute to my colleague from New York [Mr. KENNEDY] for the contribution he made to this legislation and the wonderful cooperation he gave me at all times. Each member of the District Committee has made significant contributions toward passage of both bills.

I also want to compliment the members of the House District of Columbia Committee for their strong support of the elected School Board.

I would be remiss if I did not state my deep appreciation to President Johnson for the strong support he has given us in trying to bring about this long overdue and necessary reform.

Mr. PROUTY. Mr. President, the pending conference report is of singular importance to the District of Columbia. The citizens of the District have been isolated too long from their educational system. The future of their children is the paramount concern of all parents, but parents in the District have been deprived of a voice in the keystone of their children's lives—their education. Particularly in the ghettoes of the District, where the lack of an education has been the bar to a better life, there is great respect for education and parents are vitally interested in the schools and the quality of education provided for their children.

Throughout the Nation, Mr. President, in every community, the school system is an integral part of the community it serves and direct election of members of the School Board is the common practice. In the State of Vermont they have been elected since 1870. In the District of Columbia, due to an archaic selection system, the citizens do not have this fundamental right to select those who determine educational policies and the quality of education provided for their children. Parents in the District are denied any direct involvement in the effective operation of their children's schools. With the passage of the pending legislation, Mr. President, which provides for elected School Board, the residents of the District will share with millions of other Americans citizens a voice in the administration of their educational system. They will have the opportunity to select a School Board responsible to them.

My statement, Mr. President, is not meant in criticism of those who presently serve or have served in the past on the Board of Education. The District has been fortunate to have such dedicated and selfless individuals serve on its School Board and they have served the community faithfully and well, laboring under difficult circumstances imposed upon them by an outmoded selection system. The judges of the Federal district court, who have been charged with the responsibility of appointing the members of the School Board, have urged that they be relieved of this duty alien to their judicial responsibilities, and I agree that they should be.

An independent elected School Board for the District of Columbia, Mr. President, is not a new concept. For several years my colleague on the Senate District of Columbia Committee, the distinguished Senator from Colorado, and I have been advocates of an elected School Board. In the past he has introduced legislation to bring this voice to the residents of the District—without success. In commitee I have given him my full support when he unsuccessfully attempted to have such a measure added as an amendment to other legislation. I was gratified when belated support for an elected School Board was forthcoming in this 90th Congress

One of the things which gives me great satisfaction in this legislation, Mr. President, is the fact that it is a bipartisan measure. The distinguished Senator from Oregon, who is chairman of the Public Health, Education, Welfare, and Safety Subcommittee of the Senate Committee on the District of Columbia, has long been recognized as a leader in the field of education in this country. I have had the honor and privilege of serving with him not only on the Senate District of Columbia Committee but on the Subcommittee on Education of the Labor and Public Welfare Committee. He has been the champion of countless causes resulting in the enlargement and improvement of education in this country and the legislation we are considering today is another of his meaningful contributions.

The acceptance of the conference report on this elected School Board legislation, Mr. President, and its enactment into law, will not be the panacea for all the ills in the District's educational system but it will do much to resolve some of the serious differences which have developed in this community. It is legislation which has broad based support from every quarter of the community, and I am glad to see such strong support for a measure which I have long considered to be of great importance to the District. Through increased community participation the educational system of the District can become a part of the community life. All of us must now assume our responsibility to bring to the citizens of the District this much needed and long overdue reform in its educational system.

The PRESIDING OFFICER. The question is on agreeing to the conference report.

The report was agreed to.

Mr. MORSE. I thank the Senator from California and the Senator from Delaware.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. WILLIAMS of Delaware. Mr. President, we have worked this amendment out after discussing it with the representatives of the department, and we are willing to take it. In fact, we think it is necessary.

This problem first arose a few years ago as a result of the excessive amount of advertising that was appearing in the brochures of the national conventions—advertising to the extent that, in effect, contractors were making their $10,000 or $25,000 contributions under the guise that the money was for advertising.

By an amendment which I offered, that practice was tightened up, and such contributions were completely eliminated.

However, it was pointed out by the administration that in tightening the loophole, we had proceeded to the extent that hotels, for example, in the area where the convention was being solicited, could not make the normal donations which are customarily raised when cities bid for these conventions. It has always been customary, for instance, as, for example, for the Cherry Blossom Festival, to raise a fund, through the chamber of commerce, to underwrite the convention coming to the city, on the basis that the hotels and business people in the community will profit therefrom.

This amendment would allow such advertising only in two cases. First, it would be allowed to the extent that people in the area would have a reasonable expectation of making an additional profit in their business as a result of getting the convention in the area. For example, when one of the conventions is to be held in the Miami area, the hotels in that area could deduct the cost of advertising in the brochures for that convention to the extent it would reasonably in view of the extent its business could reasonably be expected to increase as a result of the convention. The Miami hotels could not get a deduction, of course, for a Chicago convention. When the convention goes to Chicago, the business interests in Chicago that would have a reasonable expectation of making a profit as a result of that convention would be allowed the same deduction they would be allowed if it were a convention of the American Legion or any other organization. Beyond that, this part of the amendment does not go.

The second type of advertising allowed by the amendment would be for a business, such as the Coca Cola Co., if it wanted to advertise. They could only be allowed a deduction to the extent that they would normally expect to take advertising in any nonpolitical brochure having a distribution among a similar size group. It could not be in the nature of a contribution, political or otherwise.

Another safeguard is that in all instances if, perchance, they had a surplus after the convention, none of the proceeds could be used to defray the expenses of a political campaign. They would have to be earmarked and set aside and carried over for the next convention, 4 years later. Under no circumstances could those funds be used for political purposes. The whole cost would be re-

jected if any of the proceeds were sought to be used to defray such campaign costs.

As I said before, it is very clear that defense contractors and various other contractors who heretofore were solicited for advertising would not be allowed to deduct that cost because there would be no reasonable expectation that business would result. Such advertising could only be interpreted as improper influence, and that is not considered to be a proper deduction.

This amendment does spell out a clear interpretation for the representatives of the Treasury Department. We were told that they need these safeguards. While they felt that they could interpret them by regulation, it would be better to do it in this manner.

I wanted to make this intent clear. I am sure that the sponsors of the amendment will agree. We do not think it can result in an abuse.

Mr. KUCHEL. Mr. President, the Senator is correct. I think it is an excellent amendment and does serve a useful purpose.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Illinois.

The amendment (No. 669) was agreed to.

Mr. KUCHEL. Mr. President, I move that the same amendment, No. 669, be added to the bill itself.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from California.

The motion was agreed to.

Mr. KUCHEL. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. LONG of Louisiana. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. KUCHEL. Mr. President, I thank my able friend, the Senator from Louisiana [Mr. LONG], and the Senator from Delaware [Mr. WILLIAMS].

Mr. LONG of Louisiana. Mr. President, is an amendment now pending?

The PRESIDING OFFICER. The Javits amendment is the pending business.

Mr. LONG of Louisiana. Mr. President, on my own time, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

UNANIMOUS-CONSENT REQUEST

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Sergeant at Arms be directed to keep the Senate floor and lobby clear of all Senate staff personnel except those on the staff of the Sergeant at Arms, the Secretary of the Senate, the secretary for the majority, the secretary for the minority, the Finance Committee, the two policy committees, and the staff of any Senator who makes a special request.

Mr. CLARK. Mr. President, reserving the right to object, and I do not object, I would like to have it perfectly clear that my assistants, Mr. Kirst and Mr. Schwartz, may be on the floor at all times during the consideration of the pending bill.

Mr. LONG of Louisiana. Mr. President, reserving the right to object, and I believe I will be constrained to object, I do not think the request will be necessary today. I do not think we will have that much confusion. I would prefer to wait until we see if such a request becomes really necessary.

I hope that the Senator will not insist on the request. If he does, I will have to object.

Mr. BYRD of West Virginia. Mr. President, I will not insist on it if the majority whip intends to object.

I want to make the point that during the conference held earlier this year, the members of the Democratic conference agreed to make every effort to keep the floor clear of attachés who had no business on the Senate floor.

Yesterday I counted almost 50 Senate aides on the floor. And that situation held true throughout most of the day. I do not believe that 50 Senators need 50 aides present on the floor. It was for that reason that I propounded the request. I asked unanimous consent that the staff of the Finance Committee be permitted to have the use of the floor today.

Any Senator could ask unanimous consent to have any aide he wishes on the floor in spite of this request.

Mr. LONG of Louisiana. I am managing the bill. It is a Finance Committee bill, and we do have a large staff. In addition, in my own case, members of my staff must communicate from time to time.

I do not want to ask a favor for myself that I would not want to ask for others. I would prefer not to use this procedure at this time, and I hope that the Senator will work with me on the matter. I believe that it will work out all right.

Mr. CLARK. Mr. President, I think it will work out all right, too, despite what the Democratic conference did.

I think it is confusing to have individual Senators get up and ask unanimous consent that staff members be granted the privilege of the floor to assist the Senator when, to me, they are clearly entitled to be here.

I yield to my friend, the Senator from West Virginia, who has been an efficient secretary of the conference and has done marvelous work. However, I think we are going too far when we attempt to impose this restriction in the widest sort of way.

I join my friend, the Senator from Louisiana, in asking that the Senator from West Virginia play it by ear for the time being.

Mr. BYRD of West Virginia. Mr. President, I will not press the request. However, if we play it by ear, it will get out of hand as it did on yesterday, and then it is difficult to restore control of the situation. Whereas if consent to clear the floor is gotten early in the day as I have attempted to do, the matter will not get out of hand.

A number of Senators yesterday objected to all the aides running up and down the aisle and sitting in the seats of various Senators. Senators could not hear what was said. I think it is holding the Senate up to ridicule.

So far as I am concerned, I am willing to ask unanimous consent at any time I need an aide on the floor. But, as a usual procedure, I let my aides come to the lobby, and I meet them out there, and I then send them back to the office.

If aides wish to listen, they can sit in the gallery and hear everything that is said. If we are not going to have order in the Senate, then I will not press my request. If Senators desire order, this is the only way to get it and maintain it.

Mr. LONG of Louisiana. Mr. President, at such time as it becomes a problem, I will join the Senator in the request.

Mr. BYRD of West Virginia. At such time as it becomes a problem, the Senator from Louisiana can make the request himself.

Mr. LONG of Louisiana. I thank the Senator.

Mr. BYRD of West Virginia. I thank the Senator.

The PRESIDING OFFICER (Mr. BURDICK in the chair). Objection is heard.

The Senator from New York is recognized.

Mr. JAVITS. Mr. President, I yield myself 3 minutes.

Mr. LONG of Louisiana. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. LONG of Louisiana. Mr. President, if the Senator would be willing to modify his date to make the date, let us say, December 31—I have mentioned this to the Senator—I would be willing to agree to the amendment. Otherwise, I would feel constrained to oppose it.

I know the study is going on in the Treasury Department, and I believe I understand their point of view on the matter. I do not see any reason for bringing these reforms before us long before we could possibly consider them. Because of this, I do not believe it would be fair to ask the Treasury Department to bring the study here before the end of the year.

I believe that the amendment would be rejected if the Senator insisted on a date earlier than that. If he would accept the December 31 date, and would so modify the amendment, I would be willing to support it.

Mr. WILLIAMS of Delaware. Mr. President, if the Senator will yield, I should like to join the Senator from Louisiana in expressing the hope that the Senator from New York would modify the date. I believe it would work out then. It would then be a most constructive amendment.

Mr. JAVITS. Mr. President, I believe the Senate would agree to the amendment. I differ with the Senator in that regard. But I am delighted that both the manager of the bill and the ranking minority member of the committee would accept this amendment.

Mr. President, I just wish to say to them that I hope that we realize the meaningfulness of this matter to people generally. We have had an enormous

amount of mail—I am sure the Senators have.

I shall take the Senator's suggestion, but I just wish to comment to both Senators—who are so important in the conference, in the future work of the Finance Committee—how important many people in the country consider such an amendment; because there is much feeling that at one and the same time that they are going to pay a bigger tax bill, at least we should try to do away with many discriminations and inequities in the tax code. You never get rid of all of them, and you probably never will get rid of a majority of them.

Some effort in that regard is clearly indicated, in common decency to the millions of Americans who feel much put upon when their own tax bill is going to rise materially.

I am grateful to both Senators. I am realistic about the legislative process, and I would hope very much that they would consider this as an expression of what the people really want. Whether it finds its way in this particular measure, at this time, or in some other measure, this is something which is desirable on the part of millions of Americans.

Mr. WILLIAMS of Delaware. I can give the Senator from New York my assurance that in accepting this amendment, it is not just an idle gesture of taking it to conference. I believe the changed date would be a realistic date.

I agree with the Senator that it is most essential that we get such a report, and perhaps the Treasury Department needs this extra incentive to make sure that it is here on time.

In accepting this amendment, I would certainly express the hope that it can be kept in conference, and I think it can, because it should be.

Mr. JAVITS. I thank the Senator.

I yield to the Senator from Pennsylvania.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. JAVITS. I yield 5 minutes.

Mr. CLARK. Mr. President, I commend the Senator from New York for proposing this study for a tax reform measure.

I believe it is disgraceful that in all the years I have been in the Senate—now over 11 years—we have never had from the Treasury Department, under either a Republican administration or a Democratic administration, a good, well-drawn, tight tax reform bill.

If we had it, I am confident that it would be unnecessary to put on a surcharge now—and we should have had this study by now—and it would be unnecessary to do a great many other things which are quite unpopular taxwise, whereas tax reform will be popular with all except a few vested interests.

I would hope that the Senator from Louisiana would listen to what I am saying now, because it is perfectly clear that the first and most important tax reform is to cut out the oil depletion allowance. I am very much concerned, since Paul Douglas left the Senate, that we have not really had any thrust to get rid of the oil depletion allowance, which I say again—as a beneficiary of oil royalties—is absolutely economically unjustifiable.

I congratulate the Senator from New York for taking this step; and I hope that before this report comes in next December, we will not have to impose a lot of unjust taxes on the American people because we do not have the benefit of appropriate tax reform.

I know that the Senator from Delaware has been active in this respect.

Mr. LONG of Louisiana. Mr. President, will the Senator yield, on my time?

Mr. JAVITS. May I finish?

Mr. President, in proposing the modification of my amendment, which I will do in a moment, and in acting as I am, I am not trying to prejudge anything. The view of Senators as to what should be included in a tax reform package will have plenty of time to manifest itself.

I wish to make clear to the Senator from Louisiana that I am not adopting the argument of the Senator from Pennsylvania as part of the argument for this particular measure, so there is no legislative record on that subject.

I am perfectly willing to consider whatever the administration sends us, and then we will use our own wit and good judgment on it. It so happens that my own attitude on that subject was somewhat more favorable to the position of the Senator from Delaware [Mr. WILLIAMS] than to the position of the manager of the bill. But it is not material now. The administration may recommend things which I will find very onerous and which the Senator from Pennsylvania will find very onerous, on totally different subjects. We all know that the matter has been studied for some time, as to what aspects of the tax code require modification. As a matter of fact, many of us believe that they have it on the desk now, and that the only reason they have not sent it to us is that they want this 10-percent tax surcharge. Well, this is life.

I believe that what the Senator has suggested, considering the political realities, is probably the best we can get. Therefore, I hope we will all save our time and tempers, instead of arguing about the details of tax reform, and agree that it is desirable to get a statement of the position.

Therefore, I modify my amendment in accordance with the modification I have sent to the desk, which I ask the clerk to read.

The PRESIDING OFFICER. The amendment will be so modified.

The amendment, as modified, will be stated.

The legislative clerk read the amendment, as modified, as follows:

At the end of the bill insert the following:

"SEC. 8. SUBMISSION OF PROPOSALS FOR TAX REFORM.

"Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954."

Mr. LONG of Louisiana. Mr. President, I am pleased that the Senator from New York has made clear that he is not insisting that there be any particular recommendation in the field of tax reform. On that basis, I believe I can support the Senator's amendment.

The Senator from Pennsylvania [Mr. CLARK] has said that he thinks he is not properly entitled to a 27½-percent depletion allowance, that he is not justified in receiving it. That being the case, I think he should not claim percentage depletion, but should pay his tax on a cost depletion basis.

As a practical matter, there is a better argument for denying the oil depletion allowance to a royalty owner who needs no incentive to simply sit there on the land while somebody else explores for oil, than there is for denying the depletion allowance to someone who goes out looking for oil.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I shall yield in a moment.

From a political viewpoint, since there are more landowners than there are oil producers, it would be more difficult to take that depletion allowance from the former group than from the oil companies. The point of the depletion allowance is something I am well prepared to debate in due course. Inasmuch as the Senator from New York is not making the issue, I shall not pursue it further at this time, except to yield to the Senator from Pennsylvania if he wishes to discuss whether or not he is entitled to the depletion allowance.

Mr. CLARK. Mr. President, I hope I am not violating rule XIX, section 2, which I had occasion to call into action the other day. I thought the Senator made a rather absurd suggestion that since I do not approve of the oil depletion allowance I should pay taxes on the whole thing. I did not approve of the rule, either, of which the Senator is one of the strong protagonists. I play games as I find them. I do not like to take two strikes with me when I go to bat. I do not think any Members of this body think I should pay oil depletion taxes. I think the suggestion is rather absurd.

Mr. LONG of Louisiana. All I am suggesting is that if the Senator thinks it is immoral to claim a tax deduction, he does not have to claim it.

Mr. JAVITS. Mr. President, I yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on agreeing to the amendment. [Putting the question.]

The amendment (No. 661) of the Senator from New York [Mr. JAVITS], was agreed to.

Mr. JAVITS. Mr. President, I move to reconsider the vote by which the amendment was agreed to.

Mr. LONG of Louisiana. I move to lay that motion on the table.

The motion to lay on the table was agreed to.

Mr. JAVITS. Mr. President, I move that the amendment which has just been agreed to be added to the bill.

Mr. LONG of Louisiana. At the end of the bill.

Mr. JAVITS. Yes.

The PRESIDING OFFICER. The question is on agreeing to the motion of the

Senator from New York. [Putting the question.]

The motion was agreed to.

AMENDMENT NO. 672

Mr. JAVITS. Mr. President, I call up my amendment No. 672 and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The bill clerk read as follows:

On page 7, line 23, strike out the period and insert the following: ", except that the President shall not reserve from expenditure any amounts from appropriations or other obligational authority available for the following purposes:

"(1) education,

"(2) low-income housing,

"(3) water and air pollution prevention,

"(4) prevention and detection of crime,

"(5) the District of Columbia,

"(6) training and employment of disadvantaged persons,

"(7) war on poverty."

The PRESIDING OFFICER. Is this the 2-hour amendment?

Mr. JAVITS. Mr. President, this is the 2-hour amendment.

Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. JAVITS. Mr. President, I am aware of the fact that the distinguished Senator from Pennsylvania [Mr. CLARK] proposes to offer an amendment to the pending amendment.

I ask the Chair, by way of a parliamentary inquiry, at what stage in the consideration of my amendment would an amendment to my amendment be in order, so that I may gage my time?

Mr. CLARK. Mr. President, I would like to be heard on that point before the Chair rules.

Mr. JAVITS. Mr. President, I yield 1 minute to the Senator from Pennsylvania.

Mr. CLARK. Mr. President, at the appropriate time I do intend to call up my amendment No. 680. It is my understanding that that amendment can be called up at any time before the final vote on the pending Javits amendment. Is that correct?

The PRESIDING OFFICER. The amendment of the Senator from Pennsylvania would be in order after the 2 hours have expired or all time has been yielded back, and prior to the vote.

Mr. CLARK. I thank the Presiding Officer.

Mr. JAVITS. Mr. President, in view of the importance of this amendment, I wish to suggest the absence of a quorum, and I ask unanimous consent that the time not be charged against either side.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. JAVITS. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. JAVITS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. JAVITS. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. JAVITS. Mr. President, I should like, if I may, to interest as many Senators as I can in the discussion of the amendment.

I yield myself 10 minutes.

First, Mr. President, may I say that I support the Smathers-Williams substitute, as it may be amended, with the exception, of course, of one of the things that is in it—and I cannot do anything about it now, apparently—and that is the textile quota amendment, which really does not belong in the bill, no matter what one may think about it, and which I hope will be properly disposed of in conference. But, laying that aside, and dealing only with the tax questions, I say I support this concept.

That being said, one must examine the structure of the Smathers-Williams approach in order to see precisely what it will do. It will be noted that the $6 billion prospective reduction in expenditures—if Members of the Senate will look at it, and I hope very much they will look at page 7 of the measure, and item (b) under that particular section—is to be taken out of appropriations made by the Congress which are prospective. In short, we ourselves are not actually cutting; we are simply giving a mandate to the President that, in cutting, he shall cut $6 billion out of the aggregate appropriations which the Congress will pass.

It will be remembered that yesterday the Senate decided to hold to Congress certain of the authority which it has basically, the power of the purse, and not to surrender it to the President. In this case we determined to hold our authority with respect to public works projects, and so we struck out the whole moratorium on public works, making the decision, quite properly, that we will not yield that power to the President or to the Office of Emergency Planning or its Director.

The amendment which I have before the Senate seeks to do substantially the same thing with respect to the crisis of the cities, for it would preserve from the power of the President the authority to cut those items of appropriations and expenditures which represent the essence of the crisis of the cities.

We will, ourselves, creatively have the power to deal with these appropriations. We may set them at whatever figure we like. We may cut or we may increase them. But we will address ourselves to it.

In proposing this amendment, I have no guarantee that the amounts which I would like to see appropriated will be appropriated, but if this amendment carries, we will have one guarantee, and that is, that the President will be unable to apply to these appropriations any part of the $6 billion overall cut in expenditures which we provide for in this bill. I think it is essential, in the crisis of the cities, that we should reserve to ourselves this authority.

I must say I am deeply discouraged—and this is what really started me on this amendment—by the reaction of the President and the administration to the report of the President's Commission on Civil Disorders. Here was a report which I think all America hailed as containing a prescription which might bring us some reasonable measure of domestic order and tranquility in 1968. I have hardly seen, outside the administration, any basic criticism of its findings, aside from the general color which was disagreed with in some quarters that it represented reaping the whirlwind of a century of neglect of our Negro minority population. But as to the recommendations of the report, the emphasis on jobs being the key to human dignity, the key that will unlock all other doors in the slums of the United States, and as to the ideas set out on housing, education, crime, and crime control, it was generally hailed as a magnificent landmark document.

Yet it was completely cold-shouldered by the administration. The President did not embrace it. He did not even mention it. The Vice President found fault with it in a minor way, without espousing it as a major report. Again, I hardly think this was in the Vice President's nature, but I think he was bound by the administration's policy, indeed, in treating the report so coldly. Knowing him and knowing that he would be one of the most fervent advocates of it were he still a Senator only confirms my view that this is the general administration policy.

Then when the new Secretary of Health, Education, and Welfare, Wilbur Cohen—incidentally, I am delighted his nomination was confirmed—gave it the cold shoulder, it was very clear what the administration's policy was with respect to this report.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. JAVITS. I am glad to yield.

Mr. CLARK. I am afraid the Senator is being a little unfair to the Vice President. I saw him on television yesterday afternoon as a part of the Huntley-Brinkley broadcast, and he spoke with words of great praise for the report. He did have some qualifications, to be sure. The first part of his presentation indicated he thought it was a splendid report that should be read by all Americans and, generally speaking, he was in accord with its recommendations.

Mr. JAVITS. I am delighted to hear that. The reports I had read before indicated he was that lukewarmly for it. Since I consider the Vice President my friend, I am pleased to hear the Senator from Pennsylvania say that.

Mr. President, I was stimulated in preparing the amendment by virtue of the fact that we will want, as far as we can, affirmatively to help implement this report. We will determine where we can and where we cannot in the appropriations. Certainly we have already heard word on the floor here about the Memphis riot, which seems to have very seriously dented one of the major strongholds of nonviolent protest, to wit, Dr. Martin Luther King's organization, and those who would follow him. We deplore the development of horror and terror that occurred there. It is very significant to me that apparently the focal point of this outbreak was a relatively small band of militant young Negroes, according to the press reports.

It was accounted for also because people were nervous and a little trigger happy as a result of a rather oversized police reaction, which the reporters noted. But that is symptomatic—and this is no place to discuss the anatomy of that particular riot—of our times, and indicates why we should do our utmost to do justice and constructive things to avoid, as the Bible says, the stern decree which we seem to be in for, to some extent at least, in 1968.

The amendment would, therefore—and I wish to emphasize that—not secure the cities against cuts in appropriations, but would assure against Presidential cuts after Congress had acted on each appropriation.

This area is so sensitive that it certainly deserves this kind of treatment. If leaving out public works was deserving, as a majority of the Senate thought it was, how much more deserving is preserving for ourselves what we will do about the crisis of the cities?

Mr. CLARK. Mr. President, will the Senator yield at that point?

Mr. JAVITS. I yield.

Mr. CLARK. I note the Senator places great stress upon appropriations and authorizations for the cities, and I share his concern in that area, but I would like to point out what I am sure the Senator knows, that the areas in which he would exempt cuts by his amendment involve many programs for rural areas, too.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. JAVITS. I yield myself another 5 minutes, Mr. President.

Mr. CLARK. The Senator has put a copy of an explanation on each Senator's desk dealing with priority exemptions, which I have read with interest. There again, he stresses the city. I would point out that, under the heading of education, a considerable portion of that money goes to rural areas. There is more and more low-income housing being built in some of the rural areas. Surely the rural areas are equally concerned with water pollution control, though perhaps not so much with air pollution control. Certainly there is a crime problem in the rural areas.

Of course, the District of Columbia is an urban center; but as to the training and employment of disadvantaged persons, I think the Senator from New York and I agree that we ought to lay great stress on the training of disadvantaged persons in the rural areas, in the hope of preventing them from coming to the urban areas, and of inducing industry to move into the rural areas, by helping make possible the expectation of finding a skilled labor force when they get there.

Mr. JAVITS. Mr. President, I am very grateful to the Senator for his intercession. He anticipated one of my arguments. I was going to point out, in due course, how the necessities of the cities mesh with the necessities of the rural areas, because great pressure has been created within our cities by the migration of people from the rural areas, and it is extremely desirable, in our consideration of these appropriations, that we make rural living and the opportunity for a full life in rural areas more attractive. There is, in addition, a very large amount of rural poverty of the worst kind—sometimes even worse than that of the cities—which feeds the migration into the cities and materially aggravates city problems.

So that is very much an element in what I have to say.

Mr. President, I wish to emphasize the main point, which is that we are not insuring these appropriations as against cuts; we are just insuring them as against cuts over and above the cuts which are made by Congress itself.

The second point of great importance, Mr. President, is the amount involved. It will be noted that conservatively estimated the amount involved in my amendment is $6,177,000,000. This represents the expenditures proposed by the President in his fiscal year 1969 budget. I wish, Mr. President, to refer to the fact, as part of the legislative history, that these are the items which are contemplated within the board terms of this amendment; that is, the items totaling $6,177,000,000, which are a part of the RECORD; I put it in last night.

Senators will want to know, if we reserve whatever may be appropriated with respect to this $6,177,000,000 from the President's cutting power under the Smathers-Williams amendment, what do we leave available for cuts? I should like to make that clear, Mr. President, because I believe it is most important. What we leave available for cuts are, for one, the so-called relatively controllable civilian expenditures with respect to the budget, and they amount to a total of $39.5 billion for the 1969 estimate.

In any case, these items are listed in the budget message of the President at page 15 as relatively controllable civilian programs, including outlays for prior year contracts and obligations, and the amount is $39.5 billion.

If we, therefore, deduct the budgetary amounts for the seven areas, which my amendment would prevent cutting once they are appropriated, we still have left, in relatively controllable civilian programs, $33.2 billion.

In addition, Mr. President, outside of Vietnam, from the national defense establishment would be available cuts in non-Vietnam defense spending of $54 billion. That is in the budget outlay table on page 25 of the budget. Overall defense expenditures for fiscal year 1969 are estimated at $79.8 billion.

The PRESIDING OFFICER. The Senator's time has expired.

Mr. JAVITS. I yield myself 5 additional minutes.

The estimate for Vietnam is $25.8 billion. Therefore, the difference is about $54 billion.

Mr. President, with the national defense figure of $54 billion and the relatively controllable balance of $33 billion added, we get a total of $87 billion, to which the $6 billion cut for which we shall call may be applied by the President. It seems to me, Mr. President, that my exemptions bear the same relation to those expenditures that the tax surcharge bears to income taxes—in the general area of 10 percent—and therefore, it is an entirely reasonable approach to take as far as we are concerned in this very sensitive area.

Mr. President, I ask unanimous consent that the table from the budget message of the President for fiscal 1969 entitled "Controllability of Budget Outlays" be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

CONTROLLABILITY OF BUDGET OUTLAYS

[Fiscal years. In billions]

Type of controllability	1967 actual	1968 estimate	1969 estimate	Change, 1968 to 1969
National defense	$70.1	$76.5	$79.8	+$3.3
Relatively uncontrollable civilian programs:				
Open-ended programs and fixed costs:				
Social security, medicare, and other social insurance trust funds	30.3	34.3	38.5	+4.2
Interest	12.5	13.5	14.4	+.9
Civilian and military pay increase			1.6	+1.6
Veterans pensions, compensation, and insurance	4.9	5.1	5.2	+.1
Public assistance grants	4.2	5.2	5.7	+.5
Farm price supports (Commodity Credit Corporation)	1.7	2.8	2.9	+.1
Postal operations	.8	.7	.3	−.4
Legislative and judiciary	.3	.4	.4	(1)
Other	2.4	2.7	2.8	+.1
Subtotal, relatively uncontrollable civilian programs	57.1	64.7	71.8	+7.1
Relatively controllable civilian programs, including outlays from prior year contracts and obligations	35.2	39.0	39.5	+.5
Undistributed intragovernmental payments (−)	−4.0	−4.6	−5.0	−.5
Total, budget outlays	158.4	175.6	186.1	+10.4

[1] Less than $50,000,000.

Mr. JAVITS. Among the items which are included in this type of approach are military purchases in Europe—which, incidentally, are listed in the budget at more than $2 billion; the supersonic transport, which could be in for well over $200 million; the civilian space program, for $400 million; and various aspects of the foreign aid program.

Mr. President, I am personally partial to the foreign aid program, and want very much to protect it; but nonetheless, it is within this tranche that I have described, that would be subject to cuts.

Another item is Government personnel. There are various types of contingency funds on the part of the President, which are down for $400 million.

Mr. President, I do not necessarily agree that the President ought to cut

many of these items, but nevertheless these are items which are available, and which represent a measurable field in which the $6 billion in cuts may be effected.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. JAVITS. Not yet.

Mr. President, one other thing is very important. The concept which is contained in my amendment comes out of a very splendid initiative taken in the House of Representatives by a group of Members headed by Representative CHARLES GOODELL, of New York, in which they proposed what they called the human renewal fund. They proposed a $6.5 billion cut in expenditures and the restoration of roughly $2.5 billion for jobs, education, housing, pollution, crime, rural revitalization, and the District of Columbia.

Mr. President, I have incorporated this whole concept which those gentlemen offered—which I consider to be a very splendid one—in an amendment calling for precisely that kind of a cut. That is amendment No. 637. But, Mr. President, I am in no position to present that amendment, including the part of it for which I am here contending, unless and until the Smathers-Williams amendment should be rejected. I doubt very much that it will be, and I hope it will not. Hence I have taken out of my own blanket amendment carrying out this human renewal plan that part of it which is directly applicable to this question of priorities, which I have laid now before the Senate.

Mr. President, in conclusion, I should like to repeat the major point that the budget estimate items which I am seeking to reserve out of the area which the President can cut need not necessarily be in that exact amount. Congress may appropriate less or it may appropriate more. But whatever it does appropriate will not be subjected to Presidential cuts. And even after that, there still remains approximately $87 billion in programs available for the cuts provided by the Smathers-Williams amendment.

Under those circumstances, and considering the precedent which we set last night with respect to public works, I think that we should at least insure our freedom of action without an overriding Presidential right to cut further in these items which are of such critical importance to the struggle against poverty and to the order and tranquility of our Nation.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. JAVITS. Mr. President, I yield 2 minutes to the Senator from Pennsylvania.

The PRESIDING OFFICER. The Senator from Pennsylvania is recognized for 2 minutes.

Mr. CLARK. Mr. President, I certainly support the Senator's amendment wholeheartedly. But I would point out to him that there appears to be an inconsistency between the provisions in the bill, which are very sweeping and which contain no dollar figures, and the provisions in the paper which he has placed on the desk of each Senator with respect to the protection of perhaps $6.177 billion of expenditures and net lending in fiscal 1969.

I call to the Senator's attention an example under which his amendment would contain an exception for education. Yet, in the paper he has had passed around the Senate, he refers only to elementary and secondary education.

I point out that higher education is of equal importance. I hope that the Senator will not make legislative history which would enable all higher education appropriations to be cut as much as anyone wants to cut them, despite the wording contained in the amendment.

Mr. JAVITS. Mr. President, in response to the Senator's statement, I was trying to outline the major items which would be included in the reserved items. I will get the figures for higher education, perhaps while the opposition is speaking, and I will see then what can be done to fit those in.

Mr. CLARK. Mr. President, will the Senator yield me 30 seconds?

Mr. JAVITS. Mr. President, I yield 30 seconds to the Senator from Pennsylvania.

The PRESIDING OFFICER. The Senator from Pennsylvania is recognized for 30 seconds.

Mr. CLARK. Mr. President, I suspect—in fact, I know—that in each of the other seven categories which the Senator has in the provision, there are other programs which are not included in his explanation which I would hope the Senator would want to have included.

I do not have the dollar figures here, but I would hope that the Senator has made legislative history and indicated that he intends the words in his amendment to be used in the normal and reasonable sense and not be restricted in the sense indicated in the paper he has had passed around the Senate.

Mr. JAVITS. I thank the Senator from Pennsylvania for calling my attention to that matter. I am sure that we will take care of it in the intervening period, and I assure the Senator that I will take another look at the figures.

Mr. President, I reserve the remainder of my time.

Mr. LONG of Louisiana. Mr. President, the yeas and nays have been ordered. I do not intend to speak for more than a few minutes. I would be perfectly willing to surrender part of my time for the purpose of suggesting the absence of a quorum, if the Senator would be agreeable, with the understanding that we reserve perhaps 5 minutes to each side and then vote.

Mr. JAVITS. Mr. President, there are other Senators who wish to be heard. So, if the Senator from Louisiana would be kind enough to address himself to the matter for as long as he wishes, I will see that we get another speaker over here.

Mr. LONG of Louisiana. Mr. President, the amendment seeks to take programs for education, low-income housing, water and air pollution prevention, the District of Columbia, the prevention and detection of crime, training and employment of disadvantaged persons, and the war on poverty and exempt those programs from the reductions that would have to take place. In fact, the amendment would provide that there would be no reduction in those programs. Reductions would be required, however, in other programs.

It does not make any sense to me. If there have to be reductions, the new programs should be considered along with the other programs, in my judgment, to see where we can make some cuts.

If we agree to this amendment and exempt such programs, we would place a heavier burden on many other programs of long standing, such as the highway program and the public works program. We would have to cut deeper in the areas that, in my judgment, are even better established in the public mind and more popular with the public in order to give priority, to the urban areas.

I represent urban areas and a lot of rural areas. It is my impression that the people in the rural areas also need the services of the Government, whether it be the REA, the highway program, farm prace supports, or whatever. They need these programs as badly as the people in the cities need the programs directed toward them. In some ways, they may need the programs more. Rural people are not as prosperous as far as per capita income is concerned.

If we must have this $6 billion spending cut, I think that the programs for housing and control of air pollution and disadvantaged people, and the other programs that have a particular appeal to the urban areas, including the war on poverty, should take their share of the cut along with all the rest.

There is no appeal to me, and I doubt that there will be any appeal to Senators generally, in an action which favors the urban areas over the rural areas in the matter of where the cuts should be made. That is the case, as I see it, against the amendment. I think the amendment tends to discriminate against people of the rural areas in favor of those in urban areas and to favor certain new programs over old established programs.

If we are going to have to tighten our belts as much as the Williams-Smathers substitute requires, I would think that the war on poverty would have to be examined for possible reductions along with everything else.

Mr. SMATHERS. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. Mr. President, I yield to the Senator from Florida such time as he may desire.

The PRESIDING OFFICER. The Senator from Florida is recognized.

Mr. SMATHERS. Mr. President, first, speaking only for myself, I am a bit discouraged about our program for a combination tax increase and expenditure reduction.

As I endeavored to say last night, but did not say too well, the package which had been proposed by the distinguished Senator from Delaware and myself was a very fragile package. What we are trying to accomplish, and what most of us or many of us think needs to be done, is to impose greater fiscal order on our domestic Federal budget and improve our international balance of payments. And we believed that the best way to accomplish this and the only way we could acquire the votes to do it would be to have a tax increase of—in the form of the 10-percent surcharge which had

been recommended by the President and which met with same favor on the Democratic side of the aisle—and, at the same time, have an expenditure cut—which met with considerable favor on the Republican side of the aisle.

Last October I had suggested a proposal of this nature. It did not get any attention at that time. It did not get off the ground, so to speak.

Also, the distinguished minority leader, the senior Senator from Illinois [Mr. DIRKSEN], made a similar proposal and his proposal did not seem to get off the ground. Thereafter, in January, the distinguished Senator from Delaware [Mr. WILLIAMS] came in with the same type of proposal, but he had proposed in greater detail what he wanted to do. He called for an $8 billion expenditure cut and approximately a $10 billion or $12 billion cut in new obligational authority. He included a public works cutback and a moratorium on new starts. He also included a personnel limitation and several other items.

I went to the distinguished Senator from Delaware at that time. We thought that we could work out something between us and that we might be able to get a bill passed which we both thought would be very much in the best interest of the country.

So he agreed to reduce the amount of expenditure control from $8 billion to $6 billion.

I forgot to say one thing. In his original package, he had only a 6-percent tax surcharge. I asked him whether he would increase it, the rate of tax, and he accepted a 10-percent increase. So we compromised on a 10-percent surcharge and we got a $6 billion reduction in expenditures, a $10 billion cut in new obligational authority, and the public works moratorium, and the personnel limitations.

The distinguished Senator from Delaware had been telling me for some time that if any of these provisions in the package were knocked out, some of the Senators on his side of the aisle might decide at that point that they could no longer support the package. Frankly, that is why last night I felt so keenly and felt as disappointed as I did at the end of that vote when we lost by one or two votes.

As I said before the vote, we have put together a very fragile package, and if we destroy more of the pieces it is likely to come loose at the seams.

I do not know exactly what the future of the package is at the moment, but I would say that certainly the package cannot be improved. It has no chance to succeed, in my judgment, if we attempt to emasculate it further, as has been suggested by the distinguished Senator from New York; that is, by approving the exceptions he is now talking about to the expenditure cuts in the package. He does not want to apply the cuts to education, low-income housing, water and air pollution prevention; prevention and detection of crime, the District of Columbia budget, training and employment of disadvantaged persons, and the war on poverty.

These, of course, are very appealing items. Nobody likes to be against education. Nobody likes to be against elementary and secondary education. Nobody likes to be against the teachers. Nobody likes to be against the expansion and improvement of vocational education. Nobody likes to be against educational improvement for the handicapped.

These are all very appealing items. These are the items for which we have been appropriating large sums of money in the past 8 or 10 years, some of which, in point of fact, perhaps we have overdone. I do not know. But, essentially, nobody likes to be on record against education.

However, I do not know where you begin to cut a budget, I do not know how you decrease expenditures, I do not know what you can accomplish by this manner of making reductions, unless you make the reductions generally across the board. We are leaving to the discretion of the Appropriations Committee the specific areas for reduction. If you except education, if you except low-income housing, if you except water and air pollution prevention, if you except prevention and detection of crime in the District of Columbia, then, of course, if you have an expenditure cut of $6 billion, you must practically eliminate many other items.

So what will the Senators from the farm areas say—the Senator from Kansas; the Senator from North Dakota, who is in the Chamber; the Senator from Alabama? They will say, "Look, you cannot cut the Commodity Credit Corporation. You cannot cut any programs we have going for the farmers. Who are the most depressed people we have in all the United States? It is the farmers. We can prove to you that of all the disadvantaged people we know about, it is the farmers."

So you know very well that when you have a bill of this nature which would except the programs which are of great importance to mostly the urban areas of our country, the farmers will say, "You cannot cut us either."

Mr. JAVITS. Mr. President, will the Senator yield?

Mr. SMATHERS. I yield.

Mr. JAVITS. I should like to make a correction. The Senator may not have been in the Chamber when I analyzed the budget message of the President.

One of the uncontrollable expenditures, and therefore one which would not be in any way affected by my amendment, is farm price supports, which is budgeted at $2.9 billion for 1969. When I outlined what would be available for cuts, even after my amendments were adopted, I pointed out that that would not include what the budget calls relatively uncontrollable civilian programs, among which is farm price supports.

Now, whatever there may be to the Senator's argument, that is a point of fact. That would not be affected.

Mr. SMATHERS. I should like to yield to the distinguished Senator from Delaware on that point, and let him explain to the Senator from New York. There are many uncontrollable items which cannot be cut.

Mr. WILLIAMS of Delaware. I point out to the Senator from New York that I am not debating the point as to whether this is or is not a place at which the cut should be made. I particularly tried to maintain my support of this package without making establishing priorities on the floor of the Senate.

However, while it is true that there may be some uncontrollable items in the budget, there are also many controllable items. I cite one in agriculture which was just mentioned as being fixed. The support levels for the various agricultural commodities are determined by the Secretary, and they will be determined in the weeks immediately ahead. Conceivably, as they change these support prices for certain crops, up or down, it does increase or diminish the amount of the cost.

I will agree that there are uncontrollable items; but certain items in any department could be curtailed by the administration, and they particularly may be subject to control by the administration in a year when it would be a strong incentive at times to perhaps boost these prices. So there could be some control in that area.

I can appreciate the position of the Senator from New York. I discussed his amendment with him earlier, and I told him then I would oppose it because, while we were strongly in favor of the mandatory reduction of $6 billion in the ceiling and the $10 billion in the budget authority, I did not believe that on the floor of the Senate we should get into the details as to where these cuts should be made but that it should be left to the Appropriations Committee in the weeks and months ahead as they act on each of the 1969 appropriations for the respective agencies. It was for that reason that I strongly opposed yesterday—and the Senator from Florida joined in that opposition—that we single out public works as being exempt. I will concede to the Senator from New York inasmuch as the Randolph amendment carried yesterday, that that action, to a certain extent, strengthens his argument that if you are going to single out public works, why not single out education and various other programs. As the Senator from Florida has indicated, that argument has much appeal, but its acceptance will definitely defeat this pending bill.

I hope this amendment will be rejected because I know that otherwise other amendments will be submitted and we will end up with all the pet programs of Senators exempted. Let us be realistic. If we are going to exempt all programs from this economy move there will not be any reduction in expenditures. Let us not fool ourselves.

I made the statement early in this discussion, very frankly, that as the pruning knife begins to work—if this package is accepted—and the $6 billion cut in expenditures and the $10 billion cut in appropriations are applied, it will hurt. It will hurt some programs that I like. It will hurt some programs that are desired in my State. It will hurt each Senator with respect to some of his pet projects. But this goal can be accomplished in no other way. The only al-

ternative I see is to continue down the road of deficit spending, which I do not believe we can afford in face of the $48 billion deficit which we would have in fiscal 1968–69, assuming there would be no change in the tax structure and no change in the spending level that is budgeted. For that reason the amendment must not be agreed to. It would open the floodgates. I would not be a part of trying to kid the American people that there would be expenditure reductions left in this measure. I say that with all due respects to my friend from New York.

I concede that the Senator from New York does have a strengthened argument after what the Senate did yesterday; however, I think we made a tragic mistake yesterday when we opened this matter partially and started to exempt certain programs. It was a mistake, and I am fearful that it may have been a fatal one. Nevertheless, I do not want to go further down the road to what I am confident would be the end of this effort if the amendment were agreed to.

I thank the Senator from Florida.

Mr. SMATHERS. I thank the Senator from Delaware, and I agree with him.

Mr. CLARK. Mr. President, will the Senator yield?

The PRESIDING OFFICER (Mr. PEARSON in the chair). Does the Senator yield?

Mr. SMATHERS. I yield to the Senator from Pennsylvania.

Mr. CLARK. Mr. President, I wonder if the Senator from Florida and the Senator from Delaware might not agree that the place to make these cuts—and I thoroughly agree they have to be made in view of the dangerous gold situation in which we find ourselves—would be the places that have swollen unjustifiably in the military and space budget, and thus enable all domestic programs to continue. We have $80 billion in the budget for the military. It seems to be sacrosanct.

I read an article in the Washington Post this morning that stated the Pentagon is using $2.5 million for a bird study. This is the kind of thing I am talking about. I think any sort of examination of the military budget would make it possible to make more than the cuts which the Javits amendment would provide for.

Mr. SMATHERS. Mr. President, I am happy to try to respond by saying I am sure the Senator appreciates the fact that at this particular time it would be very difficult in light of the fact that we are in Vietnam to the large extent that we are.

UNANIMOUS-CONSENT AGREEMENT TO TEMPORARILY LAY ASIDE AMENDMENT NO. 672

Mr. WILLIAMS of Delaware. Mr. President, with the concurrence of the Senator from New York, I ask unanimous consent that the amendment of the Senator from New York be temporarily laid aside and that the Senator from Tennessee [Mr. BAKER] be permitted to present an amendment for clarification, which the authors of the package did not think necessary but which the Tennessee Valley Authority, which is in the State the Senator represents, believes would be better to have spelled out in the bill. The amendment is a measure on which there will be no argument; we can accept it immediately.

The PRESIDING OFFICER. Is there objection?

Mr. LONG of Louisiana. Mr. President, reserving the right to object, I ask that it be understood that this request is without prejudice to the time that has been charged against both sides, and that the time will continue to run when we return to the consideration of the amendment of the Senator from New York.

Mr. WILLIAMS of Delaware. That is my understanding.

Mr. JAVITS. Mr. President, reserving the right to object—and I shall not object—I ask unanimous consent to include also the provision that immediately after the disposition of the Baker amendment we will return to the pending amendment.

The PRESIDING OFFICER. Is there objection to the request? There being no objection, it is so ordered.

The Senator from Tennessee is recognized.

AMENDMENT OFFERED BY MR. BAKER TO AMENDMENT 662

Mr. BAKER. Mr. President, I send to the desk an amendment to amendment No. 662 and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk proceeded to read the amendment.

Mr. BAKER. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with and that the amendment be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered; and, without objection, the amendment will be printed in the RECORD.

The amendment, ordered to be printed in the RECORD, is as follows:

On page 3, line 19, insert the following: "To employees of the Tennessee Valley Authority engaged in its power program and paid exclusively from other than appropriated funds,"; and

On page 7, line 16, following paragraph (4), insert the following new paragraph:

"(5) Those expenditures from power proceeds, including the proceeds of power revenue bonds and notes, of the Tennessee Valley Authority in excess of the amount shown for such expenditures in the Budget of the United States for such fiscal year."

Mr. BAKER. Mr. President, the sole purpose of the amendment, which is an amendment to the Williams amendment, is to make abundantly clear that the Williams amendment does not apply to nor restrict the use and utilization of funds in the Tennessee Valley Authority derived from power revenues and the sale of power revenue bonds and notes.

Mr. WILLIAMS of Delaware. Mr. President, as I stated earlier, there is no objection to accepting the amendment.

We were advised by the Treasury Department that they could not possibly have taken those funds because our proposal deals with revenues available to the U.S. Government separately. This is a separate entity.

We accept the amendment.

Mr. President, I yield back the remainder of our time.

Mr. BAKER. I yield back the remainder of my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on agreeing to the amendment of the Senator from Tennessee. [Putting the question.]

The amendment to the amendment (No. 662) was agreed to.

AMENDMENT NO. 672

The PRESIDING OFFICER. Who yields time on the amendment of the Senator from New York?

Mr. JAVITS. Mr. President, I yield 5 minutes to the Senator from Massachusetts.

The PRESIDING OFFICER. The Senator from Massachusetts is recognized.

Mr. BROOKE. Mr. President, first let me say that I am certainly in sympathy with the distinguished Senator from Delaware in his move for economy. I do understand the practical considerations he has suggested in opposition to the amendment offered by the distinguished Senator from New York.

The Senator from New York has submitted a most vital and important amendment. It is an amendment which, if enacted, would seek to insure that those programs most essential to our Nation's welfare would receive the full funding to which they are presently entitled.

There are many good reasons for providing the maximum possible appropriations, not for some but for all the programs in which our Government is presently engaged. We derive great benefit from programs which provide for new construction, which conserve our natural resources, which promote scientific explorations and technological innovation.

But I submit that it will not benefit us, in the long run, if we build great office buildings and stadiums, develop supersonic jet transports, and even land a man on the moon, but do not provide a better life for our own people here on earth.

It should be self-evident that we should provide many billions of dollars more than we have for education, health, crime prevention, and the war on poverty. At the very least we should make sure that these funds are not reduced at a time when the needs of our people and our society are greatest.

There are in our country today 6 million substandard housing units in which an estimated 10 to 15 percent of our population live. Many of these units are in our central cities where inadequate job opportunities, public services, education and health facilities combine to entrap the inhabitants in an endless cycle of poverty from which they, and the cities, and the entire Nation suffer immeasurably.

In our country today it is not unusual to find suburbs which spend twice as much on education per pupil as do the neighboring central cities. Yet an increasing percentage of our population is located in the central cities. And most who are compelled to live in the ghetto are disadvantaged not only in education but in job opportunities and housing as well.

In our country today, 32 million Americans are living in poverty. Of these fewer than 9 million, or a little over

one-fourth of those who need it, are receiving any form of public assistance. Ours is the only nation in the entire Western World which regards welfare as a dole or a handout and not as a right of citizens who are otherwise unable to provide for themselves.

Job training is desperately needed by those Americans whose education—or lack of an education—has not equipped them to compete in the present job market. Although our numerous manpower training programs, if continued at the present rate of funding, will soon reach a million of the unemployed, more than twice that number, or 2 million of those who need job training, will receive no aid.

No one can deny, with the rising crime rates presently facing this Nation, that adequate appropriations are required for crime prevention and control. As criminal mobility increases and our lawless citizens acquire and use more sophisticated weapons and means of evading the law, it is essential that better techniques of detection and control be devised and implemented. We cannot afford to cut back funding in this area, either.

Providing a better environment for all our citizens should also be high on our list of priorities. Clean air and clean water are no longer aspects of our environment which can be taken for granted. Pollution threatens our rivers and streams, our drinking water and our beaches. Smoke and waste from industrial plants and exhausts soil our buildings and our homes, impair our vision, and threaten the health of all our people indiscriminately. These problems, too, must be dealt without delay.

Mr. President, the amendment of the Senator from New York is intended to provide a guideline, to establish priorities for a nation at war—at war not only in South Vietnam, but here at home.

I hope that this amendment, expressing as it does our deep concern with the problems of our people and our personal commitment to the welfare of our country, will be adopted by the Senate.

Mr. JAVITS. Mr. President, I yield myself 30 seconds.

The PRESIDING OFFICER. The Senator from New York is recognized for 30 seconds.

Mr. JAVITS. I wish to thank the Senator from Massachusetts [Mr. BROOKE] for his very helpful intercession in this debate, and for bearing out from another State and another vantage point the essentiality of what I have provided, which in no way interferes with the essential purpose of the bill but only retains in Congress authority with respect to items so critical to domestic order and tranquillity.

I thank my colleague.

Mr. BROOKE. I thank the distinguished Senator from New York for his generous comments. He has made a most worthy contribution in offering his amendment and I hope that it will be adopted.

Mr. JAVITS. Mr. President, I yield 4 minutes to the Senator from Connecticut [Mr. RIBICOFF].

The PRESIDING OFFICER. The Senator from Connecticut is recognized for 4 minutes.

Mr. RIBICOFF. Mr. President, I commend the distinguished Senator from New York for introducing this amendment. The Senator has highlighted the fact that the security of the Nation is as deeply involved here at home as it is in Vietnam.

None of us who have followed the events of the past 4 years can fail to realize how much violence and hatred threatens to tear apart the fabric of American society.

It is my feeling that there is as much at stake in solving the crisis of the cities as there is in determining the future of American policy in Vietnam.

Long before the Kerner committee handed down its report, our subcommittee, for 2 years, went into all phases of the problem in an effort to try to determine what the problems were. The distinguished Senator from New York was a member of that subcommittee and performed yeoman service in his analysis and questioning.

It became obvious to us that it was important for the United States to make a commitment to help solve the problems facing American cities. None of us contended that the immediate voting of funds would automatically solve the crisis.

For 100 years, the United States has neglected the problem of the Negro. Yet, it is little understood that when we talk about the problems of poverty and the problems of the city, we are not just talking about the problems of the Negro because, when we analyze the problems of poverty, we find that 67 percent of those living in poverty are white. The figures are also interesting because they show that in cities over 50,000 population, 50 percent of those who live in poverty are also white.

Thus, what we seek to solve is the problem of poverty and neglect, which involves not only Negroes but also whites, Mexicans, Indians, Puerto Ricans—wherever Americans may live—in both rural and urban areas.

It also became obvious during our hearings that we faced a crisis of doubt. A great doubt existed in the minds and hearts of millions of Americans that we were even trying to attempt to find a solution of their problems.

As the frustration and disillusionment grew, the realization came that civil rights legislation of itself would not solve the problems and it became important to go to the basic problem.

We cannot afford to neglect the immediate problems that cry out for solution.

The Senator from New York, in his amendment, has pointed out the needs and the necessary priorities.

Mr. President, without question, the first priority to help solve the crisis of the cities and the crisis of the disadvantaged, Negro or white, is jobs. That is the No. 1 priority, because a job brings self-respect. It brings independence. It brings economic advancement and a way of the ghetto on an individual basis. The future of the economy and the future of our society could be in great jeopardy if we eliminated manpower development and training activities. Thus, I say that is the No. 1 priority in this country.

The second priority is in the field of housing and the physical environment, the development of decent and safe neighborhoods.

Today, there are some 4½ million substandard housing units in urban America. It becomes important for us to eliminate those substandard housing units. Of course, we cannot do it this year. It will take at least 10 years to eliminate all substandard housing units. But, we must begin. We must make a start and carry on a program.

Nor, Mr. President, (Mr. LAUSCHE in the chair), can we afford to ignore education. This is a matter of high priority because without education, we have nothing. There is a great opportunity to proceed in the field of education to improve the lot of the handicapped and the disadvantaged.

When it comes to the prevention and detection of crime, what is so little understood—and which the hearings brought out—is that the Negro in the ghetto wants more law enforcement instead of less law enforcement, because the main victim of crime is the resident of the ghetto himself.

Every study indicates the need for more and better law enforcement. Certainly we should not deprive or take away any funds that would provide for more law enforcement—not only to bring peace and tranquillity to all America, but also to improve the lot of the people living in the ghettos.

Once more, I commend the Senator from New York. His amendment is an absolute "must."

I would hope that we would keep our eyes on the main problem; namely, the national security of our Nation which is threatened right here at home.

I know of no greater way to protect the national security of our country than for the Senate to vote for the amendment of the distinguished Senator from New York.

Mr. JAVITS. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from New York is recognized for 2 minutes.

Mr. JAVITS. I am very grateful to my colleague from Connecticut. He was a leader in the hearings on the Government Operations Committee on the question of the cities. He is a former Secretary of Health, Education, and Welfare, where he made an extraordinary and outstanding record of achievement. He is also a former Governor of the State of Connecticut.

The Senator from Connecticut has had a wealth of experience on which to speak concerning the pending amendment and I am, once more, very grateful to him for his important contribution to this amendment.

Mr. President, I reserve the remainder of my time.

Mr. COTTON. Mr. President, will the Senator from Louisiana yield me 6 minutes?

Mr. LONG of Louisiana. Mr. President, I yield 6 minutes to the Senator from New Hampshire.

The PRESIDING OFFICER. The Senator from New Hampshire is recognized for 6 minutes.

Mr. COTTON. Mr. President, I do not rise to oppose the amendment now before the Senate. Undoubtedly when we breached the wall yesterday and proceeded to take out all the substantive provisions against public works, part of which at least certainly can justly be referred to as public works legislation, the distinguished Senator from New York is amply justified in breaching the wall again on a matter which pertains to the health and welfare of the people of this country. But I merely rise because I thought later in the day I could not have the time, and I wanted to get this information into the RECORD.

In the first place, the Senator from New Hampshire will probably be unable to vote for the Williams-Smathers substitute, anyway, because, as he has said today, with the exception of perhaps the limitation on employment, the only thing in that substitute that is going to stick will be the tax. The economies in that substitute, in the opinion of this Senator, are hardly worth the paper they are written on.

Already in this fiscal year we have had $3.2 billion in supplementals, and another big one is coming up, it is anticipated. So that even if those economies were put into effect, we can see how easy it would be for the Executive to circumvent those economies in fiscal 1969 by supplementals. But the people who will violate, the people who will nullify, this earnest and sincere attempt for economy will be ourselves, and particularly the committee on which I serve and the Senator from New York serves, the Appropriations Committee.

In any approach to accomplish what the Senator from New York wishes to accomplish, and to make the substitute worthwhile, there should be written into the bill a limitation of authority, of authorization. That binds the Appropriations Committee. There is nothing improper about it, because the Appropriations Committee now cannot appropriate a cent that is not authorized.

I want to call to the attention of the Senate that 50 Members of the other body, advised by technical staff, have come up with concrete recommendations of cutbacks. I merely want to call to the attention of the Senate the subjects they cut.

They recommend a reduction of military personnel in Europe.

These are deferrals and reductions. This does not abolish the appropriation.

Some of the others are:

Supersonic transport, except research and development.

Defense supported arms sales abroad.

Civilian space program.

Highway beautification.

Longworth House Office Building renovation. This was suggested by the other body.

Madison Library.

Government Printing Office building, site acquisition and planning.

USDA, $10,000 maximum subsidy limit per farm.

Freeze on moderate and high-income apartment building programs—not low income, but moderate and high.

A cutback on foreign aid.

A cutback on forest roads construction, 50 percent of it being new of the entire amount.

Arts and Humanities Foundation.

Public office buildings, site acquisition and planning.

Public information.

Post office buildings, 50-percent unobligated, new obligational authority.

A freeze on Government civilian employment. That, of course, is included in the present substitute.

National Science Foundation.

Forest highways, 50 percent, new construction.

Earth description and mapping, 50 percent, new unobligated authority.

President's contingency reserve held to 1968 level.

Public works, 20-percent stretchout.

Appalachia held to 1968 level.

That, itemized, would lead to cut in appropriations for fiscal 1969 of $6,614,916,500.

Mr. JAVITS. Mr. President, will the Senator yield?

Mr. COTTON. I yield.

Mr. JAVITS. The Senator is reading the findings of a group headed by Representative GOODELL, of New York, and that is precisely what my amendment is based on.

Mr. COTTON. I was coming to that, if the Senator will permit me.

Mr. JAVITS. Very well.

Mr. COTTON. This does affirmatively what the distinguished Senator from New York does, in a sense—he cannot help it, because he has to do it that way in this particular bill—negatively.

The recommendations further provide that, of the $6.6 billion saved, $2.5 billion shall be plowed back into what? Plowed back into the areas of air and water pollution control, crime control, vocational and technical education, job and economic development.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. COTTON. Mr. President, may I have 2 additional minutes?

Mr. LONG of Louisiana. I yield 2 minutes to the Senator from New Hampshire.

Mr. COTTON. This is a logical way to reduce current spending by $4.1 billion, they say.

All I can say is this: There are some modifications which all of us might make in this particular proposal. There are some I can think of that should be added. They do not touch the sensitive point the Senator from New York is striving to save on the floor this morning. But the point is, if Senators want to make this particular bill, or the substitute for it, meaningful, the way to do it is for the Senate to specifically limit and cut back on authorizations for fiscal 1969 only.

That is not an insult to the Appropriations Committee. We cannot appropriate for anything that is not authorized. It is the only way. Otherwise, voting for this substitute is voting for the tax, perhaps providing for some restrictions on Government employment; the rest is just a dream and a matter of a New Year's resolution.

I voted against exclusion of public works yesterday. What I shall do about the Senator's proposition does not matter—I intend to vote against the substitute, because the substitute is not bombproof. It is not even a real guarantee of any kind of economy. It simply means that we are voting the tax and making a gesture for economy.

Mr. JAVITS. Mr. President, I yield myself 2 minutes. The Senator from New Hampshire will find that I actually based my amendment on Representative GOODELL's plan, which the Senator referred to with approval. That is amendment No. 637. The difficulty is that the amendment would not be in order until disposition of the Williams-Smathers substitute. The only part which would be in order is the part I am moving now to take items such as those in the human renewal fund and sets it up as what the President—I emphasize, the President—could not cut. So I hope the Senator understands the scheme of my amendment clearly.

Mr. COTTON. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. COTTON. I do understand it. I commend him. It is my hope the substitute will be defeated. It is my hope the Senator from New York will then submit that amendment. The Senator from New Hampshire will certainly support it.

Mr. President, I ask unanimous consent that following my remarks there may be printed in the RECORD a table of the items I referred to.

Mr. JAVITS. Mr. President, will the Senator also include the human renewal items; that is, the restorations, as well as the cuts?

Mr. COTTON. I am glad to.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

Immediate budget deferrals

60 percent reduction of military personnel in Europe	$2,080,000,000
Supersonic transport (except research and development)	222,000,000
Defense supported arms sales abroad	200,000,000
Civilian space program	400,000,000
Highway beautification	85,000,000
Longworth House Office Building renovation	6,058,000
Madison Library	2,500,000
Government Printing Office Building (site acquisition and planning)	2,500,000
USDA: $10,000 maximum subsidy limit per farm	410,000,000
Freeze on moderate to high income apartment programs	400,000,000
Foreign aid	700,000,000
Forest roads construction (50 percent new)	45,790,000
Arts and Humanities Foundation	9,800,000
Public buildings (site acquisition and planning)	5,497,000
Public information	100,000,000
Post office buildings (50 per unobligated NOA)	26,121,000
Freeze on Government civilian employment at 97 percent	961,000,000
National Science Foundation	250,000,000
Forest highway (50 percent new construction)	15,000,000
Earth description and mapping (50 percent NOA)	6,750,000
President's contingency reserve (1968 level)	400,000,000
Public works (20 percent stretch-out)	200,000,000
Appalachia (1968 level)	86,900,000
Total	6,614,916,500

We believe these are programs of high priority, which as now projected will not result in the minimum benefits desired. Therefore, it will be our recommendation to the Congress that we plow back $2.5 billion of the $6.6 billion savings and deferrals. The prime programs which must be improved are in the areas of air and water pollution control, crime control, vocational and technical education, job and economic development. This is a logical way to reduce current spending by $4.1 billion and also shift the emphasis to meet critical needs.

It becomes obvious when wrestling with this problem that, long term, our only hope of achieving a balance between revenue and spending is through substantial reduction in our military requirements. Let us remember that we outdo the Communists at every turn on a peaceful course; that is why they inevitably try to draw us into war.

Mr. JAVITS. My own time is rather limited.

Mr. COTTON. That is why I asked for time from the other side.

Mr. JAVITS. Mr. President, I yield myself 2 minutes to sum up. Then I would suggest a unanimous-consent request to the Senator from Louisiana.

I am trying to deal with priorities. I am not trying to curtail what we will cut. I am putting a priority upon items which, in round figures, represent about $6 billion of the budget.

This claim for priority is attributable to the crisis facing this country, a crisis in the cities equal to the crisis in Vietnam.

Mr. President, most of these items, of course, benefit rural areas. We made that clear before. That is true of water and air pollution, crime detection and prevention, manpower, and education especially; but the essential thrust is with repect to the crisis in the cities, and it does carry out essentially what was an effort to allocate priorities in the House study to which I have referred, that is, to cut $6.5 billion, but to add $2.5 billion in these designated areas, because the thing I violently objected to on the part of the administration was its failure to face the necessity of fixing priorities. It has talked about a tax surcharge and it has talked about reducing expenditures, but it has been unwilling to face the necessity of grasping the nettle of the question, "Where are you going to cut?" It just says, "Leave it to us."

We are unwilling to leave it to them; we showed that yesterday by eliminating the whole public works picture; and in my opinion we should show it today by reserving to ourselves these key items having to do with the crisis in the cities.

Again I point out, Mr. President, that the President still has plenty of places to cut the $6 billion we ask him to cut if my amendment is adopted, because he has $87 billion in controllable expenditures outside of Vietnam, both in defense and in the whole host of other items which the Senator from New Hampshire just detailed, which can be cut by the President; and the ratio of the $6 billion exemption to $87 billion is less than 10 percent.

We certainly do not restrict the amplitude of the President's authority or his ability to carry out our will, but we protect ourselves in certain key items over which we wish to exercise control. That does not mean they will not be cut, but we want the control of what is cut and what is not.

Mr. LAUSCHE. Mr. President——

Mr. JAVITS. Not yet. Mr. President, I intended to suggest to the Senator from Louisiana that we might bring this debate to a close as soon as the Senator from Ohio or any other Senator who wishes to ask questions has finished, provided we can obtain unanimous consent to reserve 5 minutes of time on each side after the Clark amendment to my amendment has been voted on. Otherwise, we would be completely shut off from any opportunity to debate the main point again, after the Clark amendment is disposed of.

Mr. LONG of Louisiana. Mr. President, I yield myself 30 seconds.

Under the unanimous-consent agreement, we cannot do what the Senator from New York suggests. I assure the Senator, however, that I will yield him some time on the bill to explain his amendment after the Clark amendment has been disposed of.

Mr. JAVITS. I am sure that will be satisfactory.

Mr. LAUSCHE. Mr. President, reserving the right to object, what is the request? For the fixing of time?

Mr. LONG of Louisiana. There is no request.

The PRESIDING OFFICER. There is no request. Who yields time?

Mr. LONG of Louisiana. Mr. President as far as I am concerned, I am prepared to yield back the remainder of the time I control on the Javits amendment.

Mr. LAUSCHE. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield 5 minutes to the Senator from Ohio.

Mr. LAUSCHE. Mr. President, I have in my hand the statement prepared by the Senator from New York in support of his amendment, and I should like to make inquiry as to where the figures shown on this paper were obtained.

Mr. JAVITS. They came out of the budget of the U.S. Government. And may I zero the Senator in on the principal item?

Mr. LAUSCHE. That is, they are copied from figures in the budget?

Mr. JAVITS. They are budgeted figures.

Mr. LAUSCHE. And that is the budget for 1969?

Mr. JAVITS. Exactly. And may I point out to the Senator that the essential facts are contained at page 15, the table being headed "Controllability of Budget Outlays," and I have put that in the RECORD.

Mr. LAUSCHE. Can the Senator state whether, for example, the figure on elementary and secondary educational activities of $1.4 billion is more than the appropriation for fiscal 1968?

Mr. JAVITS. If the Senator will give me a moment to consult a table which I have before me. If the Senator wishes to make further inquiries, I will come back to it, and give the Senator the facts in a moment.

Mr. LAUSCHE. The inquiry is directed toward ascertaining whether these several itemized figures are not all in excess of the appropriations which we made for fiscal year 1968.

Mr. JAVITS. I can answer the Senator's question. The item on elementary and secondary education, is $14,376,000 less than the appropriation for 1968.

Mr. LAUSCHE. Does the Senator have before him that part of the budget which will disclose whether these figures from the budget of 1969 are in each case in excess of, equal to, or less than the appropriations for 1968?

Mr. JAVITS. A quick calculation would indicate that, taken together, they are somewhat less. For example, I find a slight increase in the Teacher Corps, of $8 million.

Mr. LAUSCHE. What about the expansion and improvement of vocational education?

Mr. JAVITS. That is less. That is more than $13 million less.

Just a quick survey would indicate that the aggregate figure of $6,177 million is less than the 1968 appropriation.

Mr. LAUSCHE. Mr. President, I will forgo using the remainder of the time allotted to me and examine the book myself, with the view of determining what the facts are.

The PRESIDING OFFICER. Who yields time?

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that, without prejudice to the Senator's rights and without the time running on either side, the Senate may turn to the consideration of the nominations on the executive calendar.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

EXECUTIVE SESSION

The PRESIDING OFFICER. The Senate will proceed to the consideration of executive business, for action on nominations.

U.S. AIR FORCE

The assistant legislative clerk read the nomination of Lt. Gen. Jack G. Merrell, U.S. Air Force, to be a general.

The PRESIDING OFFICER. Without objection, the nomination is confirmed.

U.S. NAVY

The assistant legislative clerk proceeded to read sundry nominations for promotion in the U.S. Navy.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the nominations be considered en bloc.

The PRESIDING OFFICER. Without objection, the nominations are considered and confirmed en bloc.

NOMINATIONS PLACED ON THE SECRETARY'S DESK

The assistant legislative clerk proceeded to read sundry nominations in the Navy and the Marine Corps which had been placed on the Secretary's desk.

The PRESIDING OFFICER. Without objection, the nominations are considered and confirmed en bloc.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the

President be immediately notified of the confirmation of these nominations.

The PRESIDING OFFICER. Without objection, it is so ordered.

EXECUTIVE REPORT OF A COMMITTEE

The following favorable report of a nomination was submitted:

By Mr. EASTLAND, from the Committee on the Judiciary:

Wilbur H. Dillahunty, of Arkansas, to be U.S. attorney for the eastern district of Arkansas.

LEGISLATIVE SESSION

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the Senate resume the consideration of legislative business.

The PRESIDING OFFICER. Without objection, it is so ordered.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. CLARK. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CLARK. Is time yielded back on the Javits amendment?

Mr. JAVITS. Mr. President, I yield myself 30 seconds. On the assurance of the Senator from Louisiana that a minimum of 5 minutes will be allotted to me on the bill to debate my amendment after the vote on the Clark amendment, I am prepared to yield back the remainder of my time.

Mr. LONG of Louisiana. I give the Senator that assurance, and I yield back the remainder of my time.

The PRESIDING OFFICER. All time has been yielded back.

Mr. CLARK. Mr. President, I ask unanimous consent that I may suggest the absence of a quorum without the time being charged to either side.

Mr. LONG of Louisiana. Mr. President, I feel that I must object. Senators are waiting to vote on these matters. I am willing to have the time charged equally against my time and the Senator's time, or against my time alone, if the Senator prefers.

I ask unanimous consent that the time be charged equally against both sides.

I ask that the Senator from Pennsylvania first offer his amendment.

Mr. CLARK. Mr. President, I intend to offer my amendment; but the time for the quorum call can be charged equally against both sides on the pending amendment, can it not?

The PRESIDING OFFICER. The Chair advises the Senator that there is no time remaining on the pending amendment.

Mr. LONG of Louisiana. Mr. President, I yield myself 30 seconds on the bill. If the Senator from Pennsylvania will offer his amendment, I shall be glad to yield half the time for the quorum call from my time on the amendment, and we can have a quorum call.

AMENDMENT NO. 680

Mr. CLARK. Mr. President, I will agree to having half of the time charged against my time.

I suggest the absence of a quorum.

Mr. LONG of Louisiana. Mr. President, the Senator must first offer his amendment.

Mr. CLARK. I call up my amendment No. 680 and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk read as follows:

On page 2 after line 4, insert the following:

"(c) Insofar as may be practicable, the reservations from expenditure provided for in subsection (b) shall be made from authorizations for:-

"(1) foreign military assistance;

"(2) the space program; and

"(3) the Department of Defense, to the extent that such reservations will in no way endanger the security of the United States or the safety of United States troops."

Mr. CLARK. Mr. President, I suggest the absence of a quorum.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the time be charged equally to both sides.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. CLARK. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. BYRD of West Virginia in the chair). Without objection, it is so ordered.

Mr. CLARK. Mr. President, I ask for the yeas and nays on the Clark amendment.

The yeas and nays were ordered.

Mr. CLARK. Mr. President, I yield myself such time as I may require.

The PRESIDING OFFICER. The Senator from Pennsylvania is recognized.

Mr. CLARK. Mr. President, my amendment is really a complement to the Javits amendment. The Javits amendment provides where cuts should not be made. My amendment provides where cuts should be made.

It is a very simple amendment. It is amendment No. 680 and a copy will be found on the desk of each Senator. The amendment is only about nine lines long.

It provides that insofar as may be practicable, the reservations from expenditures, which under the Javits amendment are not to be made from such areas as education, low-income housing, and the like, shall be made from three sources:

First, foreign military assistance.

Second, the space program.

Third, the Department of Defense, to the extent that such reservations will in no way endanger the security of the United States or the safety of U.S. troops.

Mr. President, last August 22, at the time of the consideration of the——

The PRESIDING OFFICER. The Senator will suspend until the Senate Chamber is in order.

The Senator may proceed.

Mr. SMATHERS. Mr. President, I ask that the time just consumed not be charged against the time of the Senator from Pennsylvania.

Mr. CLARK. I thank my friend, the Senator from Florida, for his unfailing courtesy.

Last August 22 at the time the Department of Defense appropriation bill was under consideration, I made a rather extensive speech pointing out the desirability at that time of cutting some $3,500 million from the Defense budget.

I ask unanimous consent that a reprint of that speech and the colloquy I had with various Senators be printed at this point in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the CONGRESSIONAL RECORD, Aug. 22, 1967]

DEPARTMENT OF DEFENSE APPROPRIATIONS BILL, 1968

The Senate resumed the consideration of the bill (H.R. 10738) making appropriations for the Department of Defense for the fiscal year ending June 30, 1968, and for other purposes.

Mr. DIRKSEN. Does the Senator actually intend to make his motion to recommit?

Mr. CLARK. Yes, I do; and for the information of the Senate, Mr. President, I now move that the bill making appropriations for the Department of Defense for the fiscal year ending June 30, 1968, and for other purposes, be recommitted to the Committee on Appropriations, with instructions to report the bill back to the Senate as soon as practicable with such amendments as are necessary to accomplish a reduction of $3.5 billion in the total amount now appropriated by the bill, as the committee may think necessary.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Pennsylvania.

Mr. CLARK. Mr. President, I should like, if I might, to address some questions to my good friend, the floor manager of the bill, the Senator from Mississippi [Mr. STENNIS].

Mr. CLARK. I ask my friend, the distinguished Senator from Mississippi if it is true, as alleged by Members of the other body when the pending bill was before the House for passage, that this is the largest single appropriation bill ever presented to Congress.

Mr. STENNIS. The Senator is correct. I made that statement in my opening statement. There were other war years, as I recall, when the total amounts in all bills for military were greater. However, that was not in a single bill.

Mr. CLARK. I ask my friend, the Senator from Mississippi, if the amount in the pending bill as reported to the Senate is not $70,156,420,000.

Mr. STENNIS. The Senator is correct, except for the reduction we made on the floor earlier.

Mr. CLARK. Is it not correct that on top of that huge amount we can also expect before the end of the fiscal year a supplemental military appropriations bill?

Mr. STENNIS. The Senator is probably correct. There may be a supplemental defense bill. However, that depends largely upon the number of additional men that we send to Vietnam.

Mr. CLARK. Can the Senator give me any idea now as to how much money the supplemental appropriation bill is likely to contain?

Mr. STENNIS. There are different ways of making an estimate on that. However, I had rather rest on this matter on the prediction that this war will soon be costing us $2.5 billion a month.

Mr. CLARK. The Senator will recall that a year ago when the bill was before the Senate he and I had a most interesting colloquy at which point he advised me that in his judgment—which turned out to be a pretty good one—the war was then costing us in the neighborhood of $2 billion a month.

For the 12 months of the last fiscal year, if we say that the cost is $2 billion a month or $24 billion for the fiscal year, we would not be very far away from the correct figure for the fiscal year ending June 30.

Mr. STENNIS. I think it came to just about that amount in the fiscal year that just closed. That is a round figure, but that is about it.

Mr. CLARK. May I ask the Senator whether the 45,000 additional troops which the President has indicated he wants to send to Vietnam are funded in the pending bill?

Mr. STENNIS. The bill before you provides funds for an in-Vietnam strength of 475,000. An increase above that number will bring about an increase in the cost of the conflict. The increase to date already amounts to 45,000.

Mr. CLARK. So, therefore, that would have to be included in any supplemental bill which comes along.

Mr. STENNIS. The Senator is correct. And that is about as accurate as we can get. It has not been contemplated that these men would be sent to Vietnam. However, it has been contemplated that there will be that many men in uniform, and it has been provided for.

Mr. CLARK. The President in his message requesting a tax increase indicated that the cost of the military part of the budget might well go up by a total of $4 billion. I take it that no part of that amount is included in the pending bill.

Mr. STENNIS. This Senator is correct. I would not pit my judgment against the President's at all. However, in my opening remarks I alluded to the statement by the Secretary of Defense during our hearings in which he indicated that, barring unforseen contingencies, no supplemental for 1968 would be required. In my statement I said that I did not share that belief, for I think there is every likelihood that there will be a supplemental.

Mr. CLARK. Would the Senator be shocked if I suggested my untutored guess that the supplemental appropriation which we will face before the end of this fiscal year is likely to be at least as much as $10 billion? Does the Senator think I am high?

Mr. STENNIS. I would not want to make an estimate now on the facts I have before me. I would rather that the Senator make his own estimate.

I have said that I thought it would be from $4 billion $6 billion anyway if 100,000 additional men are sent to Vietnam. And they already plan to have 45,000 additional men in Southeast Asia.

Mr. CLARK. Whatever amount the supplemental appropriation may be—and I guess we can agree that it will be at least $5 billion—that amount would have to be added to the deficit for the fiscal year ending June 30, 1968.

Mr. STENNIS. The Senator is correct. I assume there will be a deficit. Additional defense expenditures would have to be added to the cost in the fiscal year 1968 and presumably to the deficit.

Mr. CLARK. Actually, my friend, the Senator from Mississippi, is keenly aware of the fiscal implications of the pending bill. I think he has been very candid and very honorable in pointing out that we are heading for an enormous deficit in the coming fiscal year whether we pass the tax bill which the President has recommended or not.

I think the Senator has answered all of the questions I wanted to ask him. I thank the Senator.

Mr. STENNIS. I thank the Senator from Pennsylvania.

The PRESIDING OFFICER. Will the Senator kindly send to the desk his motion?

Mr. CLARK. I did not understand the inquiry of the Chair.

The PRESIDING OFFICER. The Chair is advised that it would be very helpful to the Parliamentarian to have the motion that has been offered by the Senator from Pennsylvania because it contains instructions that we frankly did not hear at the time the Senator made his motion.

Mr. CLARK. I would be happy to repeat the motion which I think I have already cleared as to propriety with the Parliamentarian.

The PRESIDING OFFICER. The Parliamentarian advises that the rules require that the motion be formally sent to the desk.

Mr. CLARK. The Senator from Pennsylvania is very happy to take it to the desk in person. The Parliamentarian may not be able to read my writing.

Mr. President, my first argument in support of the proposed reduction in the appropriation is that the bill is too high. This is a swollen bill containing, in my judgment, billions of dollars of unnecessary appropriations. We are spread too thin in the world, and I suggest that it is time that we begin to pull in our horns.

My second point is that the bill, and its predecessors—starting with the acceleration of the war in Vietnam—is largely responsible for the fiscal crisis in which we now find ourselves.

My third point is that there is a growing resentment against the apparent need for tax increases dictated in part, but not entirely by the war in Vietnam, but dictated perhaps even more by the successful efforts of the military-industrial-scientific-congressional complex to foist on this country a series of expenditures which, in my judgment, may in the foreseeable future threaten our democratic system of government and erode our liberty.

My fourth point is that there is no real necessity by reason of the current situation in Southeast Asia or with respect to China to justify the enormous expenditures we are now engaged in making in the Army, Navy, the Air Force, and the Marine Corps.

My fifth point is that the war in Vietnam has arrived at a stalemate, that the possibility of our winning it in the foreseeable future is minimal, that it is likely if we continue on our current course we will be there for a decade, and that, as the Senator from New Jersey [Mr. CASE] pointed out earlier today, we should either have some assurance from the President that a military victory and/or a pacification of the country is within the reasonable possibility of achievement in the reasonably near future, or we should have a complete reexamination of our entire Southeast Asia policy.

My last, or sixth point, is that Congress—and, indeed, the administration—has a false set of priorities as to what is important in terms of the foreign and domestic policies of this country.

I shall develop each of these points in turn, but I thought it might be useful to give the general outline of my speech before I make it.

I. A SWOLLEN APPROPRIATION

I turn now to point No. 1. The bill is too high. We are spread too thin from a military point of view.

When this bill was before the other body, Congressman GEORGE E. BROWN, Jr., of California, the only Member of the House who voted against the bill, pointed out that it was the largest single appropriation ever presented to Congress. He also stated:

"The amount of money represented by this bill is equivalent to the total gross national product of approximately one-third of the human race. It is staggering to the imagination to realize that this Congress for 150 years struggled over the appropriation in total of an amount of money that we have disposed of here this afternoon in three or four hours."

He was discussing the debate in the House of Representatives.

This bill calls for the deployment of a total of 3,464,302 men. In the military personnel section of the committee report, the dollar figures, when presented in conjunction with the number of men to be kept under arms and in uniform—in the Army, the Navy, the Air Force, the Marine Corps, the Reserve, the National Guard, and the other minor components of the armed services—work out at a cost of $5,400 for every man in the armed services.

If you were to cut back the military personnel in this bill to the actual number of individuals in the armed services in fiscal year 1966, you would reduce the 1968 estimate from 3,464,302 military personnel to 3,091,552. If you were to make that cutback and make the basic assumption which I believe we should make—that we can get along very well in the United States of America in the next fiscal year with the number of men under arms that we had in fiscal 1966—you would immediately cut $1,914,200 from the total amount of the bill. So that there, alone, in the one element of military personnel, you could get approximately $2 billion of the $3.5 billion which my motion to recommit envisages.

I have not attempted to pinpoint the reductions which the committee, in its wisdom, might determine to make in the event the motion to recommit should carry; but there are obviously vast areas where substantial reductions could be made without affecting in any way the military mission of the United States, if that mission really is to maintain peace, to work for international cooperation, and to bring the difficulties which now confront us into the diplomatic area instead of the military area.

Title II of the bill deals with operation and maintenance. I will not undertake to suggest specific cuts there. I do not have the expertise to make such suggestions. But no Senator can read through that portion of the committee report without concluding that substantial cuts totaling, at the very least, several hundred million dollars, could be made in the operation and maintenance part of the bill.

Then we come to the procurement part of the bill for which $5,578,600 is requested for the Army, including missiles, of which we have so many already that they are coming out of our ears.

Every Senator knows, and most of the people in the United States know, that we have an overkill capacity, in terms of nuclear weapons, which could flatten the Soviet Union and Communist China together several times over, and still leave a substantial arsenal in the hands of the Army.

Procurement of aircraft and missiles for the Navy is recommended by the committee at $2,950,700. Shipbuilding and conversion for the Navy is fixed at $1,297,000. Other procurement in the Navy is fixed at $2,336,000. Procurement in the Marine Corps is fixed at $665 million. Procurement in the Air Force, which includes many a missile, also, is fixed at $5,547,400.

So, without attempting to indicate to the committee in any specific way, because I say again I do not have the particular expertise to do so, these are the general major areas where, in my opinion, cuts far in excess of $3,500,000,000 could be made, without affecting in any way the national security of the United States or the capability of our Armed Forces to do those things which they should be doing in terms of defending the United States of America.

I say again what I said last year when this bill was before us: This is not a defense appropriations bill. This is an offense appropriations bill. Let no one contend that the $70 billion in this bill is intended to defend the United States of America. Far from it. It is intended to defend a wide perimeter all around the world, in many parts of which the United States is engaged

in ground operations totally unsuitable to the American character, and where we are pouring out our treasure and our manpower in futile efforts to hold beachheads in countries far beyond the legitimate diplomatic interests of the United States.

So if we are prepared to renounce the thought that we are the modern Roman Empire and that we should impose a Pax Americana on the continents of Latin America, Africa, Asia, and particularly Southeast Asia, and also to undertake the guarantee that another war should not break out in Western Europe, if we are going to renounce that concept, this bill could be cut, not by the amount I am proposing of $3.5 billion, but at least by $10 billion which the Senator from Oregon proposed an hour or two ago that we cut from the bill.

Mr. President, I complete my summary of my first point by reiterating that this is a swollen bill in terms of money; it gives us an offensive capability far in excess of the defensive needs of the United States, and far in excess of our legitimate objectives.

II. THIS BILL AND ITS PREDECESSORS ARE LARGELY RESPONSIBLE FOR THE FISCAL CRISIS IN WHICH WE FIND OURSELVES

Mr. President, I now turn to my second point. The fiscal crisis in which we find ourselves was graphically set forth in the President's tax and budget message of a couple of months ago. He then pointed out that the total expenditure contemplated in his budget message for the fiscal year ending June 30, 1968, was $135 billion. Of that sum, $70 billion, or more than one-half, is represented by this bill.

The President told us that by reason of the fallback in contemplated revenues and the increases in contemplated expenditures, the $9 billion deficit which he envisaged in January 1967, when he sent his budget message to Congress, had increased to somewhere between $23.6 billion and $28 billion. This, obviously, is a frightening deficit, one which I am confident will be all too likely to bring on the fiscal crisis, dislocation, huge deficit, inflation, tight money, and the high interest rates which the President referred to in his message.

The President suggested there were two courses which Congress and the country could pursue in the light of his fiscal crisis. The first course was to do nothing and let things drift. He pointed out the dire consequences of such a course, and strongly recommended that we follow a second course, which was to make a series of drastic economies, almost all out of domestic programs.

He paid lip service to cutbacks in defense expenditures, but by the time he finished he indicated the defense expenditures might be in excess of what he contemplated in his budget, and this suggestion on his part was no less than candid because in the same message he indicated he wanted to send 45,000 more men to Vietnam. As the Senator from Mississippi so candidly replied in answer to my question, the sending of those men is not funded in this bill, although it is true that most or perhaps all of them are now in uniform.

So the President recommended additional taxes to the tune of $7.4 billion and a cutback in domestic expenditures, which he thought might result in a deficit, not of $23 billion to $28 billion but $14 to $18 billion.

I say that deficit is unmanageable. The greatest peacetime deficit we had before was during the Presidency of Dwight Eisenhower, when it went to $13 billion and brought on both deflation and recession. I would have little doubt, although I am not a trained economist, that the same result would occur if we were to repeat that disaster and run a deficit of that sum.

The PRESIDING OFFICER. The Parliamentarian informs the Chair that the 3 minutes of the Senator on the motion has expired, but the Senator has 2 hours remaining on the bill.

Mr. CLARK. I am grateful to the Parliamentarian for calling that technical point to my attention. I was under the impression I was using my 2 hours on the bill. I should have stated so. I would like to have the time I have used charged to my time on the bill, and I ask unanimous consent that may be done.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. CLARK. Mr. President, I suggest that there is a third alternative and a wise and sound alternative which the President did not mention in his message. That third alternative is to obtain, in one way or another, a large part of the curtailment of expenditures out of appropriations which do not cut into the heart and soul of the American people, do not prejudice the poverty program, do not prejudice Federal aid to education, do not result in our turning our heads away from the task we have undertaken of eliminating water pollution and air pollution in this country, do not turn our backs on the Appalachian program, do not turn our backs on a score of other programs including housing for low-income families, rent supplements, model cities, mass transit, public health, and welfare expenditures.

Mr. President, these programs of the once Great Society are the heart and core of the Roosevelt-Truman-Kennedy-Johnson program and I, for one, shall fight as hard as I can to prevent those programs being curtailed. There are programs where we can make cuts without affecting the well-being of a single American citizen. There are three, and the first is the foreign aid program. We have already cut $800 million out of the foreign aid bill, which is pretty close to being 30 percent of the total bill. The House of Representatives has already cut $500 million from the space program. I am in favor of those cuts in light of the fiscal condition and approaching chaos in which we find ourselves. However, why is the military appropriation bill the sacred cow which, like the sacred cows in India, cannot be touched by a Senator or a Representative? Who are we afraid of? I know the Hindus in India are afraid of their gods should they undertake to kill sacred cows over there. That is one of the reasons the Indian economy is in such a chaotic condition. The cows are eating the food which should go to human beings.

I suggest, Mr. President, it is high time the Senate faced the logic of the situation and undertook to cut reasonable amounts from the Defense appropriation bill, with the idea in mind that we might even make the proposed tax increase unnecessary—although I am afraid we cannot do that; but at least that through the total of the cuts in the particular appropriations which do not affect the health, well-being, or safety of a single American family, we could make some significant contribution toward cutting our enormous deficit.

The President is asking for additional taxes totaling $7.4 billion. If we were to recommit the bill as I have suggested, there is almost half of that amount in this bill. Add the $800 million from the foreign aid bill, and the budget figure of $500 million from the space bill, and we have another $1.3 billion. So that we are getting within striking distance of the $7.4 billion in additional taxes which the President is asking.

Oh, no, we are not there. If we had adopted the proposal of the Senator from Oregon—I was one of the five Senators who voted for it—we would be there. I know that the Senate is not ready to go that far. I expect the vote which will take place in the reasonably near future to recommit the Defense appropriation bill will indicate that I will get few, if any, votes, just as the Senator from Oregon did. But let us face this problem now. Because if we do not do so now, we will have to do so on the supplemental appropriation bill and on the bill next year; or this country will go bankrupt. We cannot continue at this rate without either going bankrupt or raising additional taxes far in excess of anything the President has recommended.

What we are doing now in Congress is going down that first alternative against which the President warned us. He said that there were two alternatives: one, to face the situation, pull in our belts, and the other just to let things drift. That is just what we are doing: We are letting things drift.

I hope that, in due course—if not tonight—the Senate will face its fiscal responsibilities.

It has been said that only $22 billion of the $70 billion in the appropriation bill is for the Vietnamese war. My good friend from Mississippi has suggested that the figure should be a little higher. I think he would place it at $30 billion for the coming fiscal year. Let us say it is $30 billion. This is a bill for $70 billion. What are we going to do about the other $40 billion which is not part of the war in Vietnam?

How can we possibly justify not cutting the bill on the grounds that we are providing our boys in Vietnam with everything they need—although I think the way to provide them with everything they need is to bring them home under an honorable peace—but how can we justify not cutting this swollen bill with the $40 billion additional in it not being used for Vietnam, kidding ourselves and the country that we are doing the patriotic thing, which will result, in all likelihood, in a fiscal crisis which will bring us—and I use these words advisedly—close to the brink of monetary and fiscal disaster.

Certain Senators have suggested that I should indicate where the cuts should be made. Earlier, I indicated that I do not think I have the expertise to do that. But if I were a member of the Appropriations Committee, I would look pretty hard at military personnel and cut back on that total to the figure we had at the end of 1966 which, in itself, would obtain $1,981 million in savings.

I would also take a good hard look at procurement in the Army, Navy, Air Force, and Marines in terms of missiles. We have such a huge overkill now that it is, to me, a futile suggestion to manufacture, store, and stock more lethal weapons of atomic destruction.

Mr. HART. Mr. President, will the Senator from Pennsylvania yield at that point?

Mr. CLARK. I am happy to yield to my good friend from Michigan.

Mr. HART. I must plead guilty to being one of the Senators about whom the Senator just made reference. I was one of the Senators who went to him and said, "Look, please do not use the rule of thumb, x percentages of the total, and ask us to reduce it by that amount. And don't pick a fixed figure and then tell us that is the equivalent of a 10-percent tax surcharge."

Mr. CLARK. Because of my enormous admiration for the distinguished Senator from Michigan, that is what I have done. I have followed his advice.

Mr. HART. Yes, but we are now down an alley which seems to be equally blind. I am going to read the Senator's remarks at the end of the day——

Mr. CLARK. The Senator will have voted before he can read them.

Mr. HART. Then I will sit here and listen to the Senator's remarks. Perhaps he will be pleased to give us a summary of what he is proposing, because I am anxious about it. I suspect I speak for a lot of frustrated Members in this Chamber on that score.

Mr. CLARK. Yes; and there are plenty of frustrated Members in this body.

Mr. HART. I feel as the Senator from Pennsylvania does, uncomfortable in stating to the Army, Navy, Marine Corps, National Guard, and others, what particular items we believe can wait a year, or saying that something is an item we never did or will need. He and I find ourselves on committees which expose us not to that specific information, but to overwhelming and specific domestic needs which must be met, I suspect, with the

same directness that any foreign enemy has to be met with and which relate equally to our survival as a society worth protecting.

Certainly, I share the point the Senator from Pennsylvania has just made. Who wants to run around with a label on him, "You let our boys down in South Vietnam"? No one. And none of us do.

I share the Senator's feeling that the best thing we can do for our boys in Vietnam is to bring them back home under an honorable peace. I think the Senator from Pennsylvania used those words. The problem is when we get to define the conditions, it gets to be about as difficult as looking at a $70 billion defense budget and pointing to what items should be eliminated. Surely there are some substantial items that could wait until we put the fires out at home. In order to get the water to put out those fires, we are going to have to take a look at this $70 billion and see if we can trim it.

I am very grateful to the Senator from Pennsylvania for taking the leadership in an effort to identify those things that prudent men would agree are desirable but are not essential under the circumstances which exist today.

Mr. CLARK. I thank my friend from Michigan for his most helpful intervention. I want to make my own position crystal clear because I made some points before the Senator from Michigan came into the Chamber.

As I look at the bill, as a layman, I think I can see a number of areas where it could be prudently cut.

One is by cutting down the size of the Armed Forces. I have looked at the military personnel sections of the bill. I find if we could cut back the total number of individuals within the armed services to the figure we had in 1966, we could save $1,912,000,000.

Then I looked at the procurement section of the various armed services components, and I think I recall that most Senators—perhaps not all—are in agreement that we have an "overkill" capacity in terms of nuclear and hydrogen weapons, enough to flatten our enemy a good many times over, and that the needs of the Navy for a certain number of ships has been a little exaggerated.

So we could easily get this $3.5 billion that I have in mind. But I do not want to take the responsibility for doing that and I do not think I should. That is why my proposal is to refer this matter back to the people who are experts with this proposed cut of $3.5 billion, and ask them to cut the bill to that extent.

Mr. HART. Mr. President, will the Senator yield further?

Mr. CLARK. I yield.

Mr. HART. The Senator has stated the fact. I arrived late on the floor. I did not realize he was referring to a motion to recommit with instructions to eliminate the things that may be desirable but are not essential.

Mr. CLARK. I thank the Senator.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. CLARK. I am glad to yield to the Senator from Oregon, whose courage I commend for the position he took today in the face of overwhelming odds.

Mr. MORSE. I am greatly honored to have the Senator from Pennsylvania stand shoulder to shoulder with me.

I am glad the Senator from Michigan made the last comment he made, which changes what I, otherwise, was going to say, although I still find myself completely in disagreement with the major thesis of the Senator from Michigan. I do not think the Senator from Michigan or any other Senator can sit here on the basis of the facts, and object to cutting a $70.2 defense request, the largest in the history of this country, larger than at any time, larger than for World War II, World War I, the Korean war. It only bears out what I said this afternoon. We are turning over foreign policy, in a real sense, to the military. We get the same argument the Senator from Michigan is using, by clear implication, when he says he does not want to be put in the position that we are letting the boys down in Vietnam. We are not letting the boys down in Vietnam.

Mr. HART. Mr. President, will the Senator yield?

Mr. MORSE. Yes, I yield. If I made a misstatement, the Senator may correct me.

Mr. HART. Will the Senator from Pennsylvania yield?

Mr. CLARK. I yield.

Mr. HART. I was adopting, I will advise the Senator from Oregon the remarks that had been made, perhaps before the Senator from Oregon reached the floor, by the Senator from Pennsylvania, who was explaining he did not like to be laid open to the assertion that he was letting down the boys in Vietnam by any meat-ax cut. I do not, either.

Mr. MORSE. In reply I wish to say that we have not offered meat-ax cuts. Our proposals do not let the boys down in Vietnam. The "letting down the boys" argument is the argument other Senators have made in this debate today. That is a flag-waving argument. When we propose cutting this bill, it does not involve any cutting into the Vietnam operation. No one can argue soundly that we would be letting the boys down if the cuts we propose were adopted. It is a non sequitur. In my opinion, it is an unfair argument to be heard from the lips of Senators of the United States. We have a trust and a duty to make cuts in the Defense Department as well as other departments if any of the amounts cannot be justified. When it can be shown there is a national interest need to make a cut in the $70.2 billion defense appropriation, it is our duty to make it.

When the administration goes to the other departments and asks them to take a 10 or 15 percent cut in their appropriations, what is so sacrosanct about the Defense Department budget?

The amounts which would be reduced by the percentage cut, which the Senator from Michigan does not like, on the ground that it is a meat-ax cut, will be made by the very people in the Department of Defense the Senator from Michigan says are qualified to make the cut. My amendment calling for a 10-percent cut provided that the cuts would be made by the experts in the Defense Department.

Unless the Senator from Michigan is to take the position that the $70.2 billion defense appropriation is sacrosanct and we cannot make any cuts in it, his argument falls to the floor. Let the Secretary of Defense take a 10-percent percentage cut which I propose and tell the President where he thinks the cuts should be made. He has authority to transfer money from item to item under my proposed 10-percent cut amendment.

We should not take the attitude that we cannot touch a $70.2 billion Defense Department appropriation and say there is something about this that makes it untouchable. That is exactly the psychology the Defense Department is trying to create in this country. Those of us who oppose cutting the budget of the Defense Department are unfairly attacked. I know. I have been the butt of it. The charge is that if one takes the position the Senator from Oregon is taking, somehow he is unpatriotic because supposedly he is letting down the boys in Vietnam. That is hogwash. It is pure nonsense. My 10-percent cutting amendment would have not hurt the boys in Vietnam. It would strengthen our position in Vietnam by strengthening our economy. It is a mistake to take the position that this bill is an untouchable bill on the floor of the Senate.

I want to disassociate myself from any argument and any implication that a cut in this appropriation such as is being proposed by any of us has anything to do with the boys in Vietnam.

If the Senator from Michigan does not know where we can make cuts, I suggest that he consider the equivalent of eliminating four unnecessary divisions in Germany, for example. That would save quite a bit of money. Let him refer to the defense stock fund or the antiballistic missile proposal that we have in this bill. I suggest that cuts can be made there and I think they would be there under my proposal.

The fact is that, for some reason, there has developed in the Senate of the United States an unwillingness to face up to what I think is our clear responsibility to protect the interest of the American taxpayer. Here is one vote against any tax increase, as I announced earlier. The American taxpayers are entitled to have Senators vote against tax increases unless they are willing to make cuts in a $70.2 billion defense appropriation. In closing I want to make clear that I respect the views of my friend the Senator from Michigan [Mr. HART]. I do not question his dedication to the welfare of our Nation. I do not question his sincerity in believing that my proposals for cutting this bill are unwise. I know that he is not charging me with letting down the boys in Vietnam. However, in fairness to myself and to him I have made these remarks in an endeavor to leave no room for doubt as to the intent and purposes which are behind the proposals I have made this afternoon.

Mr. HART. Let me make very clear that any suggestion that the Senator from Oregon, in offering his amendment, was letting down the boys in Vietnam would be grossly unfair and will find me in strongest criticism. The fact is I found myself reluctantly working against it.

It was not because of any letting down of the boys which caused me finally to vote against it. Rather, I preferred taking the approach now proposed by the Senator from Pennsylvania [Mr. CLARK] and I am delighted that I find myself now joining both the able Senator from Oregon and the able Senator from Pennsylvania in attempting to eliminate from this $70.2 billion defense appropriation bill a sum which may cover desirable but surely not necessary items.

Mr. CLARK. Mr. President, the argument of the Senator from Oregon is so persuasive that I voted with him today, but I think he has possibly done an injustice to the Senator from Michigan, because the Senator from Michigan has never accepted the point of view which others have taken. I think he has taken an objective view toward the pending amendment. I know he felt bad when he felt he could not vote for the amendment of the Senator from Oregon.

III. RISING TIDE OF OPPOSITION TO WAR IN VIETNAM

Mr. President, I would like to turn now to the third point, "Rising Tide of Opposition to the War in Vietnam."

There is a rising tide of opposition across the country to the way the war in Vietnam is being conducted. I regret that that tide of opposition comes from two diametrically opposed philososphies of thinking.

There are those of us in this body who believe we ought to be making a more earnest effort to arrive at a negotiated settlement, who are not happy with the high casualties we are suffering in Vietnam, who do not approve of the bombing of North Vietnam, and who think that the search and destroy policies in the south are counterproductive, are not working, and are only mounting the toll of American boys being killed and wounded.

Unfortunately, there is another school of thought which many advocate in the Senate, which may be called a "Let's kill 'em," philosophy, a philosophy of let us get in there and get it over with, based on the emotional concept that the United States of America is the strongest military power in the world, and it is ridiculous that we cannot

beat down to their knees, in the little country of Vietnam, the guerrillas there. Somehow they think the flag is demeaned and somehow the power and status of the American people is suffering because we do not go in there and get it over with.

Mr. President, it is not for me to attempt to controvert that argument at this point, but I think it is enough to say that there is a rising tide of opposition to the conduct of the war in Vietnam. This was evidenced in a poll which was taken, I think by the Associated Press, over the past weekend, which indicated that 44 Senators, I believe, were content with the way the war in Vietnam is being conducted; 40 were disappointed; and the other 16—perhaps the wisest 16 of all—refused to tell the pollster what they thought, if anything.

However, Mr. President, I think there was a widespread feeling also that the respective responsibilities of the executive and the legislative branches of our Government are getting out of line—a feeling that the Executive is assuming too much power, both as Commander in Chief of our Armed Forces and under the Tonkin Bay resolution.

As a member of the Committee on Foreign Relations, I have become acutely aware of that controversy by reason of the testimony of Under Secretary of State Nicholas Katzenbach before our committee early this week. The chairman of our committee, the able Senator from Arkansas [Mr. FULBRIGHT], is strongly of the view that the President is undertaking to exercise authority which is not in accordance with the Constitution.

I do not share that view, but I do think that the President has exercised authority without much reference to the legislative branch, which, if not unconstitutional, is at least unwise; and I believe that this clash of views between a group in the legislative branch and the Executive is not healthy for Congress or for the country.

What happens is that it throws those of us in Congress who disapprove of what is being done in Vietnam back on devices to thwart the President's will—devices which I believe are unsound—and to which we should not resort.

One of them is to cut the liver—and I use the word advisedly—out of the foreign aid bill. I was prepared to vote to cut the military aid, and I did, but I thought the committee went too far in terms of cutting badly needed economic aid for the underdeveloped countries of the world.

Another way we get back at the President is to cut the space program. Personally, I am not too unhappy about cutting the space program, but actually the motivation of most of us in cutting that program is to get back at the President, because of his point of view and his policies in connection with the war in Vietnam.

Mr. President, I do not think that any one of those three devices is a very good way to indicate our displeasure. The courageous and sound thing to do is to vote to cut this bill; and it is in an effort, which perhaps will be a vain effort, to persuade those Senators who do not like our policy in Vietnam, who do not want to see the war accelerated any further, who want to see the bombing of the North stopped, who want to see those additional 45,000 Americans boys kept home, if that is what they want to do, to have the courage to vote for this motion to recommit, because this is the honorable way to do it.

Those are strong words. I must say I myself have not always hitherto had the courage to follow that practice. I had great trepidation in voting for the amendment of the Senator from Oregon an hour or two ago. I almost did not propose this motion to recommit with instructions to cut, because I was afraid to.

Then I asked myself, "If you haven't got the guts to do this, what are you doing in the U.S. Senate?"

So I decided to take the step. I do not wish to beat my chest or pat myself on the back for doing something that perhaps not too many of my fellow Senators are prepared to do; but I do note that this body is full of a great many logical thinkers, some but not all of whom are lawyers. I suggest that if, after searching your soul, as you ought to be doing, you disapprove of the conduct of the war in Vietnam, you vote to cut this appropriation bill, and do not go off voting to cut taxes, to cut foreign aid further than you think it should be cut, or to cut the space program further than you think it should be cut. Face up to the problem, and vote to cut this bill.

Mr. President, I turn now to my fourth point:

IV. SOUND SOUTHEAST ASIAN POLICY DOES NOT REQUIRE CONTINUED INTENSIFICATION OF THE VIETNAM WAR

Mr. LAUSCHE. Mr. President, before the Senator gets into that subject, will he yield for a question?

Mr. CLARK. Certainly.

Mr. LAUSCHE. I have deep respect for the sincerity of the Senator from Pennsylvania. In my opinion, he is attempting to give full expression to his honest thoughts about how best to serve his country. He will understand that there may be differences of opinion among Senators about how that service can best be achieved.

Mr. CLARK. I do, indeed.

Mr. LAUSCHE. There are those who complain about what is happening in Vietnam, but insist that we cannot pull out, and the only way it can come to an end is through the achievement of an honorable peace.

Mr. CLARK. I share that view myself.

Mr. LAUSCHE. If it is argued that we cannot pull out, what alternative course is there except to give the fullest support, by way of military equipment, to our men who are in South Vietnam?

Mr. CLARK. I think, of course, we should give full support and all necessary military equipment to protect their lives. I do not wish to digress, in this speech, by going into a long dissertation of what I think should be done in Vietnam. But the Senator from Ohio knows that for months, if not for years, I have been advocating a much more strenuous effort to get to the negotiating table, through stopping the bombing in the North through stating that in the South we would fire only if fired upon, and by persuading our little puppet, General Ky, to do the same. I have reasonable confidence that if we were to assume that primarily defensive attitude, we would get to the negotiating table within the foreseeable future, and the number of American casualties and the loss to the American Treasury would be very much reduced.

I do not expect the Senator from Ohio to agree with me, but that has been my consistent position.

Mr. LAUSCHE. Well, there are three courses that we can follow. One is to pull out.

Mr. CLARK. And nobody advocates that.

Mr. LAUSCHE. Nobody advocates that. The Senator from Pennsylvania and I agree that in the Committee on Foreign Relations, the most vehement opponents of what is happening still take the position that we cannot pull out.

Mr. CLARK. That is right.

Mr. LAUSCHE. The second course would be to cut the appropriations for the military, which in my opinion would be the equivalent of pulling out.

Mr. CLARK. I made the point, before the Senator came into the Chamber, that this is a $70 billion military appropriation bill, of which, at the very most, $30 billion was for the war in Vietnam, as was developed in a colloquy I had with the Senator from Mississippi.

That leaves $40 billion of swollen appropriation having nothing whatever to do with the war in Vietnam. I am proposing that we cut that amount back by $3.5 billion.

Mr. LAUSCHE. I can see how the Senator could come to that conclusion; but I believe the committee that reported the bill has positively and fully explored that situation.

Mr. CLARK. I would disagree with that, but the Senator is certainly entitled to his opinion.

Mr. LAUSCHE. Mr. President, I want our country to achieve peace. However, it must be on an honorable basis. We stopped the bombing five times, and once for 35 days.

Mr. CLARK. Once it was for 6 days, and I think that was all.

Mr. LAUSCHE. The Senator is incorrect. There were some smaller intervals.

I suggested about 2 months ago that we again test Ho Chi Minh by a stopping of the bombing. However, that has not been done.

I am not sure that I was right in suggesting that we stop the bombing again. However, on the subject of pulling out and failing to give adequate moneys to the men, I want to read a letter that was sent to a newspaper in Ohio.

It is with great distress that I read this letter. It reads:

"I always have had great respect and confidence in Senator Frank Lausche until he said, 'Quit bombing.'"

I did not have in mind the ultimate quitting of the bombing of North Vietnam. I recommended another lull in the bombing hoping that Ho Chi Minh would be brought to the negotiating table.

I continue to read the letter:

"Why does he say it and what does he expect the men from the U.S. to do? Sit back and be killed?

"In my estimate they are already taking it to slowly. If all I read is true, many men have been killed because they weren't allowed to go ahead until further orders arrived. So I say don't quit now but double the effort to stop those Communists."

This is the most painful sentence in the letter:

"From the mother of five sons who have served in the Navy, Air Force and Army, and a granddaughter now in the Marines.—Mrs. W. J. ROSE, SR."

I conclude by saying that my fullest respect goes to you, Senator CLARK, on having sincerely and courageously expressed your views on trying to solve this problem that is so perplexing to our country.

Mr. CLARK. Mr. President, I thank my friend, the Senator from Ohio, very much for his kind words.

Mr. President, will respect to my fourth point, I wish to pay tribute to a very distinguished American diplomat, a former Ambassador to Japan, and presently a university professor at Harvard, for the assistance he has given me in the preparation of these remarks, in a splendid address he made on June 15 and the annual meeting of the Associated Harvard Alumni in Harvard Yard.

Ambassador Reischauer points out, and I agree, that the unitary threat of communism had faded to a large extent in Europe, but in Asia it probably never existed. Military aggression has not been a major threat in most of Asia. Chinese armies have crossed their own borders very rarely. They came out to meet us in North Korea, but only when we bore down on their frontiers with massive military strength, as we are now bearing down on their frontiers with massive Air Force strength. China administered a defeat to the Indians along their disputed border, but it made no effort to launch a real invasion of India. Today it has sent 40,000 engineers into North Vietnam, but this is only a tenth as many men as the actual fighting forces we have sent halfway across the world to South Vietnam.

The real threat to the countries of Asia is not aggression so much as internal instability. They are vulnerable to subversion and

revolution. They have little defense against guerrilla warfare.

But these are the types of military threat against which our military power is relatively ineffective. When we try to build in Asia a solid defense wall like that of NATO in Europe, it tends to sink into the quagmire of weak economies and unstable political institutions. In guerrilla warfare, under such conditions, we can end up as we have in Vietnam, appearing like an elephant vainly attempting to combat gnats. I believe that analogy is very pertinent indeed, and I say so because it is former Ambassador Reischauer's and not mine.

For many Asians, the enemy has not been Soviet military might or even the rising power of Communist China, so much as the former colonial or semicolonial domination of the West, and their own economic backwardness and political instability which these Southeast Asian countries attribute, not entirely without justification, to the colonial domination under which they have suffered for well over 100 years. It is Western countries such as ours that have raised their deepest fears.

Those Asians who have embraced Marxist concepts—and many have—regard the capitalism that we seem to champion as the chief threat of continuing foreign domination, and look to socialism, the economic system the Russians proclaim, as their main hope for progress.

We do not seem, either racially or culturally, like friendly overseas cousins, but rather as a new and bigger form of the sort of Western nation—namely, France, and to some extent Britain—that dominated them in the past. One should perhaps also add the Netherlands.

In bringing these false European analogies to Asia, as we are doing in our foreign policy—and the Secretary of State is perhaps the worst offender—we have attempted to implement a set of policies designed to give advanced nations military protection against Communist aggression which were valid in Europe, particularly at the time of the Marshall plan and the Truman doctrine.

We have applied these theories to a part of the world where less developed countries are struggling with the task of nation-building, where the problems of external defense are overshadowed by those of lethargic and primitive economies. The lethargy, to a substantial extent, in my opinion, is due to malnutrition and inadequate diet; for it is a fact that perhaps half of the people of the world, including most of those in Southeast Asia, are going to bed hungry tonight. And they are afflicted with antiquated social systems far removed from democracy, inadequate levels of knowledge and skills, and internal political instability. The object lesson of internal political instability is South Vietnam.

Our ponderous war machine all too easily breaks through the weak social and economic foundations of the very country it is meant to defend. Our unrealistic expectations of quick economic results lead to disillusionment and bitterness, both in Asia and back home in the United States. We find ourselves frittering away our great wealth and strength in destructive warfare, rather than bringing them to bear in constructive ways that would seem to be of more benefit to our own interests as well as those of Asians.

And so Ambassador Reischauer makes certain specific proposals which I endorse. First, he says, the immediate balance of power is not much involved in our relationship with Asia, because most of the countries of Asia have little or no weight to bring to a world balance of power—and this is particularly true in the light of the current domestic chaos inside Red China.

His second proposition is that defense against aggression is much less of a problem in Asia than are internal instability and sluggish economic growth. Two corollaries of the second proposition would be that we can do relatively little in a military way to help Asian countries cope with the problem of internal stability, and an overconcentration on the problems of defense would limit and in some cases negate our more important efforts to help in economic development.

As I shall argue in a few moments, this is exactly what has happened in South Vietnam, where our economic efforts are pretty nearly futile.

The third proposition is that we should be careful not to get ourselves involved in the hopeless task of trying to provide internal stability through our own military strength. We should not waste our great resources primarily on costly defense establishments for Asian countries or destructive military activity, but should attempt to save our efforts—and our limited power, for we are not omnipotent—for the vastly more important tasks of construction and development at home as well as abroad.

Finally, we should not try to push ourselves into the role of dominators or leaders or even teachers of Asia, for we are not welcome in those roles. Instead, we should learn how to be of even more help to Asians as sympathetic friends and outside supporters of their own efforts to achieve their own objectives.

We have approached the problems that face Asia with little knowledge and less understanding. We should reexamine our entire Southeast Asian policy. I suggest one of the best ways to get the matter on the record is to indicate to the military, industrial, scientific, and reportorial sectors that the Senate has the will to cut back in a modest amount this enormous and swollen appropriation.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. CLARK. I yield.

Mr. MORSE. Mr. President, I wish to say to the Senator from Pennsylvania that I support his motion. I shall vote for his motion. I think it is a very sound motion. I think it is an unanswerable reply to a good many arguments we have heard on the floor of the Senate this afternoon by some Senators who do not want to vote for the type of cuts that have been offered them this afternoon.

The Senator's motion means we return the responsibility for cutting over to witnesses for the Department of Defense, who would have to come up and appear before the Committee on Appropriations again. I do not know how the motion of the Senator could be implemented without the Committee on Appropriations seeking the views of the Pentagon and they would have to testify where to make the $3 billion cut.

If they know that is what they have to do, it would be surprising how quickly they could do it. It defies the understanding of anyone how, out of a $70.2 billion budget they could not cut $3.5 billion without having any effect whatever of a kind that would jeopardize the security of the Republic.

I am proud to stand with the Senator and I support his motion.

Mr. CLARK. I thank the Senator.

V. STALEMATE IN VIETNAM

Mr. President, it is true, beyond peradventure of doubt, and despite the optimistic prognoses which have been coming from the military for the last 10 years, that we are in a condition of stalemate in Vietnam.

I am reminded of the old fable, which I believe is from Aesop, of the young man who came running into the assembly of his village crying "Wolf! Wolf! Wolf!" The people went out and looked for the wolf and there was no wolf. He did it again, and somewhat warily they went out and there was no wolf. The third time he cried "Wolf! Wolf!" they would not go, and that was the time the wolf came.

However, the difference between the presence of the United States in Vietnam and the fable is that the victory which the military have been predicting in South Vietnam—the military victory, the great, glorious military victory they have been predicting for 10 years—has not come yet, and I suspect it will never come; but they are going to keep crying "Military victory. We can settle for nothing else."

I say that we are in a stalemate, however disagreeable that phrase may be to those who are in authority in the Pentagon and elsewhere. Why do I say we are at a stalemate? I say that because, having started at the time of the assassination of President Kennedy with something like 16,000 American military personnel in uniform in November 1963, we now approach November 1967, 4 years later, with 485,000 men, more or less, in uniform in Vietnam, and 45,000 more to come in the immediate future, and we are worse off now than we were then.

Meanwhile, over 15,000 American boys have been killed, over 75,000 have been wounded or injured, 850 of our airplanes have been lost in combat, 2,573 airplanes and helicopters have been lost from all causes since the American involvement in Vietnam. We were spending $2 billion a month for this war, but my friend the Senator from Mississippi, now tells me that we are on our way to spending $2.5 billion a month.

Our military leaders, while voicing optomistic views as to how the war is going one day, tell us the next day it will be a decade or more before we achieve that military victory.

I suggest that although we have killed, according to our own count, 200,000 Vietcong and North Vietnamese, the enemy force we are now facing is the largest that has been under arms since we began attempting to crush the guerrillas and bomb North Vietnam into submission in an effort to bring peace to that war-torn land.

We are told there are 270,000 of the enemy as opposed to our roughly 500,000 Americans, and several hundred thousand more South Vietnamese of various categories, whose fighting ability and will to fight are subject to some question.

Meanwhile, while the military capability of our South Vietnamese allies is shrinking by the day, and while this is becoming more and more an American war every day, the enemy is vastly improved in terms of ordnance, automatic weapons, heavy mortar, flame-throwing equipment, antiaircraft guns, SAM missiles, and Mig aircraft. All we have done has been to accelerate the enemy resistance as we escalated our military effort.

Let us remember that only a fraction of Ho Chi Minh's regular army has been committed to combat. It was reliably stated from American sources the other day that only one-fifth of the regular army of North Vietnam has crossed the demilitarized zone in order to assist their allies, the Vietcong. I wonder who is going to run out of manpower first: The enemy, or we Americans, who are hard pressed not to induct Reserves and the National Guard into Federal service and send them to South Vietnam? Or are we going to draft more and more American boys to maintain the manpower to fight teeming millions of Chinese?

Mr. President, we cannot fight that kind of war. There are too many Chinese. Actually, there may be too many North Vietnamese. We may well be coming to the bottom of the manpower pool long before our enemies. I do not care how patriotic any citizen or Senator may be, there is a limit beyond which even this Senate is not going to go in permitting the flower of the youth of America to be destroyed in the jungles and elephant grass of Vietnam.

Let us take a look at that other war, the war of so-called pacification.

It started with the strategic hamlet plan of Ngo Dinh Diem. That was a failure. There have been half a dozen other plans for pacification—as one phrase has it—of the South Vietnamese countryside, and in other terms perhaps more friendly, the effort to win the hearts and minds of the people of South Vietnam, an effort which has been a complete failure. No one can really deny that.

We go in bombing, dropping napalm, throwing mortar shells, using automatic weapons, and dragging out screaming natives under the allegation that they are Vietcong or Vietcong sympathizers. So how do we think we are going to win the hearts and minds of the people in that hamlet?

One may say, "How is the Vietcong going to win the hearts and minds of those people when their torture is probably a great deal more terrible than that of our South Vietnamese allies?"

The answer is, they are fellow citizens in that country. They have a racial and nationalistic affinity for each other; whereas we are the hated colonialists.

If we look candidly at the pacification program, we must come to the conclusion that we have been unable to pacify the country. Our South Vietnamese allies have also been unable to pacify the country. If there is one group of people that the average resident in a South Vietnamese hamlet hates more than American colonials, it is the minions of General Ky.

Why?

Because the third generation of formerly French officers, who represent a majority of the leaders of the fascist junta which now rules South Vietnam, have never fought for their country. They fought for the French. I believe that there are only two officers of lieutenant colonel rank in the South Vietnamese Army today who fought with the Viet Minh and with Ho Chi Minh. If they fought at all, they fought for the Cao Dai and the French.

Under those circumstances, how can we expect these people to be happy about being pacified, how can we expect that they will turn their hearts and minds to what we call the American way of life and democracy in light of the basic facts which I have just recited?

I think it is pretty well accepted that if we left South Vietnam tomorrow, General Ky and his dictatorship would crumble within months, because it does not have the popular support of the people.

Toward the end of last week, I had occasion to comment on the coming South Vietnam elections and I made the point—and I make it again—that it is not necessarily the fact of possible fraud or intimidation or the ruling off the ballot of individuals who in all good conscience should be permitted to run for office, that makes it futile to hope for a reasonably free election, but rather it is the very nature and geography of the country.

I saw a most interesting table published in the New York Times about 10 days ago, under the byline of R. A. Apple, which he said contained information which was collected from official American sources, and which showed that of 17 million people in Vietnam, more or less, hardly more than 3,750,000 would be safe if they voted in the coming election. I am talking of the total population figure. I assume that perhaps half of them would be under 21. I really do not happen to know. But the only people who will vote in this election, as I see it, Mr. President, based on that table, will be the military, civil servants, the merchants and clerks in the cities, and refugees.

The table shows that of 12,000 hamlets in South Vietnam where over 13 million people live—the table is based on American sources of information—only 169 have a total population of 469,000 people who will be secure.

How are we going to open ballot boxes in hamlets when the Vietcong may come in and disrupt everything at the moment the polls open?

Of the 12,000 hamlets, according to the table, well over 3,000 hamlets are completely controlled by the Vietcong. The remainder shift back and forth—one day under our control, the next day under Vietcong control, sometimes at night—usually at night under Vietcong control; sometimes in the daylight, often in the daylight under our control.

Thus, I suggest that without regard to the charges of fraud, the elections on September the third in South Vietnam cannot possibly represent the real thinking of the peasants—the people of South Vietnam.

It appears that the U.S. goal in South Vietnam is a military victory. It is becoming increasingly clear that to achieve that victory will likely take a decade, will cost hundreds of thousands of casualties, will result in total devastation of the country, and may even, at that, be impossibe to achieve.

In a guerilla war, Mr. President, artillery and aerial bombardment cannot do the job; technology is no substitute for the man on the ground. This is a foot soldiers' war. They will have more foot soldiers, in the long run, than we will have.

The most damaging fact, as I said earlier, is that the pacification effort has failed.

It was a high-ranking American officer who told Mr. Apple, in the article to which I referred in the New Times a while ago—and I can well understand why—that 8 million troops would be needed for the pacification of the country.

It has well been said by a prominent Vietnamese politician, who is on our side, that the problem is not the North Vietnamese army but the South Vietnamese Government.

Corruption is rife. Police state tactics are rampant. It is as much of a dictatorship as any military junta has been anywhere in the world. The South Vietnmese army is widely charged with incompetent leadership. Young officers who are the head—as I said, the third generation—of the South Vietnamese French hierarchy are too young, too facist, too pro-American to make any appeal to the people of their country. The request for reinforcements coming from General Westmoreland and our military are a measure of our failure with the people of South Vietnam.

The people of South Vietnam do not support the Ky dictatorship. If the Ky dictatorship were fighting for freedom in Vietnam, land reform, education, sanitation, for all the things which every human being in this world has a right to ask for, it would have achieved the loyalty of the people. But it has not.

There is open revolt among the Buddhists. The army is dispirited and unwilling to fight under incompetent leadership.

So I say there is a stalemate in Vietnam, and 45,000 troops, or, in my opinion 450,000 more troops, will not break that stalemate. The enemy have the manpower reserves and the will to fight. While our boys, I am happy to say, have the will to fight, they are up against almost insuperable odds.

VI. WHAT ARE OUR NATIONAL PRIORITIES?

So I come to my final point, VI, which I would like to have headed, "What Are Our National Priorities?"

I suggest that the price we are paying for the Vietnamese war is high, far too high for us to pay. I say this for the following reasons:

First, the thought, energies, and spirit of the leaders of our Government are so absorbed with Vietnam that they have little time for anything else. I think this is apparent almost every day in terms of the President, the Cabinet, and the Pentagon.

Second, until the shooting stops in Vietnam, there is little chance that we can make meaningful progress in establishing that detente with the Soviet Union which is so essential to peace and to the well being of the peoples of both countries.

Third, all efforts to bring Communist China into the company of civilized nations at the United Nations and elsewhere are bogged down by the war in Vietnam.

Fourth, forward movement toward improving the structure of the United Nations and its ability to establish and maintain the peace of the world has practically come to a halt because of the war and the international animosities it has aroused.

Fifth, the traditional tug-of-war between the Executive and the Congress has been exacerbated.

Sixth, the public image of the United States has been changed from a benevolent Uncle Sam seeking to do more than his share in curing the ills of the world to a power-hungry imperialist bent on establishing by force of arms a Pax Americana.

Seventh, the efforts to balance our international payments and to protect our gold supply have been crippled, if not killed.

Eighth, the casualties are unsupportable.

The figures I have given do not include those afflicted with malaria, dysentery, hepatitis, bubonic plague, and other jungle diseases, which may last for life. The carnage continues and mounts in intensity each month.

Ninth, but perhaps the highest price of all, is the brutalization of human nature and the turning aside of our aspirations for man caused by the war. Primitive instincts for combat have been revived by the daily statistics of the number of Vietcong and North Vietnamese troops killed in the last 24 hours. Watching the war on TV has become a popular spectator sport. Seeing young men killed and old women burned is commonplace in the living rooms of millions of Americans. Clamor in the country for "getting it over with quickly through the unrelenting use of military power, including nuclear weapons," rises daily. The military-industrial-congressional-scientific-reportorial complex rides high. Advocates of arms-control and disarmament have taken to the fallout shelters.

In such an atmosphere, one must attest to the validity of Alexander Pope's phrase, "The greatest enemy of mankind is man."

We still have a chance to make out of America a modern Athens. I fear we are on our way to making it a modern Sparta.

I yield the floor.

Mr. CLARK. Mr. President, the thrust of my argument then and the thrust of my argument now is that if we are willing to postpone certain expenditures and cut out the fat in the space program and in the Defense Department budget, and in other areas, we can, if we also extend the excise tax, strengthen our monetary and fiscal position and shore up the status of our dollar. The result will be to keep our gold supply secure until such time as international monetary authorities can progress further in their plans to eliminate gold and the gold exchange standard as the principal backing for international monetary transactions.

I will not undertake at length to point out at this time the various areas where these cuts can usefully be made. I would rather devote myself to the philosophical concept behind the pending amendment and, taking the categories one by one as they are set forth in the proposed amendment, I would suggest that foreign military assistance on the whole does us more harm than good. It was really foreign military assistance which got us embroiled in Vietnam. It is foreign military assistance which is encouraging a whole host of countries to adopt attitudes of belligerence toward their neigh-

bors and render the likelihood of more brush fire wars breaking out.

The Senate last year did make a significant cut in foreign military assistance program.

The PRESIDING OFFICER. The Senator will suspend until we have order in the Senate Chamber.

The Senator may proceed.

Mr. CLARK. In my judgment, I believe there is substantial room for further cuts without affecting in any way our national security. Latin America is one area in which I believe quite significant cuts in foreign military assistance could well be made.

As one example of what I have in mind, I understand that today there is a high level meeting at the State Department to determine whether to resume military assistance to the Greek dictatorship. I would hope very much that the decision would be in the negative. But since I appreciate that there are many protagonists of the Greek dictatorship in the State Department, I would be fearful that foreign military assistance would be resumed to shore up that regime, which is anathema to an overwhelming majority of the people of Greece.

If we have to make cuts in order to deal with our very serious monetary and fiscal crisis, I believe that foreign military assistance is one area in which we could well make them.

The second category has to do with the space program. I share the pride of all Americans in having the United States the preeminent country in the development of manned adventure into space, to the moon and other planets, and the various other categories of the space effort. But we are dealing with the critical matter of determining our national priorities.

I see in the Chamber the Senator who has been the most outstanding Member of the Senate in calling to our attention the increasingly critical nature of our fiscal and monetary problems. I refer to the able Senator from Missouri [Mr. SYMINGTON]. I know that it would be very important to follow the advice of Senator SYMINGTON and others and to put our fiscal house in order.

Therefore, we are faced with a choice of priorities. It is the job of Congress to determine what those priorities should be. To my way of thinking, the clear priority is to advance our domestic programs and to protect our fiscal and monetary integrity.

Adventures into space which are costing billions of dollars—yielding, of course, useful information; but, in the end, adventures into space which could well be postponed—are clearly of a lesser priority.

Finally, Mr. President, I have worded very carefully the third category, which deals with expenditures of the Department of Defense. In order that Senators may understand how carefully this has been drawn to protect the national security, I read again that the cuts should be made in the Department of Defense "to the extent that such reservations will in no way endanger the security of the United States or the safety of U.S. troops."

Senators may inquire as to how we can cut the defense budget at all and still comply with the careful wording of the reservation. I would say that the answer is very clear, indeed. It is set forth in detail in the speech I delivered on August 22, which I have just asked to have printed in the RECORD. I do not wish to take my limited time to go into it in greater detail, other than to say that we have almost an $80 billion defense budget. From that amount, we are spending $30 billion in Vietnam. That leaves $50 billion for other defense expenditures—defense installations scattered all over the United States, troops all over Europe, the fleet in the Mediterranean, 3.4 million men under arms in the Army, the Air Force, the Navy, and the Marine Corps. Surely, in this area, notorious for waste and for extravagance, the cuts necessary to put our budget in order and to preserve our domestic programs can easily be made.

As one example, if we were to take a cut of 20 percent of the number of men under arms today and not take one man out of Vietnam, we could save several billions of dollars, which would make it possible to bring our fiscal affairs into better balance.

In the speech to which I have referred, I gave a number of other examples. I will not take the time to go into them in detail now, because few Senators are on the floor. But there is this to be said in connection with the antiballistic missile: It is one of the areas in which I am certain we could make a cut. There is new obligational authority in the fiscal 1969 budget of $1.141 billion. This includes costs for procurement, research and development, construction, and deployment. The bulk of the expenditures is for the so-called anti-Chinese Sentinel missile. These amounts also include the R. & D. on the Nike X. This does not include the $100 million for research on future antiballistic missile systems.

Mr. President, there is hardly a scientist in the world, there is hardly a military expert in the world, who does not agree that the antiballistic missile system is no good, that it will not do the job. It is admitted that it will not protect us against the Russians. My view is that this entire expenditure is for the benefit of the military-industrial complex against which General Eisenhower warned us so strongly when he left the White House. It is an example of folly and waste combined.

There is another area I did not include in my amendment because I was assured by the able Senator from Washington [Mr. MAGNUSON], the chairman of the Committee on Commerce, that there was no present intention to spend any money in fiscal 1969 for the so-called supersonic transport, another low-priority item, which in my opinion, will do no more than break all our windows and shatter all our eardrums.

However, an item of $223 million is in the fiscal 1969 budget for the further development of the supersonic transport, and I am happy to learn from Senator MAGNUSON that the Bureau of the Budget and the President have already decided not to spend that money. At least, that is one area in which cuts could be made which would make unnecessary the cuts in the domestic programs to which the Javits amendment is directed.

I strongly support the Javits amendment, and I hope that he, in due course, will see the wisdom in supporting my amendment.

I reserve the remainder of my time.

Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CLARK. How much time do I have remaining?

The PRESIDING OFFICER. The Senator from Pennsylvania has 16 minutes remaining.

Mr. CLARK. I thank the Chair.

I yield the floor.

The PRESIDING OFFICER. Who yields time? Time is running.

Mr. SMATHERS. Mr. President, I am happy to yield to the Senator from New York such time as he may desire.

Mr. CLARK. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. CLARK. Against whose time is the Senator yielding 5 minutes?

Mr. SMATHERS. It is being yielded on my time.

The PRESIDING OFFICER. The time is charged against the opposition.

Mr. JAVITS. Mr. President, nothing in the world would please me better than to be able to vote "yea" on Senator CLARK's amendment to my amendment. I hope he will understand and forgive me when I say I cannot do so, in fairness to the proposal I have submitted to the Senate. I hope he will not be so put out with me that he will decide not to support my amendment if his amendment does not carry, as I can promise him that I will continue to urge mine if it does.

Briefly, my problem is this: As we calculate the amendment offered by Senator CLARK, it would limit the area to which the $6 billion of cuts to be made by the President is required to apply from $87.3 billion—which we have as the area of application under my original amendment—to $58 billion. The difference of $29 billion, while I deeply appreciate the desire of the Senator from Pennsylvania, makes a great difference to me, because it very materially therefore increases the amount of cuts which will have to be made against the three items to which the Senator has limited the cuts.

Mr. CLARK. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. CLARK. I am sure the Senator does not desire to misrepresent my amendment. I call to his attention that the statement he just made is not correct, because the amendment reads, "Insofar as may be practicable, the reservations shall be made" from the following authorizations. This does not limit the cuts to those three at all.

Mr. JAVITS. It is an elementary principle of law that where you specify categories, they take precedence over the generalization.

Mr. President, I must assume, because I am left no other assumption on which to proceed, that the cuts will be made to these items and that they will not be made to the list of 23 items which the Senator from New Hampshire read and to which I referred in my argument, which are susceptible to cuts on the part of the President when he applies the $6 billion cut.

After all, the purpose of the Senator's amendment to my amendment must be to limit somewhere the $87.3 billion, the area in which cuts can be made; and it is because I do not feel such limitation is desirable that I take the attitude I do.

The approach of the Senator from Pennsylvania is entirely different than my approach because he would provide the cuts must be made from certain things. I provide that certain things appropriated by Congress shall not be cut. My approach is a totally different approach and it is 100 percent the other way.

I believe that the appeal of my amendment is heavily based upon the action the Senate took last night to free the hands of the President rather than to tie them.

It will be recalled that last night we eliminated the moratorium on public works. That action did not mean—and several Senators have asked me to explain it and I have—that public works cannot be cut because they can be. They are available for cuts within the $87 billion I described. We said they cannot be treated specially; they have to be treated like everything else and they are subject to cuts.

I am trying to reserve certain critical items which affect the cities primarily, although as the Senator has pointed out, there are definite rural implications. However, primarily they deal with the problem in the cities with respect to tranquility and public order. Therefore, the area in which cuts can be made remains very wide and it includes the entire defense program and many other things not included in the three specifics the Senator mentioned.

I wish to give one or two examples, drawing on this very splendid list made by Members of the other body. They include, for example, $100 million for various expenditures for public information; they include a freeze on government civilian employment involving $961 million. That would go across the board. They include the National Science Foundation, as much as I value it. However, in that item there is $250 million involved. There is also involved the supersonic transport, $222 million; highway beautification for $85 million. I approve of all of these programs, but we have to make a choice somewhere on priorities.

The PRESIDING OFFICER (Mr. HARRIS in the chair). The time of the Senator has expired.

Mr. JAVITS. Mr. President, I yield myself 1 additional minute.

The PRESIDING OFFICER. The Senator from New York is recognized for 1 minute.

Mr. JAVITS. Mr. President, the priorities I am seeking are the negative priorities of not cutting things we appropriate, but I do not want to be a party to zeroing the President in on only certain items. That is the thrust of the Senator's amendment.

I cannot tell the Senator how much I appreciate his help and espousal of my amendment. I would be ungrateful if I did not say what I am saying. I wish I could go along and accept the Senator's amendment. However, inasmuch as it narrows the field for cutting by about $30 billion, about 40 percent of the field I leave in my amendment, I feel it would prejudice my amendment if I went along with his amendment.

For those reasons, I most regrettably would have to vote against the Senator's amendment.

Mr. CLARK. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Pennsylvania is recognized for 2 minutes.

Mr. CLARK. Mr. President, I thank the Senator from New York for his kind remarks. However, I am sure he inadvertently very badly misrepresented my amendment. It is perfectly clear.

What I have in mind and what I think the amendment would do would be to indicate areas of priorities in which cuts should be made. There is nothing in the amendment to require cuts to be made only in these areas and the words "so far as practical" in the amendment make this abundantly clear.

It is my strong belief, and I am sure the Senator from New York will agree—although he may not want to say so—that the swollen military budget, the space program, and foreign military aid are areas which should take a much lower priority than domestic programs, which are not only city programs, but also are rural programs as well.

I hope that when we come to vote on my amendment it will be understood that this is intended to indicate priorities where I believe cuts must be made in the foreseeable future.

The people of the United States are not going to permit very much longer having a swollen military budget of $80 billion, the space programs and the foreign military aid program, taking priority over the poverty program and the education program when we have such enormous need for domestic programs at home.

Mr. President, I reserve the remainder of my time.

The PRESIDING OFFICER. Who yields time?

Mr. LAUSCHE. Mr. President, is there any more time remaining on the Javits amendment?

Mr. SMATHERS. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator has 21 minutes remaining.

Mr. SMATHERS. How much time does the Senator desire?

Mr. LAUSCHE. Mr. President, will the Senator yield to me for 5 minutes?

Mr. SMATHERS. I yield.

Mr. LAUSCHE. Mr. President, earlier this morning I made inquiry of the Senator from New York as to the source of the figures contained in his memorandum covering the various items of expenditures that would be protected by his amendment. His answer was that they were taken from the budget.

I then further inquired whether the budgetary figures of 1969 were in excess, equal to, or below the actual appropriations for 1968. The Senator could not immediately answer that question, but he had me consult with his assistant for the purpose of ascertaining the facts.

We checked to determine the situation with respect to the major expenditures that would be protected by the Javits amendment. One major item is expansion and improvement of vocational education. The budget for 1969 is $246,300,000, or $13,700,000 less than the appropriation for 1968. I now turn to urban renewal programs. The 1969 budget is for $699 million, or $200 million more than the 1968 appropriation. Low-rent public housing, administrative expenses, the budget of 1969 is for $335 million plus, or $55 million in excess of the 1968 appropriation.

In connection with model-cities programs, the budget of 1969 is for $250 million, which is $225 million more than the 1968 appropriation. On the item of water- and air-pollution prevention, the 1969 budget is for $278 million or $61 million more than the appropriation for 1968. Air pollution in the budget is for $80 million for 1969, which is $27 million more than the appropriation for 1968.

I now come down to aid to the District of Columbia. The Federal payment for aid to the District of Columbia is $83.5 million, $10 million more than the 1968 appropriation.

Loans to the District of Columbia for capital outlay, $67.2 million, which is $51 million more than the 1968 authorization or appropriation.

There is one other large item and that is for manpower, development, and training activities. The 1969 budget is $430 million. In other words, $143 million more than the 1968 appropriation.

The total of all these figures shows in record numbers that the budgetary recommendations of 1969 are $823 million more than the appropriations for fiscal year 1968.

I point out, Mr. President, that if we are to tackle the subject of the challenge to the credibility and stability of the dollar, we must do it at an early date. We cannot wait. If we do, we will find ourselves, in all probability, in a position from which we cannot extricate ourselves, leading to destruction of the value of annuities, pensions, and savings accounts gathered by people to take care of themselves in their old age, in the value of Government bonds, and in practically every other intangible asset except the tangibles which people possess. It would seem to me that we should at least stay with the figure of the 1968 appropriations and not the 1969 budgetary recommendations.

Mr. President, I may have something to say on this subject at a later time.

I yield the floor.

Mr. SMATHERS. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 2 minutes.

Mr. SMATHERS. Mr. President, I would hope that the Senate will vote against the so-called Clark amendment.

It states:

(c) Insofar as may be practicable, the reservations from expenditure provided for in subsection (b) shall be made from authorizations for:

(1) foreign military;

(2) the space program; and

(3) the Department of Defense, to the extent that such reservations will in no way endanger the security of the United States or the safety of United States troops.

Mr. President, that item number 3, on line 6 of the amendment, which concerns expenditures by the Department of Defense, does not say who will have to decide what endangers the security of the United States or the safety of U.S. troops. Obvously, we would expect people in the military departments to state that everything they are now doing is necessary for the national security of the United States or the safety of U.S. troops. So the result might well be, under this particular language, that we could not affect any cuts in the Department of Defense. It would mean that the balance of the cuts would have to come from foreign military and the space program.

If we were to affect the entire cut which has been proposed against the foreign military and the space program I think we would have to eliminate both programs, for all practical purposes. I do not believe that we want to eliminate both programs.

The PRESIDING OFFICER (Mr. BYRD of Virginia in the chair). The time of the Senator from Florida has expired.

Mr. SMATHERS. Mr. President, I yield myself 2 additional minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 2 minutes.

Mr. SMATHERS. Mr. President, there are some justifiable criticisms which can be made to the foreign military program, I am certain. With respect to military assistance programs, even in the case of dictatorships, it has been my observation that not all such assistance programs have been bad. In some of the underdeveloped countries of the world, the people do not have sufficient experience to run the kind of democracy that we have here in the United States. Hopefully, we think, such governments are tending toward eventual democratic processes.

Of course much of this program also goes to countries which are not dictatorships. In this particular program, we give aid to Turkey to help it to resist outside pressures, since it is on the periphery of the Communist world. We also give aid to Greece for the same reason. Now Greece is a military dictatorship. We do not particularly like that fact and are trying to bring pressure to bear, as well as we can, to keep it moving toward democracy. If we withdrew our assistance from either country, however, we would throw those countries into the Communist orbit almost immediately. The same thing would be true of Thailand, and some 15 to 20 other countries on the borders of Communist-controlled countries. We do not want that to happen.

I also do not think it would be wise to eliminate the space program. I am sure the Appropriations Committee will find some areas that could be cut out of the space program, but I do not think we should stop the space program altogether. It would seem to me that the best idea would be to try to bring about balanced, generally distributed cuts in the budget in order to protect the dollar both here and abroad.

The PRESIDING OFFICER. The time of the Senator from Florida has expired.

Mr. SMATHERS. Mr. President, I yield myself 2 additional minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 2 additional minutes.

Mr. SMATHERS. Put an expenditure ceiling over the Appropriations Committee and then let it exercise its best judgment as to where it will make the necessary cuts. It seems to me, this would be the proper way to do it.

Mr. CLARK. Mr. President, I yield myself such time as I may require.

The PRESIDING OFFICER. The Senator from Pennsylvania is recognized.

Mr. CLARK. Mr. President, with all due deference to my able and charming friend, I differ significantly with his interpretation of the third part of my amendment which deals with cuts to be made in the Department of Defense.

I would not expect the generals and admirals at the Pentagon to say that any part of that huge expenditure of almost $80 billion for defense was not necessary to protect the security of the United States or the safety of U.S. troops. But I would point out that, thank God, we still have civilian control over the military. We have an able, new Secretary of Defense in Clark Clifford. I hope that he will be as tough with his generals and admirals as Secretary McNamara was. Above it all we have the civilian President of the United States. And that is where I would expect cuts to be made—by the Secretary of Defense and the President; that they would agree that the highest priority is first to protect the dollar and second to protect the domestic programs which President Johnson played so large a part in getting started.

The interests of the military industrial complex which profits from the swollen defense appropriation certainly come last.

Mr. President, I ask unanimous consent to have printed in the RECORD an article which was published in the Washington Post this morning, entitled "Pentagon Uses $2.5 Million in Bird Study," written by Thomas O' Toole.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

PENTAGON USES $2.5 MILLION IN BIRD STUDY

(By Thomas O'Toole)

Why has the Pentagon spent $2.5 million on something called the Pacific Bird Project?

One answer the Pentagon gives bird watchers is that it wants to find out whether birds carry the Asian flu to the United States. The answer given by the Smithsonian Institution, which runs the program for the Pentagon, is that the Pentagon is honestly interested in knowing the migratory patterns of birds as they wander about the Pacific.

There is a third version. It is unofficial, and goes like this:

The Pentagon, so it is said, would like to move germ warfare testing to an island in the Pacific—but what island? Not only would it have to be remote and uninhabited, it would also have to be barren enough that birds would not want to use it as one of their regular homesteads.

The way the Pentagon has chosen to find this island, goes this unofficial version, is through a vast and meticulous study of Pacific bird migrations.

Ostensibly, this is all that the Pacific Bird Project has been for the past six years. In that time, Smithsonian ornithologists have visited hundreds of islands, banded more than 2 million birds and written more than 40 reports on the migrations of the numerous bird species that flock one end of the Pacific to the other.

But there's more to the Pacific Bird Project than meets the eye.

For one, it's financed and directed by the U.S. Army Biological Center in Fort Detrick, Md., and a telephone call to the officer-in-charge of the project suggested it might be more than a bird study.

"I can't talk about that project," he said. "It's classified."

About all the Pentagon would say is that it is interested in finding out what diseases Pacific birds might pickup in their migrations and what kinds of ticks and mites (notorious disease carriers) they might pick up as they wander from island to island.

Indeed, the Pentagon said, this is the reason the project is directed by Fort Detrick, which as everybody knows, is vitally interested in diseases passed on by birds.

All of this tends to confirm the unofficial version that the Pentagon would like to set up germ warfare testing in the Pacific. The reason is that birds could carry a disease brought on by "fallout" from a germ warfare test from one island to another, so naturally the Pentagon wants to know how the birds might carry disease.

The only thing the Pentagon will say is that the idea of setting up germ warfare operations to the Pacific was considered in the past, but that the cost of moving it from the Dugway Proving Ground in Utah has always far outweighed the benefits of an isolated Pacific test site.

But now—with the possibility that nerve gas (a form of germ warfare) caused the deaths of 6400 sheep near the Dugway site—expense may no longer be a dominant factor. At the same time, goes th unofficial version, germ warfare may be reaching the stage where testing must be moved outside the country.

"It could be," said one source, "that open-air testing is now necessary, to find out if some of these things work under field conditions and long exposure to sunlight. If that's the case, then the Army has to test them in the Pacific."

Mr. CLARK. If Senators will read the article, they will find that $2.5 million is being spent by the Pentagon to band birds for the purpose, alleged by some, of seeing whether they can find some island where they can conduct further research and development on germ warfare. To me, this is not only a ridiculous expenditure, it is also immoral and unethical.

I reserve the rest of my time.

Mr. SMATHERS. Mr. President, I yield 5 minutes to the Senator from Oklahoma [Mr. HARRIS].

Mr. HARRIS. Mr. President, I rise in support of the amendment offered by

the distinguished Senator from New York [Mr. JAVITS]. As Senators know, I had the rather unpleasant duty recently of serving as a member of the President's National Advisory Commission on Civil Disorders. The 10 other members on that Commission are, I think, among the most dedicated and most patriotic men with whom it has ever been my honor to be associated.

We spent 8 months with some 48 full days of meetings of that Commission, together with personal visits to the various major cities of America, looking at what we came to see as a very alarming and depressing picture of our country presently, a very alarming and depressing picture of what the future may hold in this country if we do not now commence to take some steps which are long overdue.

It gave us no particular joy, as I have said before, to make that kind of report; but the President had said to us, when he appointed us, "As best you can, find the truth and express it in your report." That was exactly what we tried to do.

Strong and eloquent agreement with the findings of the President's National Advisory Commission on Civil Disorders has been expressed not only by the editors of newspapers in our largest cities, but also by editors in smaller cities and towns. I think it is all the more impressive in view of the fact that many smaller cities and towns have never experienced the level or intensity of deprivation and discrimination which underlie disorders in our larger urban areas.

By point is stated explicitly in a column by Brooks Bicknell, in the Review-Courier of Alva, Okla., on March 8, 1968, which argued that—

Riots in our cities are more than the concern of the officials and residents in the metropolitan areas "struck" by lawlessness, rioting and civil disobedience. It is quite natural for citizens in smaller communities not "shot through" with racial uprisings; ghettos; damage to property, arson and mayhem . . . and sometimes death to contend they have no "stake" . . . but no hamlet or big town of residents can escape a portion of the responsibility.

I ask unanimous consent that the complete editorial may be printed at this point in my remarks, together with a similar editorial that appeared in the Elk City, Okla., Daily News, of March 4, 1968, and an editorial which appeared in the Tulsa World on March 2, 1968.

There being no objection, the article and editorials were ordered to be printed in the RECORD, as follows:

[From the Alva (Okla.) Review-Courier, Mar. 3, 1968]

OFF THE CUFF

(By Brooks Bicknell)

Riots in our Cities are more than the concern of the officials and residents in the metropolitan areas "struck" by lawlessness rioting and civil disobedience. It is quite natural for citizens in smaller communities not "shot through" with racial uprisings; ghettos; damage to property, arson and mayhem . . . and sometimes death to contend they have no "stake" . . . but no hamlet or big town of residents can escape a portion of the responsibility.

The President's National Advisory Commission on Civil Disorders has produced a far-reaching report along with predictions of possibly more of the same in the forthcoming "long hot summer." Hailed with expert esteem the commission's report has hit the front pages with a solidarity, in most areas, of support.

Oklahoma's own junior U.S. Sen. Fred R. Harris, a most active member of the civil disorders commission, has been forthright in his reflection of the report. He has withstood powerful questioning in interviews and, I am most happy to note, come through with flying colors on a nationally recognized scale. Senator Harris has stood "Ten Feet Tall" in this effort and to him I extend my congratulations.

It won't be easy and it won't be cheap . . . It can't be corrected overnight, this serious situation involving humans, but movement in the right direction and soon as possible would be a show of good faith to eventually solve the problems.

We are not going to eliminate the poor. We have always had poor people and always will. We're not going to completely eradicate sub-standard living conditions because we will always have those kind of persons who wouldn't take care of, or keep respectable, property no matter if they were "given" outright, modern homes with some of today's conveniences. But the "picture" is out of balance. Improvements can be made.

The Commission has used a term "white racism" as one of the major causes of the unrest that in the past few years, developed near anarchy in certain areas among certain people. I'm not going to disagree with the term. I'm confident we, in this nation, have "white racism" and, most likely, too much of it in most sectors. And yet, I'm not going to place all the blame for the sorry conditions at that one "doorstep."

Opportunity for improvement by an individual is present in a majority of cases. We realize that this is not universal. I do believe that bigotry has no place in the American way of life . . . I disagree with anyone or movement that "puts down" a human being because of his color, creed, or national origin. I also, insist that legislation is not the whole answer.

Respect! That's the key word. Persons who decline to have respect for themselves certainly shouldn't expect to gain respect simply because of law. The Negro who has worked, developed himself through availabilities will gain self-respect and can expect then, and should receive respect from his fellowman in return and color has no place in the consideration. Not a few white men and women have been as degraded as many Negroes because of refusal to seek out and work for achievement to gain such respect.

We have never been convinced that a government can legislate morals nor can it pass laws making anyone my friend.

The causes of the riots and disturbances are so many, it wouldn't be possible to reiterate all that have been suggested. I am dubious about many causes put forth from different areas and by different individuals. We do know we have the problems. We do know that these problems are generated by some cause or causes. We can't ferret each and everyone quickly. We can face them as they arise and then go to work to correct the situations in an effort to solve them.

Rights and privileges are, of course, paramount among causes. Poverty must be regarded as a major cause. Jobs, good employment under good conditions play a major part . . . But, human beings play the "starring" roles, both as employer and employee. The employer wants production. The employee must be willing to work, learn and elevate himself in a chosen field. These factors are the basic foundation for conditions and solutions.

And all this must be prefaced with a dedication to respect and obsérve law and order first, or the efforts will be lost in the whirlwind of refusal to understand and seek improvements.

[From the Elk City (Okla.) Daily News, Mar. 4, 1968]

PEOPLE FACE DECISION

President Johnson's Advisory Commission on Civil Disorders reported this past weekend a document which underscores the need for considerable progress in making equality of opportunity a "real thing" in America today.

The commission and its subsequent report is the outgrowth of the unfortunate civil disorders which occurred in several metropolitan areas this past summer.

Perhaps the one most truthful point in the entire document is that which says that the most effective instrument in bringing opportunity about is the interest of concerned citizens at the local level.

Generally, the document reports that all is not right in America but things are showing slow improvement.

Senator Fred Harris, D-Okla., commented following the issuance of the report by the committee on which he served that the American people are not aware of the danger of polarization" of the races.

By this the senator is saying that the commission members were fearful that the American people were tending to line up on two sides the whites vs. the blacks and vice versa.

If this is taken to an extreme, it will be an unfortunate day for this nation and its people.

While considerably, the white must have been at fault in the Negro plight, it is not enough to say this without saying that the Negro must share in this responsibility.

Further, while the government can encourage by its support of integration and cooperation between races, the real test of opportunity will have to come from decisions by individual human beings in the hundreds of thousands and even millions.

These decisions will be from somewhat different perspectives. It is true that the whites will have to recognize the Negro as an equal human being from an opportunity point of view in more ways than just a mere statement of the same.

Negroes very obviously will have to get off their inferiority and persecution complexes from a racial basis of consideration.

Whites cannot give Negroes respect. They will have to earn it by the fruits of their labors, and such has never been easy in the past nor will it be in the future.

Likewise, whites cannot give real respect to whites who have not the desire nor the will to make a contribution to civilization and mankind in some productive form.

Where there are problems and they do exist in varying degrees in virtually every city in America, it is up to the people in those towns and cities to face the reality of the need for Americans to work and build together.

The belligerents in both races do the causes of justice, progress and harmony a considerable disservice. And it should be remembered by all of those who care to dwell on the problems of America in this area that those who cause the most trouble and are the most difficult with which to reason are a small minority.

"Polarization" as Senator Harris put it will not occur if the majority of Americans of all races face the facts and realize that solutions rest in any broad sense in decisions involving understanding by individual human beings.

[From the Tulsa (Okla.) World, Mar. 2, 1968]

TWO-WAY RIOT REMEDIES

The full report—250,000 words—of the President's anti-riot commission is still to come, but the 12,000-word summary already released is enough to show what a vast, long-range problem the nation faces.

Every thinking person ought to read at least a brief of the summary, because this is

the most comprehensive study yet made of our No. 1 domestic problem. Prevention of riots and street disturbances is infinitely important because that problem envelops most of our others to some degree—poverty, unemployment, under-education, public health and urban blight, to name a few.

To start clearing such a jungle is to tackle almost every known frailty and illness of our society. This is not to say the job cannot or should not be undertaken because it is too tough, but simply that no one should expect all the accumulated wrongs and ills of our age to be dissipated overnight.

Even the entire Federal Treasury cannot do that—and it is hardly an exaggeration to speak of Fort Knox in connection with this report. No one has any idea how much it would cost to put all its vast and varied recommendations into effect.

This is one thing the anti-riot students do not tell us. They see the problem with great clarity and wisdom. They understand the corrections that are needed in order to form a more perfect world—and certainly they sense an urgency that more of us should grasp. The problem is not going away.

But the members of the commission do not allow themselves to look beyond or outside the anti-riot problem. Perhaps they feel they cannot or should not because that is not their job.

But the rest of us have to take this wider viewpoint. We have to see the problems of the cities and the minorities in the light of a war-burdened economy already stretched thin. We have to search the report for places where *beginnings* can be made, for we know the entire overhaul of our society is not possible overnight.

The potential rioters also must be made to see this. If society has an obligation to them, have they none in return? They must see that if new efforts are made to improve education, housing, employment and race relations—as they already are and must continue to be—then rioting, looting, arson and shooting must stop. Anything less will hamper progress on what is essentially a two-way street.

We cannot be satisfied with a do-nothing approach to the tremendous problem outlined by the President's commission. Nor can we be satisfied with lip service or token measures. We must in fact begin to correct below-par schooling, lack of job training, miserable housing and a double standard of justice among minority groups.

At the same time, let's not kid anybody. All inequalities and injustices cannot be wiped out overnight. The perfect society doesn't exist and will be a while in coming. And it will come faster if it is not set back by new riots that destroy far more than they build.

Mr. HARRIS. Mr. President, after wrestling with these problems for 8 months, we on the Commission said quite plainly, and I think quite truthfully, that "there can be no higher priority and no higher call on the American conscience" than the problems with which we were dealing. Therefore, in pursuance of what I know to be the truth, having served in that capacity, I support the amendment now offered by the distinguished Senator from New York [Mr. JAVITS].

I regret that I cannot in this instance support my distinguished friend from Pennsylvania [Mr. CLARK] in listing certain areas where the cuts and expenditures ought to come from. I believe that the better approach, as has already been stated in the Williams-Smathers substitute before us, is to point out those places where they should not come from.

I think it is eminently right that the Senate should adopt the Javits amendment. I do not think that at a time such as this, when our country faces the greatest domestic crisis it has seen at least since the days of the Civil War, we can justify a cutting back of educational funds, funds for the Teachers Corps, which are pitifully small even in the budget, funds for vocational education, funds for educational improvement for the handicapped, and for all the measures that are mentioned in the Javits amendment having to do with housing which, in most of the urban ghettos of America, as well as in rural poverty areas, is tragically deteriorated.

I point out, Mr. President, that the Javits amendment applies to rural as well as urban areas.

I do not think any Member of the Senate feels it would be proper and justified, at this critical time in American history, to cut back on funds allowed in the President's budget for law-enforcement assistance or for the control of crime. Surely we would not feel it would be appropriate to cut back on manpower development and training activities, when the best ticket, the most socially acceptable, the one which allows a man best to retain his self-respect—the best ticket to the outside world from urban ghettos or from depressed rural areas is a job. I do not see how we can cut back on items in the President's budget for OEO.

Therefore, I plead with the Senate to adopt the Javits amendment, which I hope will be adopted without the Clark amendment. I think the future of the country requires it.

I feel quite strongly that we must exercise fiscal responsibility. We must get our fiscal house in order. As I have said before, that will require both a tax increase and a delay or deferral or cut in nonessential expenditures simultaneously. But I think, as the Commission on Civil Disorders made clear, there is no higher priority or call on the American conscience than the items represented in the Javits amendment.

Mr. CLARK. Mr. President, will the Senator yield, on my time, for an observation?

Mr. HARRIS. Yes.

Mr. CLARK. I agree with everything the Senator has said about the Javits amendment. I am grateful to him for helping me on this side of the aisle to support it. I regret the Senator does not feel able to support my amendment, which may be a little ahead of its time, although I hope not. But the Senator is a wise Member of this body and he knows we have to protect the integrity of the dollar. We have to assure that our monetary situation is sound. We have to keep our domestic programs going. We cannot cut them, as will be able to be done, unless the Javits amendment prevails. But then we are faced with the situation of where we are going to cut. We ought to be brave about it and say there are only a few places where we can cut.

I am sure the Senator will agree with me in his heart that we cannot indefinitely continue to have a military budget of $80 billion, plus a space budget of several billion dollars, plus a rather elaborate foreign military aid program, and keep the dollar in sound shape and the domestic programs going. We ought to face up to this problem—if not now, soon.

We cannot keep this country sound if we continue military expenditures at the rate of $80 billion. It cannot be done. The defense budget is full of water. It is full of waste. Now is the time for those of us who like to look a little ahead and who love our country as much as those who are willing to see thousands of our boys killed month after month and year after year for the illusory thing called military victory to cut back where we can. Let us get the budget back in line.

Mr. HARRIS. Mr. President, may I briefly respond, on the Senator's time?

Mr. CLARK. Yes.

Mr. HARRIS. I do not want to fall out with the distinguished Senator from Pennsylvania over his amendment, because, as he well knows, I honor him greatly for the tremendous work he has done in this field over the years. I laud him for his continued dedication to helping our country see the critical problems that face us domestically, and helping in this fight to built the national will and determination to meet those problems.

It just happens that I have a different approach. It is the approach of stating where the cuts should not come, and not where they should come. The Senator has admitted that his amendment is not binding on the Chief Executive, anyway.

We are in agreement on the tremendous need to face up to our domestic problems here at home.

Mr. CLARK. Mr. President, I thank the Senator for his observation.

If the Senator from Florida is prepared to yield back his time, I am prepared to yield back my time.

Mr. SMATHERS. Yes.

Mr. CLARK. I yield back my time. I suggest that the Senate vote.

The PRESIDING OFFICER. The question is on agreeing to the amendment of the Senator from Pennsylvania [Mr. CLARK] to the amendment of the Senator from New York [Mr. JAVITS]. All time on the amendment has been yielded back. The yeas and nays have been ordered, and the clerk will call the roll.

The bill clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Oklahoma [Mr. MONRONEY], the Senators from Rhode Island [Mr. PASTORE and Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Mississippi [Mr. STENNIS], the Senator from Georgia [Mr. TALMADGE], and the Senator from Texas [Mr. YARBOROUGH] are necessarily absent.

I also announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Michigan [Mr. HART], the Senator from New York [Mr. KENNEDY], and the Senator from Missouri [Mr. LONG] are absent on official business.

I further announce that, if present and voting, the Senator from Michigan [Mr. HART] wold vote "nay."

On this vote, the Senator from New York [Mr. KENNEDY] is paired with the

Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from New York would vote "yea," and the Senator from Rhode Island would vote "nay."

Mr. KUCHEL. I announce that the Senator from Utah [Mr. BENNETT], the Senators from Illinois [Mr. DIRKSEN and Mr. PERCY], the Senator from Arizona [Mr. FANNIN], and the Senator from Iowa [Mr. MILLER] are necessarily absent.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Illinois [Mr. PERCY], the Senator from Arizona [Mr. FANNIN], and the Senator from Iowa [Mr. MILLER] would each vote "nay."

The result was announced—yeas 17, nays 62, as follows:

[No. 91 Leg.]

YEAS—17

Burdick	Hatfield	Moss
Byrd, W. Va.	Kennedy, Mass.	Nelson
Church	McGovern	Randolph
Clark	Metcalf	Tydings
Gruening	Mondale	Young, Ohio
Hartke	Morse	

NAYS—62

Aiken	Gore	Montoya
Allott	Griffin	Morton
Anderson	Hansen	Mundt
Baker	Harris	Murphy
Bible	Hayden	Muskie
Boggs	Hickenlooper	Pearson
Brewster	Hill	Prouty
Brooke	Holland	Proxmire
Byrd, Va.	Hollings	Ribicoff
Cannon	Hruska	Russell
Carlson	Inouye	Scott
Case	Jackson	Smathers
Cooper	Javits	Smith
Cotton	Jordan, N.C.	Spong
Curtis	Jordan, Idaho	Symington
Dodd	Kuchel	Thurmond
Dominick	Lausche	Tower
Eastland	Long, La.	Williams, N.J.
Ellender	Magnuson	Williams, Del.
Ervin	McGee	Young, N. Dak.
Fong	McIntyre	

NOT VOTING—21

Bartlett	Kennedy, N.Y.	Pastore
Bayh	Long, Mo.	Pell
Bennett	Mansfield	Percy
Dirksen	McCarthy	Sparkman
Fannin	McClellan	Stennis
Fulbright	Miller	Talmadge
Hart	Monroney	Yarborough

So Mr. CLARK's amendment to Mr. JAVITS' amendment was rejected.

The PRESIDING OFFICER. The question recurs on the amendment of the Senator from New York.

Mr. JAVITS. Mr. President, I ask the Senator from Louisiana to yield me 5 minutes.

Mr. LONG of Louisiana. Mr. President, I yield 5 minutes to the Senator from New York.

The ACTING PRESIDENT pro tempore. The Senator from New York is recognized.

Mr. JAVITS. Mr. President, if I may have the attention of the Senate, I assure the Senate that we will have a vote within 10 minutes on my amendment. I will take 5 minutes, and I do not think that the Senator from Louisiana will take any longer.

The purpose of my amendment lies in certain categories of appropriations that Congress, and not the President, will control, even if we pass the Smathers-Williams substitute. Just as last night, when we took out the moratorium on public works, it does not mean that appropriations cannot be cut. The appropriations can be cut, but it does not create a situation in which various starts may be permitted. It had no relationship to the amonut of $6 billion in cuts. The same is true of my amendment.

Congress may cut the President's budget in the appropriations. However, whatever Congress does with relation to the specified items in my amendment—education, low-income housing, water and air pollution prevention, the District of Columbia, the prevention and detection of crime, training and employment of disadvantaged persons, and the war on poverty—will be final. The President could not apply any part of the $6 billion in cuts to those programs and subject them to further cuts after Congress appropriates money for them.

When we rejected the Clark amendment, we rejected any idea of confining the President to the items he could cut. My amendment is negative in character. The President may not cut these items. However, he still would have some $87-odd billion open to him to cut. Of that amount, about $50 billion is for defense other than Vietnam. The remaining amount under budget control would be something in the neighborhood of $31 or $32 billion.

The ACTING PRESIDENT pro tempore. The Senator will suspend.

The Senate Chamber will be in order so that the Senator from New York may proceed. The Senate will please be in order.

The Senator from New York may proceed.

Mr. JAVITS. The reason for the amendment is that these are sensitive items in the cities and in other parts of the country, but primarily in the cities.

We should keep control of them, because we are in for a rough time. If anybody needs any proof it, yesterday's riot in Memphis should be adequate confirmation of that. That is the entire purpose of everything I am trying to do, and the whole reason for it.

The reason I was most regretfully—because Senator CLARK is on my side—compelled to vote against the Clark amendment was that I did not want to confine the area in which the President could cut further by some $30 billion in round figures, but I want to leave him as much latitude as possible.

I should like to explain one point. Senators will find on their desks an analysis of what my staff computed to be the amounts of the budget which would be protected, depending upon our appropriations under this amendment. There is an error in that, which I wish to state to the Senate, it comes under the heading of "Education."

We failed to list under the heading "Education" higher education and impacted areas. That adds to the aggregate amount of $6.177 billion, which is contained at the end of the chart, a figure—approximately $1.7 billion—which increases it to $7.8 billion. I cannot correct my amendment.

Mr. MORSE. Mr. President, will the Senator yield for a question?

Mr. JAVITS. I yield.

Mr. MORSE. All higher education is eliminated as well as certain special education matters. The Senator has said that he cannot correct his amendment.

Mr. JAVITS. The amendment covers it, but my chart does not, and I am correcting the chart. My amendment covers it. It has one word, "education." I am basing my amendment on the budget. I have said so; that is my legislative history. The budget carries higher education.

Mr. MORSE. The budget is $3.5 billion, against $6.7 billion that Congress has already authorized for all education. When we get into the budget issue, some of us will insist that we improve that budget and get back to the $6.7 billion that it should be.

Mr. JAVITS. I realize that, but I am just giving my budget figures. Therefore, the aggregate figure which should appear on the chart is $7.8 billion.

I ask unanimous consent that the corrected chart be printed at this point in the RECORD.

There being no objection, the corrected table was ordered to be printed in the RECORD, as follows:

	Amount
EDUCATION	
Elementary and secondary educational activities:	
Expenditures	$1,400,000,000
Net lending	900,000
Teacher Corps	21,700,000
Expansion and improvement of vocational education	246,300,000
Educational improvement for the handicapped	64,000,000
Higher educational activities:	
Expenditures	945,300,000
Net lending	31,900,000
School assistance in Federally affected areas	415,500,000
Other educational activities	445,700,000
Total	3,571,400,000
LOW-INCOME HOUSING	
Grants for neighborhood facilities	32,000,000
Urban renewal and community facilities, salaries	14,600,000
Urban renewal programs (liquidation of contract authorization)	699,100,000
Low-rent public housing, administrative expenses	335,300,000
Housing for the elderly or handicapped fund	98,400,000
Model cities programs	250,000,000
Low-income housing demonstration programs (liquidation of contract authorization)	3,800,000
Rent supplemental program	16,100,000
Total	1,449,000,000
WATER AND AIR POLLUTION PREVENTION	
Water pollution control	278,100,000
Air pollution	80,000,000
Total	358,100,000
PREVENTION AND DETECTION OF CRIME	
Law enforcement assistants	14,200,000
Control of crime	39,000,000
Total	53,200,000
DISTRICT OF COLUMBIA	
Federal payment to the District of Columbia	83,500,000
Loans to the District of Columbia for capital outlay: Net lending	67,200,000
Total	150,700,000
TRAINING AND EMPLOYMENT OF DISADVANTAGED PERSONS	
Manpower development and training activities	430,000,000
WAR ON POVERTY	
Economic opportunity program:	
Expenditures	2,000,000,000
Net lending	3,100,000
Total	2,003,100,000
Grand total	8,015,000,000

Note: Figures may not total due to rounding.

Mr. JAVITS. Mr. President, the reason why I said I cannot change my amendment is that if I could change it, I could say elementary and secondary education. It has to be taken as the total sum, education, which includes higher education and impacted areas.

There is $87 billion from which he can cut; and if the figure of $7.8 billion is the figure, as contained within this amendment, then it is under 10 percent of the amount available to the President, within which he can cut the $6 billion that is provided by the Smathers-Williams substitute.

That is the net of the argument. I base it entirely upon the sensitivity of the situation in which we are engaged. All I argue is that we should not surrender to the President to make a supervening cut based on the $6 billion once we have determined what the appropriations should be within these categories; and, hence, we are safeguarding to ourselves some $7.8 billion in budget requests which we have determined that we will rule on alone, once we have decided the President has to leave that alone, still leaving him some $80 billion in which he can cut.

The PRESIDING OFFICER (Mr. BYRD of Virginia in the chair). The time of the Senator has expired.

Mr. JAVITS. I ask for 1 additional minute.

Mr. LONG of Louisiana. I yield 1 additional minute to the Senator from New York.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. MORSE. What does the Senator from New York say about the comment that has been made on the floor of the Senate, in our conversations among each other, that the amendment deals with urban problems but does not do anything for the benefit of the rural areas of the country, which also should be protected with regard to some of the cuts?

Mr. JAVITS. That is not so, because education does deal with rural areas. For example, higher education, impacted areas, and the various items of elementary and secondary education where there is poverty. Those items deal with rural areas. Water and air pollution deal with rural areas. Certainly low-income housing is now being built in the smaller cities of the country. Prevention and detection of crime, training and employment of disadvantaged persons, the war on poverty—all quite clearly deal with rural problems.

Mr. MORSE. What concerns some of the people from the rural areas is the entire matter of our natural resources program, our conservation program, our water development programs. How will they be protected in regard to those cuts?

Mr. JAVITS. Other Senators could move the same way I have moved, with respect to other items. I have tried to zero in on the crisis of the cities, primarily.

Mr. CLARK. Mr. President, will the Senator yield me 1 minute?

Mr. LONG of Louisiana. I yield 1 minute to the Senator from Pennsylvania, on the bill.

Mr. CLARK. Mr. President, I should like the attention of the Senator from Oregon.

I support the Javits amendment, because I believe the language is clearly broad enough to cover all our rural programs.

I regret that the Senator from New York, in the statement he placed on our desks, put such stress on the cities. He has told me that it was inadvertent. With respect to the program with which I have some familiarity, the war on poverty, 43 percent of all the people in poverty in the United States are in rural areas.

Mr. MORSE. I am going to support the amendment.

Mr. CLARK. I thank the Senator.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute on the bill.

Mr. President, as I have said, I do not believe that this revenue bill—to extend excise tax rates—is the vehicle by which to act on appropriation bills. The Committee on Finance does not have the responsibility in that field; it does not have the staff in that field; it does not have the information in that field. We might not know what to advise the Senate.

But I will say that if the Senate decides it must act on appropriations through an amendment to this tax bill, it does not make any sense to first insist on a $6 billion cut and then to specifiy that none of it should come out of new programs.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. I yield myself 30 seconds.

It seems to me that all programs will have to be cut. Only $39 billion in the budget, from the point of view of the administration, can be touched at all; and the Senator from New York would reduce that amount by a great deal. Our staff estimates that the items the Senator has in mind would amount to $16 billion. The Senator estimates that they would amount to $7.8 billion.

Whatever figure is used, the proposed overall reduction is so large that it would be wrong to say that the poverty program is sacred and must not be cut, that urban housing must not be cut, and so forth. If an enormous cutback such as that must be made, everything should be eligible for pruning.

Mr. JAVITS. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. JAVITS. Is it not a fact that of the $79 billion for defense, only $26 billion, in round figures, is for Vietnam, and that there is some $54 billion-odd which is the normal defense quota?

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. I yield myself 1 additional minute.

That is the Senator's statement. It is not the statement of the administration or of the Defense Establishment. So far as the Defense Establishment is concerned, research and development, which is a huge part of what the Senator is talking about, is absolutely vital; that if you do not continue the research and development on a large scale, while it may not cost the war in Vietnam, it may cost us our very survival somewhere down the road.

From the point of view of the administration, the items that the Senator says are non-Vietnam expenditures are even more vital in some instances than the war in Vietnam.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. I yield myself 1 additional minute.

I believe that the Committee on Armed Services would state that some of these defense items which the Senator calls non-Vietnam items are more essential to our ultimate survival than some of the expenditures for Vietnam.

Mr. LAUSCHE. Mr. President, will the Senator yield me 3 minutes?

Mr. LONG of Louisiana. I yield 3 minutes to the distinguished Senator from Ohio.

Mr. LAUSCHE. Mr. President, there is now a dispute as to the exact amount of money that would be rendered immune from cuts if the amendment of the Senator from New York is adopted. The staff aides state that it would amount to $16 billion. The statement submitted by the Senator from New York indicates that it would amount to $6.177 billion.

Mr. JAVITS. $7.8 billion. I have amended it.

Mr. LAUSCHE. Some other items are included. That is quite a difference, whether it is $16 billion that will be exempt or whether it is $7 billion.

However, I wish to call the attention of the Senate to this fact: The figures of the Senator from New York are taken out of the budget of 1969.

The budget for 1969 is higher than the appropriations for 1968. The Senator contemplates rendering exempt from reductions the educational programs, low income housing, water and air pollution prevention, prevention and detection of crime, the District of Columbia in certain respects, training and employment of disadvantaged persons, and the war on poverty.

Mr. President, in consultation with the staff member of the Senator from New York I have studied the figures involved in the principal items concerning expansion and improvement of vocational education, urban renewal program, low-rent housing program, model cities program, water pollution control, air pollution control, prevention and detection of crime, and the war on poverty.

The budget shows that for fiscal 1969 the amount allocated to these different functions, which I have just identified, is $830 million more than we appropriated in 1968. I wish to repeat that statement. The budgetary figure for 1969 for these principal items is $823 million more than the actual amount appropriated in 1968. Mr. President, I think that is a very pertinent factor to consider in determining how the vote should be cast.

SEVERAL SENATORS. Vote! Vote!

Mr. WILLIAMS of New Jersey. Mr. President, we hear a great deal of talk about national security. Generally speaking, however, this is usually in context

with our overseas involvement or with our military posture. I, too, believe that we must maintain as strong safeguards as necessary in order to maintain our national security. But I think this should mean security at home, on the domestic scene, as well as on the foreign scene. A country cannot be secure with riots raging in its bowels.

In its recent report on civil disorders, the Kerner Commission stressed the need for improved low-income housing. The Kerner Commission recommended that the Federal Government "bring within the reach of low- and moderate-income families within the next 5 years 6 million new and existing units of decent housing, beginning with 600,000 units in the next year."

Secretary Weaver, in testifying before the Banking and Currency Committee on the administration's housing bill, S. 3029, reiterated this need. The Secretary, however, proposed a 10-year housing program rather than the 5 years recommended by the Kerner Commission and asked for additional authorization of $662,500,000 for fiscal 1969.

I, for one, prefer the approach recommended by the Kerner Commission. The authorization asked for in S. 3029 provides a bare minimum authorization to carry out the most pressing need for adequate low income housing and to rebuild our Nation's ghettos. Any further cuts in the authorization would wipe out the recommendations of the Kerner report and those of the administration contained in S. 3029. Such action would bring further disillusionment to our Nation's impoverished citizens.

There has been a great deal of talk of a choice between guns and butter. I am not sure I would have chosen those words to describe the priorities; however, we were told the other day by the Under Secretary of the Treasury that it was impossible to have both. At a hearing in December before the Aging Committee, one of the witnesses stated:

> Not only materialistic goals, but scientific, technological and military aims absorb us. We are skilled in the art of war; we are unskilled in the art of peace. We are proficient in the art of killing; we are ignorant in the art of living. Somewhere in the scheme of things, these values must be reordered. This must be reflected in the re-allocation of our national expenditures. Basic human qualities have to receive our highest priority, or progress on all other fronts becomes meaningless.

I do not think one should have to make a choice between foreign and domestic spending, because are very necessary to the welfare of our country. I must confess, however, that I much prefer building to destroying. I feel that it is absolutely urgent to continue our programs at home at least at the bare minimum level we are presently on. I support, therefore, the amendment of the Senator from New York.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator from Delaware is recognized for 1 minute.

Mr. WILLIAMS of Delaware. Mr. President, with due respect to the Senator from New York, I understand his position and he is sincere. However, it should be already pointed out that if we are going to adopt these exceptions there will be other exceptions, and we might as well face the fact that that would mean the end of the bill which is now before us. I do not think it would be possible to proceed further.

Mr. SMATHERS. Mr. President, I associate with the statement by the Senator from Delaware that if this amendment should be agreed to, which I hope it will not be, there would be no prospect of getting other Senators to vote for spending cuts.

The PRESIDINC OFFICER. All time has been yielded back, the question is on agreeing to the amendment of the Senator from New York. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Indiana [Mr. HARTKE], the Senator from Montana [Mr. MANSFIELD], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Oklahoma [Mr. MONRONEY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Mississippi [Mr. STENNIS], the Senator from Georgia [Mr. TALMADGE], and the Senator from Texas [Mr. YARBOROUGH] are necessarily absent.

I also announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Michigan [Mr. HART], the Senator from New York [Mr. KENNEDY], and the Senator from Missouri [Mr. LONG], are absent on official business.

On this vote, the Senator from New York [Mr. KENNEDY] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting the Senator from New York would vote "yea," and the Senator from Rhode Island would vote "nay."

I further announce that, if present and voting, the Senator from Rhode Island [Mr. PELL] and the Senator from Michigan [Mr. HART] would each vote "yea."

Mr. KUCHEL. I announce that the Senator from Tennessee [Mr. BAKER], the Senator from Utah [Mr. BENNETT], the Senators from Illinois [Mr. DIRKSEN and Mr. PERCY], the Senator from Arizona [Mr. FANNIN], and the Senator from Iowa [Mr. MILLER] are necessarily absent.

If present and voting, the Senator from Arizona [Mr. FANNIN] and the Senator from Iowa [Mr. MILLER] would each vote "nay."

On this vote, the Senator from Illinois [Mr. PERCY] is paired with the Senator from Utah [Mr. BENNETT]. If present and voting, the Senator from Illinois would vote "yea," and the Senator from Utah would vote "nay."

The result was announced—yeas 22, nays 55, as follows:

[No. 92 Leg.]

YEAS—22

Brooke	Kennedy, Mass.	Randolph
Case	McIntyre	Ribicoff
Clark	Metcalf	Scott
Gruening	Mondale	Tydings
Harris	Morse	Williams, N.J.
Hatfield	Muskie	Young, Ohio
Inouye	Nelson	
Javits	Prouty	

NAYS—55

Aiken	Ervin	McGovern
Allott	Fong	Montoya
Anderson	Gore	Morton
Bible	Griffin	Moss
Boggs	Hansen	Mundt
Brewster	Hayden	Murphy
Burdick	Hickenlooper	Pearson
Byrd, Va.	Hill	Proxmire
Byrd, W. Va.	Holland	Russell
Cannon	Hollings	Smathers
Carlson	Hruska	Smith
Church	Jackson	Spong
Cooper	Jordan, N.C.	Symington
Cotton	Jordan, Idaho	Thurmond
Curtis	Kuchel	Tower
Dodd	Lausche	Williams, Del.
Dominick	Long, La.	Young, N. Dak.
Eastland	Magnuson	
Ellender	McGee	

NOT VOTING—23

Baker	Hartke	Pastore
Bartlett	Kennedy, N.Y.	Pell
Bayh	Long, Mo.	Percy
Bennett	Mansfield	Sparkman
Dirksen	McCarthy	Stennis
Fannin	McClellan	Talmadge
Fulbright	Miller	Yarborough
Hart	Monroney	

So Mr. JAVITS' amendment (No. 672) was rejected.

AMENDMENT NO. 670

Mr. JAVITS. Mr. President, I call up my amendment No. 670 and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. At the end of the bill insert the following:

SEC. 8. ESTABLISHMENT OF A COMMISSION ON FEDERAL BUDGET PRIORITIES AND EXPENDITURE POLICY.

(a) Recognizing the profound influence which the composition and level of Federal expenditures and their relationship to revenues have on the Nation's general welfare, domestic tranquility, economic growth and stability, it is hereby declared to be the intent of Congress to initiate a far-reaching, objective, and nonpartisan review of Federal budget priorities and expenditure policy. In the carrying out of such review, and in the formulation of recommendations with respect thereto, particular consideration shall be given to the following—

(1) establishing spending priorities among Federal programs, including the identification of those programs which need greatest immediate emphasis and those which can be deferred in a time of expected deficits, in order to serve as a guide to the administration in making expenditures and in drawing up future budgets;

(2) appraising Federal activities in order to identify those programs which tend to retard economic growth and for which expenditures should be reduced or eliminated;

(3) improving the Federal budgeting and appropriations process in order to increase the effective control of expenditures;

(4) examining the responsibilities and functions which are now assumed by the Federal Government, but which could be performed better and with superior effectiveness by the private economy;

(5) reviewing Federal responsibility and functions in order to determine which could be better performed at the State and local levels; and

(6) improving Government organization and procedures in order to increase efficiency and promote savings, including a review of the recommendations of the Hoover Commission in order to determine how well those already implemented have achieved their purposes in practice and whether those not yet implemented should be given further consideration.

ESTABLISHMENT OF THE COMMISSION ON FEDERAL EXPENDITURE POLICY

(b)(A) In order to carry out the purposes set forth in the first section of this Act, there is hereby established a commission to be known as the Commission on Federal Budget Priorities and Expenditure Policy (referred to hereinafter as the "Commission").

(B) The Commission shall be composed of sixteen members as follows:

(1) Four appointed by the President of the United States, two from the executive branch of the Government, including the Director of the Bureau of the Budget, and two from private life who have distinguished careers in labor, the professions, industry, local and State government, or higher education;

(2) Six members of the Senate appointed by the President of the Senate; and

(3) Six Members of the House of Representatives appointed by the Speaker of the House of Representatives.

(C) Of each class of two members referred to in subsection (B), not more than one member shall be from any one political party.

(D) Any vacancy in the Commission shall not affect its powers, but shall be filed in the same manner in which the original appointment was made.

(E) Service of an individual as a member of the Commission or employment of an individual by the Commission as an attorney or expert in any business or professional field, on a part-time or full-time basis, with or without compensation, shall not be considered as service or employment bringing such individual within the provisions of sections 281, 283, 284, 434, or 1914 of title 18 of the United States Code.

(F) The Commission shall elect a Chairman and a Vice Chairman from among its members.

(G) Nine members of the Commission shall constitute a quorum.

ADVISORY PANEL TO THE COMMISSION

(c) The Commission may establish an Advisory Panel which shall consist of persons of exceptional competence and experience in appropriate fields, including social welfare, economics, and political science. Such Advisory Panel members shall be drawn equally from the Government, private industry, and nonprofit educational institutions, and shall be persons available to act as consultants for the Commission.

STAFF OF THE COMMISSION

(d)(A) The Commission may appoint and fix the compensation of such personnel as it deems advisable in accordance with the provisions of the civil service laws and the Classification Act of 1949.

(B) The Commission may procure, without regard to the civil service laws and the classification laws, temporary and intermittent services (including those of members of the Advisory Panel) to the same extent as authorized for the departments by section 15 of the Act of August 2, 1946 (60 Stat. 810; 5 U.S.C. 55a), but at rates not to exceed $75 per diem for individuals.

DUTIES OF THE COMMISSION

(e)(A) The Commission shall make a comprehensive and impartial study and investigation of the programs and policies of the Federal Government with a view to carrying out the purposes set forth in the first section of this Act.

(B) During the course of its study and investigation the Commission may submit to the President and the Congress such reports as the Commission may consider advisable. The Commission shall submit to the President and the Congress an interim report with respect to its findings, conclusions, and recommendations pursuant to section (a)(1) no later than January 1, 1969, and a final report no later than January 1, 1970.

POWERS OF THE COMMISSION

(f)(A)(1) The Commissioner or, on the authorization of the Commission, any subcommittee thereof, may, for the purpose of carrying out its functions and duties, hold such hearings and sit and act at such times and places, administer such oaths, and require, by subpena or otherwise, the attendance and testimony of such witnesses, and the production of such books, records, correspondence, memorandums, papers, and documents as the Commission or such subcommittee may deem advisable. Subpenas may be issued under the signature of the Chairman or Vice Chairman, or any duly designated member, and may be served by any person designated by the Chairman, the Vice Chairman, or such member.

(2) In case of contumacy or refusal to obey a subpena issued under paragraph (1) of this subsection, any district court of the United States or the United States court of any possession, or the District Court of the United States for the District of Columbia, within the jurisdiction of which the inquiry is being carried on or within the jurisdiction of which the person guilty of contumacy or refusal to obey is found or resides or transacts business, upon application by the Attorney General of the United States shall have jurisdiction to issue to such person an order requiring such person to appear before the Commission or a subcommittee thereof, there to produce evidence if so ordered, or there to give testimony touching the matter under inquiry; and any failure to obey such order of the court may be punished by the court as a contempt thereof.

(B) Each department, agency, and instrumentality of the executive branch of the Government, including independent agencies, is authorized and directed to furnish to the Commission, upon request made by the Chairman or Vice Chairman, such information as the Commission deems necessary to carry out its functions under this Act.

COMPENSATION OF COMMISSION MEMBERS

(g)(A) Members of the Commission who are Members of Congress or officers of the executive branch of the Federal Government shall serve without compensation in addition to that received in their regular public employment, but shall be allowed necessary travel expenses (or, in the alternative, a per diem in lieu of subsistence and mileage not to exceed the rates prescribed in the Travel Expense Act of 1949, as amended, without regard to the Travel Expense Act of 1949, as amended (5 U.S.C. 835–842), the Standardized Government Travel Regulations, or section 10 of the Act of March 3, 1933 (5 U.S.C. 73b), and other necessary expenses incurred by them in the performance of duties vested in the Commission.

(B) Members of the Commission, other than those to whom subsection (a) is applicable, shall receive compensation at the rate of $75 per day for each day they are engaged in the performance of their duties as members of the Commission and shall be entitled to reimbursement for travel, subsistence, and other necessary expenses incurred by them in the performance of their duties as members of the Commission, as provided for in subsection (a) of this section.

EXPENSES OF THE COMMISSION

(h) There are hereby authorized to be appropriated to the Commission, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this Act.

EXPIRATION OF THE COMMISSION

(i) The Commission shall cease to exist — days after the submission of its final report.

Mr. JAVITS. Mr. President, I yield myself 5 minutes.

The PRESIDING OFFICER. The Senator from New York is recognized for 5 minutes.

Mr. JAVITS. If I may have the attention of Senators, I think this amendment can be disposed of quickly. It is sponsored by the Senator from Idaho [Mr. JORDAN], the Senator from Iowa [Mr. MILLER], the Senator from Illinois [Mr. PERCY], and myself. It carries the recommendations of the minority members of the Joint Economic Committee which were made in 1963 and 1964 and again—this year, in 1968—in its report on the President's Economic Report.

Mr. President, the recommendations of the minority members of the Joint Economic Committee and this amendment seek establishment of a commission, which will have a limited life, on Federal budget priorities and expenditure policy. The powers of the commission will be to establish spending priorities among Federal programs including identification of those programs which need the greatest immediate emphasis than those which can be deferred; to appraise Federal activities in order to identify the programs which tend to retard economic growth and for which expenditures should be reduced or eliminated; to improve Federal budgeting and appropriations processing in order to increase effective control of expenditures, and to examine responsibilities and functions which are now assumed by the Federal Government but which could be performed better and with superior effectiveness in the private economy, which is something that is dear to the hearts of many Senators; to review Federal responsibilities and functions in order to determine which could be better performed at the State and local level—again a matter of great interest to many Senators; to improve Government organization and procedures, to increase efficiency and promote safety, the powers including review of the recommendations of the Hoover Commission in order to determine how well those efficiency measures already implemented have achieved their purpose in practice, and whether those not yet implemented should be given further consideration.

The Commission is not expensive. It consists of four members appointed by the President, two from the executive, including the Director of the Bureau of the Budget, and two from private life; six Members of the Senate and six Members of the House. The Commission is to be compensated on the per diem basis of $75 a day for the time spent in the work of the Commission. The Commission will cease to exist within a specified number of days after submission of its final report.

It seems to the minority members on the Joint Economic Committee—and, as I say, we recommended this now on a number of different occasions, 1963, 1964,

and 1968—that this is a highly desirable review especially on the matter of machinery to establish priorities, and especially on the matter of continuing an evaluation of the programs we do undertake in order to determine whether they are desirable or undesirable.

The Commission would also undertake a review of the work of the Hoover Commission. This is the kind of amendment which applies to the bill and not just to the Williams-Smathers amendment. The only reason for seeking this is that the door may be shut to any amendment once the Williams-Smathers amendment is adopted.

Therefore, I submitted the amendment to this particular substitute. If the amendment carries, I shall then move—and I am sure the manager of the bill would not object—to put the amendment on the bill.

It is the kind of measure which I would hope the manager of the bill would take to conference, especially when it has been recommended by the minority members of the Joint Economic Committee on a number of occasions. If, on an evaluation in conference, it is not considered to be a desirable thing, then it will be explained to us why, and it can be dealt with properly.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. JAVITS. I yield myself 5 minutes.

The Republicans on the Joint Economic Committee have constantly been seeking ways and means to bring about a reevaluation of budgetary procedures and practices with regard to priorities and an appraisal of whether or not programs we have legislated are good and a reevaluation of what has been done under the Hoover Commission.

It is significant that there are joined in this amendment both those of liberal and more conservative persuasion—in addition to myself other cosponsors of the bill are Senator JORDAN of Idaho, Senator MILLER of Iowa, and Senator PERCY of Illinois. I am anxious, as they are, to get the best out of government. This proposal represents a joint effort on the part of the minority on the Joint Economic Committee to get the best out of government.

In order that the Senate may evaluate the minority members of the Joint Committee who are making the recommendation, I would like to refer to them. They are, aside from myself: Senator MILLER, Senator JORDAN of Idaho, Senator PERCY, being the total representation of the minority members of the committee on the Senate side. From the other side of the Capitol, they are Representatives CURTIS of Missouri, WIDNALL, RUMSFELD, and BROCK. We have joined on a number of occasions in urging this Commission to the Congress.

I hope very much it may be found worthy of at least consideration in the totality of this bill when considered by representatives of both Houses.

Mr. GRIFFIN. Mr. President, will the Senator yield?

Mr. JAVITS. I yield.

Mr. GRIFFIN. On page 4 of the amendment, in subsection (c), it is stated:

> Of each class of two members referred to in subsection (B), not more than one member shall be from any one political party.

What does that mean?

Mr. JAVITS. It means it will be composed of a Democrat and a Republican, rather than two Democrats or two Republicans.

Mr. GRIFFIN. In other words, with a commission of 16 members, six Members from the Senate, and six from the House, would it be understood that from the Members of the Senate there would be three Democrats and three Republicans, for example?

Mr. JAVITS. Yes; there would be three Democrats and three Republicans. Of course, the fulcrum of party control would come in the four appointed by the President. So there would really be a 10-to-6 ratio on the Commission and the majority party would retain control of it.

Mr. President, I reserve the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield myself 3 minutes.

The Senator's proposal is not within the jurisdiction of the Finance Committee. This is the kind of matter that we should not be called upon to study or to recommend to the Senate. On the House side, also it is not within the jurisdiction of the Ways and Means Committee.

If this proposal were introduced as a bill on its own merits, it would be referred, properly, I believe to the Committee on Government Operations, of which the Senator from Arkansas [Mr. MCCLELLAN] is chairman. I assume the committee would study it and make recommendations to the Senate, for or against it. For all I know, it may be studying the matter now.

The proposal has no place even in the substitute, much less the bill itself.

If the Senate wants to vote on everything, just any bill, whether it is a matter of taxing or spending—just anything—I suppose we could be here forever on the tax bill which involves excise tax rates which expire Sunday night.

I would hope the Senator would not insist on it. If he insists on it, then I hope the Senate will reject it.

Even if the Senate is so foolish as to wander into the policy of putting almost anything on a tax bill, I am sure the House will not do it. The members of the Ways and Means Committee will not like the idea of violating the jurisdiction of every other committee, just as members of the Senate Finance Committee would not trample over the jurisdiction of other committees.

I hope the amendment will not be accepted.

Mr. JAVITS. Mr. President, I yield myself 5 minutes.

The best answer to the argument of the Senator from Louisiana, of course, is that he made precisely the same argument with respect to the Smathers-Williams substitute. The Smathers-Williams substitute, according to him, does not belong on this bill, anyhow.

What we are trying to do is put the fiscal and monetary house of the United States in order, because it is in disorder, with great damage to us throughout the world. Therefore, anything which can contribute to that very desirable result is entitled to the consideration of the Senate upon this bill, not just what the administration tosses up to us. The administration has given us the extension of two excise taxes and has said, "Get along with that for the present, boys." But the world will not wait.

This is one of the measures proposed in an effort to put the monetary and fiscal house of the United States in order. It goes to the root of one of the significant problems troubling us, and that is our failure or refusal to set national priorities, which is one thing that a commission like this could recommend to the Nation.

Who could quarrel with the impact on both our tax system and revenues in terms of the efficiencies and operations in the various Government departments? So I think the amendment is pertinent. It is not an unrefined proposal. As I pointed out, as long ago as 5 years the minority members of the Joint Economic Committee recommended it on three separate occasions, including a report in 1968.

When we are dealing with the problem, when one is seized with the responsibility as we are now, we should deal with the problem.

Unless this is a government in which we have some creativity, then the situation will go from bad to worse to worse, which is the way it has been going, precisely for the reason that the proper amount of creativity has not been exercised here.

Therefore, for precisely the same reasons for which we are dealing here at considerable length and trouble with the Smathers-Williams proposal, we should deal with this proposal. It is desirable. It has been refined and thought through. It certainly meets the needs of the United States. The Hoover Commission recommendations have not been evaluated in terms of what has been done. The others may be gathering dust on the shelf. They may be desirable in the interest of the Nation.

There are more ways to bring revenues into the Federal Treasury. One is by taxes and reducing overall expenditures. Another is to cut Federal employment. That is dealt with, too.

The third way is to review the operations of the Government in the way that this Commission proposes.

For all those reasons, Mr. President, I feel it my duty to press for this amendment. It is neither a conservative nor a liberal amendment; it is an intelligent effort to try to come to grips with our problems, and to get the best advice possible on them.

Why appoint a Commission on Civil Disorders, Mr. President? The FBI, the Army, the Navy, the Air Force, and the local police can take care of the situation.

But that is not the way we feel about things in this country. We want to be forehanded, and not sweep up the wreckage after wreckage has been created.

It is the same with this Commission, Mr. President. So I hope very much that

the Senate will consider it desirable to grant this authority.

It is very reasonable. It costs no money of any kind or character, and it is a very useful, important thing to do at this particular moment.

Mr. President, I ask for the yeas and nays on my amendment.

The yeas and nays were ordered.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

At least it can be said for the Williams-Smathers substitute that it does propose to raise taxes, and so, to that extent at least, it is within the jurisdiction and competence of the Committee on Finance. Inasmuch as it says that a tax increase should be conditioned on some reductions in expenditures, the spending cut is added to it.

But, Mr. President, whatever one might say with regard to this commission, the results it might obtain lie off in the future. After the commission is appointed and makes its study, and makes a recommendation, the Executive must consider the recommendation, Congress must consider the recommendation, and both must act on it. As far as the short term is concerned, all this amendment could possibly do is just cost more money. In that regard, it has nothing to do with either the purpose of the substitute or the purpose of the bill itself, insofar as the short-range effects of it are concerned.

Mr. JAVITS. Mr. President, I yield myself 1 additional minute.

The reason I am proposing this amendment—it is not solely my own creation—is that I am the ranking Republican member of the Joint Economic Committee. Hence, when the members of the Joint Economic Committee on our side determined that this was the proper course, it was quite proper that I should make this move in the Senate.

It is well known that the rules of the other body do not accommodate amendments of this character. They just would not be in order. They have various problems with their Rules Committee, and in other ways. But it can be done here. I believe it is my duty to do it, and I am deeply convinced that it is the right thing to do, and that it should be done on this bill, because if we are to recognize the problems we face, then it is up to us, on this side, to present creative alternatives.

This is a creative alternative. The administration can tell us, "Just leave it to us, and we will take care of it." That is what they do all the time. But we want some light thrown on the interior of the process by which expenditures and budgets are created.

This measure can only reduce expenditures; it will not raise them, because that would be contrary to the fundamental thrust of the function of a commission of this type.

Naturally, any incumbent administration wants to keep everybody out. They all say they will take care of it. Well, this administration has taken care of it very badly, Mr. President, and that is why we are now considering the Smathers-Williams substitute, which I support and which I hope will be adopted. That is why, in my judgment, this type of approach, which is intelligent and scientific, comes at the right time and the right place and for the right purposes, should be agreed to by the Senate.

Mr. President, I am ready to vote.

Mr. LONG of Louisiana. I yield back the remainder of my time.

Mr. MORTON. Mr. President, I suggest the absence of a quorum.

Mr. JAVITS. Mr. President, I suggest that the time for the quorum call be charged to neither side, or that it be charged equally to both sides.

Mr. LONG of Louisiana. If both sides will yield their time back, we can have a quorum call then.

Mr. MORTON. Mr. President, the Senator from Delaware [Mr. WILLIAMS], who has played an important role in this matter, asked me to get word to him before we came to a vote, and I am doing this as a matter of courtesy to him. I am not being dilatory in any way. If the Senator from Louisiana can find him, he may call the quorum call off.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislaive clerk proceeded to call the roll.

Mr. MORTON. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

All time having been yielded back, the question is on agreeing to the amendment (No. 670) offered by the Senator from New York. On this question, the yeas and nays have been ordered, and the clerk will call the roll.

The assistant legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Montana [Mr. MANSFIELD], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Montana [Mr. METCALF], the Senator from Oklahoma [Mr. MONRONEY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Mississippi [Mr. STENNIS], the Senator from Georgia [Mr. TALMADGE], the Senator from Texas [Mr. YARBOROUGH], and the Senator from Ohio [Mr. YOUNG] are necessarily absent.

I also announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Michigan [Mr. HART], the Senator from New York [Mr. KENNEDY], and the Senator from Missouri [Mr. LONG] are absent on official business.

On this vote, the Senator from New York [Mr. KENNEDY] is paired with the Senator from Utah [Mr. BENNETT]. If present and voting, the Senator from New York would vote "nay" and the Senator from Utah would vote "yea."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from Arizona [Mr. FANNIN]. If present and voting, the Senator from Rhode Island would vote "nay" and the Senator from Arizona would vote "yea."

I further announce that, if present and voting, the Senator from Michigan [Mr. HART] would vote "nay."

Mr. KUCHEL. I announce that the Senator from Utah [Mr. BENNETT], the Senators from Illinois [Mr. DIRKSEN and Mr. PERCY], the Senator from Arizona [Mr. FANNIN], the Senator from Tennessee [Mr. BAKER], and the Senator from Iowa [Mr. MILLER] are necessarily absent.

If present and voting, the Senator from Illinois [Mr. PERCY], and the Senator from Iowa [Mr. MILLER] would each vote "yea."

On this vote, the Senator from Utah [Mr. BENNETT] is paired with the Senator from New York [Mr. KENNEDY]. If present and voting, the Senator from Utah would vote "yea," and the Senator from New York would vote "nay."

On this vote, the Senator from Arizona [Mr. FANNIN] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from Arizona would vote "yea," and the Senator from Rhode Island would vote "nay."

The result was announced—yeas 36, nays 40, as follows:

[No. 93 Leg.]

YEAS—36

Aiken	Griffin	Murphy
Allott	Hansen	Nelson
Boggs	Hatfield	Pearson
Brooke	Hickenlooper	Prouty
Carlson	Hruska	Proxmire
Case	Javits	Ribicoff
Clark	Jordan, Idaho	Scott
Cooper	Kuchel	Smith
Cotton	McGovern	Thurmond
Curtis	Mondale	Tower
Dominick	Morton	Williams, Del.
Fong	Mundt	Young, N. Dak.

NAYS—40

Anderson	Harris	McIntyre
Bible	Hartke	Montoya
Brewster	Hayden	Morse
Burdick	Hill	Moss
Byrd, Va.	Holland	Muskie
Byrd, W. Va.	Hollings	Randolph
Cannon	Inouye	Russell
Church	Jackson	Smathers
Dodd	Jordan, N.C.	Spong
Eastland	Kennedy, Mass.	Symington
Ellender	Lausche	Tydings
Ervin	Long, La.	Williams, N.J.
Gore	Magnuson	
Gruening	McGee	

NOT VOTING—24

Baker	Kennedy, N.Y.	Pastore
Bartlett	Long, Mo.	Pell
Bayh	Mansfield	Percy
Bennett	McCarthy	Sparkman
Dirksen	McClellan	Stennis
Fannin	Metcalf	Talmadge
Fulbright	Miller	Yarborough
Hart	Monroney	Young, Ohio

So Mr. JAVITS' amendment (No. 670) was rejected.

Mr. MCGOVERN. Mr. President, I send to the desk an amendment on behalf of myself, the Senator from North Dakota [Mr. YOUNG], the Senator from Wisconsin [Mr. NELSON], and the Senator from Idaho [Mr. CHURCH].

The PRESIDING OFFICER (Mr. HARRIS in the chair). The amendment will be stated.

The legislative clerk proceeded to read the amendment.

Mr. MCGOVERN. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

Mr. GRIFFIN. Mr. President, reserving the right to object, are copies of the amendment available?

Mr. MCGOVERN. I do not believe copies are available?

Mr. GRIFFIN. No copies are available?

Mr. McGOVERN. I can explain it to the Senator in a very few words.

Mr. GRIFFIN. This is an amendment to propose a quota so far as dairy products are concerned?

Mr. McGOVERN. That is correct. It would place a quota at the average of the 5-year period from 1961 through 1965. It is the same language contained in the bill (S. 612) offered by the senior Senator from Wisconsin [Mr. PROXMIRE] and 59 other Senators, who joined in cosponsoring the proposal.

Mr. GRIFFIN. I withdraw my reservation.

The PRESIDING OFFICER. Without objection, it is so ordered; and, without objection, the amendment will be printed in the RECORD.

The amendment is as follows:

At the end of the bill add the following new title:

"TITLE —

"SEC. 01. This title may be cited as the 'Dairy Import Act of 1968.'

"SEC. 02. No imports of dairy products shall be admitted into the United States for consumption except pursuant to authorizations issued by the Secretary of Agriculture in accordance with the provisions of this title.

"SEC. 03. No authorizations for imports of dairy products shall be issued by the Secretary which would result in total imports for consumption in any calendar year of butterfat or nonfat milk solids, in any form, in excess of the respective average annual quantities thereof which were admitted for consumption during the five calendar years 1961 through 1965.

"SEC. 04. In the event that total annual domestic consumption of milk and milk products in any calendar year shall be greater or less than the average annual domestic consumption of milk and milk products during the five calendar years 1961 through 1965, the total volume of imports for such calendar year authorized under section 63 shall be increased or decreased by a corresponding percentage. For the purposes of this Act, the Secretary may estimate such total annual domestic consumption on a quarterly basis and reflect adjustments of such estimates in the level of imports authorized in subsequent quarters or in the subsequent year. In computing or estimating such annual domestic consumption under this Act, milk and milk products used in Federal distribution programs shall be excluded.

"SEC. 05. The President may permit, if he finds such action is required by overriding economic or national security interests of the United States, additional quantities of imports of any dairy product. Additional imports permitted under this section shall be admitted for consumption under special authorizations issued by the Secretary. No additional imports shall be admitted for consumption under this section at a time when prices received by dairy farmers for milk on national average as determined by the Secretary are at a level less than parity, unless the Secretary shall, at the time such imports are authorized, remove from the domestic market, in addition to and separate from other price support purchases and operations, a corresponding quantity of dairy products. The cost of removing such dairy products from the domestic market shall be separately reported and shall not be charged to any agricultural program.

"SEC. 06. 'Dairy products' for the purpose of this title includes all forms of milk and dairy products, butterfat, nonfat milk solids, and any combination or mixture thereof, and includes also any article, compound, or mixture containing 5 per centum or more of butterfat, or nonfat milk solids, or any combination of the two.

"SEC. 07. The Secretary may prescribe such rules and regulations as he deems necessary for the effective administration of this Act.

"SEC. 08. Nothing contained in this title shall be construed to repeal section 22 of the Agricultural Adjustment Act or any import limitation established thereunder; but the total annual quantitative limitations on imports of butterfat and nonfat milk solids prescribed by this title shall prevail, and all imports authorized under said section 22 or any other law shall be included in computing such total."

Mr. McGOVERN. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

The PRESIDING OFFICER. How much time does the Senator yield himself?

Mr. McGOVERN. I yield myself 5 minutes.

Mr. President, I shall not take much time on this proposal, because I believe the outline of it is generally known to all Members of the Senate. It is a simply worded proposal which would limit dairy imports—milk equivalent—into the United States to the average of the 5-year period 1961 through 1965.

This is the proposal that was introduced some time ago by the Senator from Wisconsin [Mr. PROXMIRE] in which some 60 Senators on both sides of the aisle have joined as sponsors. It already has the general endorsement of the administration in the form of an Executive order which attempted to accomplish the purpose of this amendment. However, several loopholes have developed under the Executive arrangements that have been worked out, which have permitted a considerable increase in dairy imports to take place; and the loopholes threaten further imports in the form of condensed or evaporated milk, which are not covered by the existing order. Also, several types of cheeses and other products are coming in under the existing controls.

This amendment would have the effect of actually closing those loopholes and limiting imports of dairy products to the 5-year average, 1961 through 1965. It would also have the merit of continuing force while the Executive order issued by the President some months ago, can be withdrawn at any time by the President. It does not have the force of law.

On yesterday, I discussed the proposed amendment briefly, and I made a judgment at that time, after talking with other Members of the Senate, that perhaps we should delay offering the amendment on this bill and seek action on the measure itself. However, further consultation with dairy industry leaders and with milk producers in my State and other parts of the country, have convinced me that this is the most practical way to proceed for immediate relief in this important problem.

Mr. MAGNUSON. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield.

Mr. MAGNUSON. This is the same proposal that many of us have been trying to get into law?

Mr. McGOVERN. It is.

Mr. MAGNUSON. I believe that 60 Senators have cosponsored it.

Mr. McGOVERN. The Senator from Washington has been one of its principal backers.

Mr. MAGNUSON. And, generally, the proposal has been endorsed by the administration.

Mr. McGOVERN. It has.

Mr. MAGNUSON. It is long overdue.

I do not desire to clutter up the pending measure with amendments relating to a matter of this type, but inasmuch as we did it with respect to the textile amendment and others, I believe it would be helpful to the administration to do what I am sure they have wanted to do, because the imports have developed into a disguised situation. I believe the figures indicate that the imports have gone up almost astronomically in the past 3 or 4 years.

Mr. McGOVERN. There is no question about that.

Mr. MAGNUSON. I heartily support the amendment, as I always have.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. McGOVERN. I yield myself 5 additional minutes.

Mr. NELSON. Mr. President, will the Senator yield for a question?

Mr. McGOVERN. I yield.

Mr. NELSON. The Senator from Washington mentioned the fact that he was sure the administration approved of the general idea. I am sure the Senator is aware that after a group of Senators talked with the administration, when the import rate had risen to 4 billion pounds of dairy equivalent a year, the President did exercise his authority—I believe the Senator from Washington was there at the time the President announced it, in the White House—and reduced it to 1 billion pounds a year.

Mr. MAGNUSON. The Senator is correct.

Mr. NELSON. This actually would formalize in the statute the same proposal that the White House has already endorsed by Executive order.

Mr. MAGNUSON. And they have expressed an opinion that they would endorse proposed legislation that would do the same thing.

Mr. McGOVERN. The Senator is correct.

I believe the President deserves full credit for what he has accomplished by Executive order. This measure would give it legislative force, and it would close some of the unanticipated loopholes that have developed under the existing arrangement.

Mr. AIKEN. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield to the distinguished Senator from Vermont.

Mr. AIKEN. Mr. President, a year ago last summer, the consumption and production of milk and dairy products in the United States was virtually in balance, and it looked as if we might be in for a long period of stability in the dairy industry. Then the importers—there are many of them—at least 34 importers, devised a means of importing dairy products—ice cream mix, you might say, and Colby cheese—in violation of what was supposed to be the rules of the Import Act. Before they could be stopped, they had reached a point, as stated by the Senator from Wisconsin, where they were

importing the equivalent of 4 billion pounds of milk a year. They had completely thrown off the production-consumption balance. The Department of Agriculture had to buy over 8 billion pounds of milk equivalent in order to maintain the support price, the guaranteed price, in this country.

Then the President took a hand in the matter. Unfortunately, he asked the Tariff Commission to study the situation. It was natural for him to do that. The Tariff Commission was not a bit sympathetic to American farmers, and on July 1 the President had to override the Tariff Commission's recommendations and reestablish the import quota at the 1 billion pounds equivalent a year. But by that time so much damage had been done and so much of the imported goods had been put in storage that it would take a long time to get the market back into the proper balance again.

I commend the President for taking the action he took last summer. I hope he will take action again soon..

I wish to read one sentence from a ruling by the Food and Drug Administration, as reported in the Federal Register of March 22. They ruled as follows:

The department concludes that imported milk products in hermetically sealed cans so processed by heat as to prevent spoilage are not subject to the provisions of the Federal Import Milk Act.

In other words, the Food and Drug Administration, by this ruling, amends the law enacted by the Congress.

Mr. McGOVERN. That would be the effect of opening the country to a flood of imports.

Mr. AIKEN. It would open the floodgates again to a situation that would contribute to the destruction of the American dairy industry.

I hope that the White House will take prompt action and go as far as it can in stopping this practice, which the ruling of the Food and Drug Administration would not only permit but would encourage.

It is not only evaporated milk that could come in, but also any other dairy product that had been hermetically sealed to prevent spoilage. It is a long step toward further destruction of the American dairy industry.

Mr. McGOVERN. Mr. President, I ask unanimous consent to have printed in the RECORD at this point the ruling to which the Senator from Vermont referred. The document is entitled "Title 21—Food and Drugs."

There being no objection, the ruling was ordered to be printed in the RECORD, as follows:

TITLE 21—FOOD AND DRUGS

CHAPTER I—FOOD AND DRUG ADMINISTRATION, DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

Subchapter A—General

Part 3—Statements of General Policy or Interpretation

Revocation

The Federal Import Milk Act prohibits importation of milk or cream unless the importer holds a valid permit from the Secretary of Health, Education, and Welfare. Milk or cream is considered unfit for importation unless the cows have been examined within the previous year and found healthy and free of tuberculosis and all dairy farms and plants involved have been found to meet certain sanitary requirements.

In a statement of policy (21 CFR 3.56) published in the FEDERAL REGISTER of September 10, 1966 (31 F.R. 11935), the Food and Drug Administration announced that the provisions of the Federal Import Milk Act apply to "all imported milk and cream, whether sterilized or not." Subsequently, objections received regarding § 3.56 were referred to the Department of Justice with a request for an opinion. That Department concludes that imported milk products in hermetically sealed cans so processed by heat as to prevent spoilage are not subject to the provisions of the Federal Import Milk Act.

Therefore, pursuant to the provisions of said act (secs. 1–9, 44 Stat. 1101–1103), as amended; 21 U.S.C. 141–149) and under the authority delegated to the Commissioner of Food and Drugs by the Secretary (21 CFR 2.120), Part 3 is amended by revoking § 3.56 *Imported canned heat-processed milk products under the Federal Import Milk Act.*

This action shall not be construed as exempting such products from any of the applicable provisions of the Federal Food, Drug, and Cosmetic Act or regulations promulgated thereunder.

Effective date. This order shall be effective upon publication in the FEDERAL REGISTER. (Secs. 1–9, 44 Stat. 1101–1103, as amended; 21 U.S.C. 141–149)

Dated: March 13, 1968.

J. K. KIRK,
Associate Commissioner for Compliance.

[F.R. Doc. 68–3480; Filed, Mar. 21, 1968; 8:47 a.m.]

Mr. AIKEN. Mr. President, will the Senator yield further?

Mr. McGOVERN. I yield.

Mr. AIKEN. Mr. President, I would like to add that in New England, as far is known, there was only one ice cream manufacturer last year who was using native cream alone in the manufacture of ice cream, and that was one cooperative in Vermont. They persisted in using our own cream. But the urge to import was great because on imported butterfat the importers could make 10 to 20 cents a pound profit more than they could on domestically produced butterfat. The consumer never received a nickle of benefits out of it; it all went into the profits of the importers and the processors.

The ice cream mix came principally from Belgium. I know that the Belgian Government warned its exporters against the violation of the U.S. import laws but the importers paid no attention and sent it in. They will give us the same treatment now if they are permitted to get away with it.

I would prefer not to add an amendment to the bill but I do not see any other way to do it now because the imports will start almost immediately since they have permission from the Food and Drug Administration.

Mr. McGOVERN. I think the Senator would agree that this legislation would have the effect of reenforcing what the President attempted to accomplish with an Executive order.

Mr. AIKEN. Yes; but I do hope that the Senate will take action promptly to block this attempt to circumvent the intent of the Congress and the President's proclamation.

Mr. PROUTY. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield.

Mr. PROUTY. Mr. President, I wish to join my senior colleague in complimenting the distinguished Senator for introducing this amendment. I heartily favor the amendment. I know that it is essential to maintain the economy of our dairy producers.

I believe that this year the Vermont Legislature, by joint resolution, memorialized the Congress to support legislation of this kind.

I am sorry that the measure has to come in a tax bill, but I can see no alternative.

I am happy to join my senior colleague in supporting the amendment.

Mr. YOUNG of North Dakota. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield.

Mr. YOUNG of North Dakota. Mr. President, all agriculture is in trouble financially today. The situation is understandable inasmuch as the prices for most farm commodities are lower today than they were 20 years ago, while the cost of everything farmers have to buy has increased.

Agriculture is still the biggest and most important segment of our economy. No segment of that economy has had more trouble than the dairy industry. It is a sick industry today.

The trouble is due in large part to imports. In 1967, dairy imports reached 2.8 billion pounds milk equivalent. That amount of imports would ruin almost any industry.

This involves not only the amount of imports at any given time but also the uncertainty with respect to how much will be imported in the future. This is even more devastating pricewise.

On June 30, 1967, President Johnson issued a proclamation aimed at reducing imports of dairy products. He recognized the need that something must be done. At that time it was argued that this action would eliminate the need for legislation such as we are now considering. I did not agree with that assessment then and I do not today. That Presidential order is proving to be no more effective than previous such orders were in reducing and limiting imports. All that is needed is for the exporters in foreign lands to alter the makeup of their product somewhat and continue to pour their dairy products into our market.

What is needed is an import restriction that cannot be evaded—one that is simply defined and easily understood. This amendment would clearly define permissible import levels and eliminate the ever-present danger of skyrocketing levels of imports because of quota evasion through product variation.

Mr. President, this proposal is not aimed at shutting the door to imports or freezing the level of imports. It does permit continued imports and would allow expanded levels of imports if domestic demand expands.

This is reasonable and necessary legislation. It would be a tremendous boost to the domestic dairy industry and would help greatly in stemming the increasing flow of farmers out of the dairy business. The decreasing number of dairy farmers

poses a direct threat to the stability and availability of supplies of these most essential food products. Thus, this legislation is also in the very best interests of the American consumer.

The PRESIDING OFFICER. (Mr. BYRD of West Virginia in the chair). The time of the Senator has expired.

Mr. YOUNG of North Dakota. Mr. President, I ask unanimous consent that I may proceed for 2 additional minutes.

Mr. McGOVERN. I yield 2 minutes to the Senator from North Dakota.

The PRESIDING OFFICER. The Senator from North Dakota is recognized for 2 additional minutes.

Mr. YOUNG of North Dakota. Mr. President, quotas are not new on farm commodities and especially dairy commodities. The first quotas were set in 1942.

Mr. President, I ask unanimous consent to have printed in the RECORD an excellent presentation made in behalf of this legislation by the National Milk Producers Federation in a pamphlet entitled "Invasion by Evasion." Specially, I ask unanimous consent to have printed in the RECORD the following material from that publication: The article on page 2 entitled "Import Controls Are Indispensable," the article on page 3 entitled "Brief History of Dairy Imports," the chart on page 4 entitled "Import Quotas Established by Presidential Proclamation 3019, Effective July 1, 1953, and Milk Equivalent—Fat Base," the article on page 5 entitled "Invasion by Evasion," the article on pages 7 and 8 entitled "Legal Background of Import Controls," and the article on pages 9 and 10 entitled "Dairy Import Act of 1967."

There being no objection, the material was ordered to be printed in the RECORD, as follows:

IMPORT CONTROLS ARE INDISPENSABLE

Effective control of dairy imports is indispensable to dairy farmers and of vast long-range importance to the general public.

Effective import controls are necessary in order that farmers may have an opportunity to achieve parity prices for their milk and butterfat. Achievement of parity prices as a goal of national public policy is clearly set forth in all major agricultural legislation, including the Agricultural Adjustment Act of 1933, the Agricultural Marketing Agreement Act of 1937, and the Agricultural Act of 1949. This parity price goal cannot be attained if large scale imports are permitted because they either will (1) render the price support program ineffective, or (2) involve the government in the purchase of such large volumes of products displaced by imports so as to cause the discontinuation of the program.

Effective import controls are necessary to provide dairy farmers a level of income commensurate with that received by other segments of our economy, and to enable farmers to maintain a strong and progressive industry in the face of ever-increasing costs. Prices to farmers for milk and butterfat last reached the parity level in 1952. Since that time they have been considerably below parity. In four of the last five years they have barely been above 75 percent of parity.

Effective import controls are necessary also to assure an adequate supply of fluid milk and other dairy products for our growing population, to meet our needs for national defense and security, to meet the critical needs of our government for use in foreign nations as an integral part of our foreign policy, and to provide for essential uses within the United States. If imports are allowed to impair our production capacity, it cannot be quickly restored.

Effective import controls are necessary to provide an opportunity for U.S. dairy farmers operating in our high-price and high-wage economy to compete free from inroads of large supplies of foreign products made cheap through subsidy arrangements. In the common market countries minimum import prices for butter range from a low of 70 cents per pound in the Netherlands to 94 cents per pound in Belgium and Luxembourg. Such prices are maintained by import levies. These same nations export butter at prices as low as 20 cents per pound.

Effective import controls are necessary to neutralize the great pressures which are generated by the vast difference in subsidized world market prices and the prices which public policy demands be received by American dairy farmers.

BRIEF HISTORY OF DAIRY IMPORTS

Imports will show an increase of 567 percent—almost 7 times above 1953—if U.S.D.A. estimates of dairy product imports for 1967 are realized. Last year imports showed a startling increase. Whereas from 1953–1965 the increase in imports was 75 percent, in 1966 this jumped to 433 percent.

The first dairy proclamation under Section 22, issued in 1953, established annual quotas equal to 189 *million* pounds of milk equivalent in the form of dairy products. In that year total imports were 525 *million* pounds. U.S.D.A. estimates that in excess of 3½-*billion* pounds of milk equivalent will be imported in 1967.

IMPORT QUOTAS ESTABLISHED BY PRESIDENTIAL PROCLAMATION 3019, EFFECTIVE JULY 1, 1953, AND MILK EQUIVALENT (FAT BASIS)

Product	Quota (pounds)	Milk equivalent (pounds)
Cheese:		
Cheddar	2,780,100	27,244,980
Blue mold	4,167,000	37,890,531
Italian	9,200,100	73,416,798
Edam and Gouda	4,600,200	34,869,516
Total, cheese	20,747,400	173,421,825
Butter	707,000	15,235,850
Dried cream	500	9,300
Malted	6,000	15,900
Dried whole	7,000	51,450
Dried skim milk	1,807,000	
Dried buttermilk	496,000	709,280
Total, milk equivalent of quotas		189,443,605

INVASION BY EVASION

Quotas intended to limit entry of dairy products into the U.S. were established July 1, 1953, by Presidential Proclamation 3019. The proclamation reasonably could have been expected to have established maximum quantities of dairy products which may be imported.

The ink on the proclamation was scarcely dry, however, before exporters abroad and importers within the U.S. quickly discovered that import quotas were easy to circumvent and reprisals by the executive branch would not result from such circumvention. It was soon found that any product—irrespective of whether it had ever been imported or even existed—could be imported in unlimited amounts. Such imports establish a "history of imports" which was useful to foreign exporters and U.S. importers in later establishment or enlargement of quotas.

The first overt circumvention of established quotas involved the splitting of "loaves" of Italian-type cheese. The original quotas specified in the original proclamation, entered the market. The import quotas ae established were not full or effective since cheese imports outside the quotas exceeded those permitted by a ralo of 3 to 2 the first year.

The tug of war over cheese imports continues to this day. At present the big noncontrolled item is Colby cheese, a product particularly identical to Cheddar cheese. Colby cheese is entering the country at a rate ten times the volume established as a quota for cheddar.

When Section 22 of the Agricultural Adjustment Act was invoked July 1, 1953, imports of butter were limited to 707,000 pounds annually, but this was circumvented immediately by the importation of butteroil, a product not previously imported. After much urging and a hearing, the Tariff Commission established an import quota on butteroil at 1,200,000 pounds annually. Total imports of butterfat (as butter and butteroil) thus became nearly three times as great as intended when the 707;000-pound quota was established.

Once the quota for butteroil was made effective, evasion and circumvention of such quotas took the form of butterfat-sugar mixtures.

Exylone, the first product of this type to be imported, was used principally in the ice cream trade as a replacement for domestic cream. The domestic cream, of necessity, was churned into butter for sale to the government under the price support program at lower returns to dairy farmers.

The Tariff Commission held another hearing. This time, however, it relied upon a representative period predating imports of Exylone, and established a quota for Exylone at zero.

In barring imports of Exylone, however, the regulation applied only to products containing 45 percent or more of butterfat. The dairy industry argued that this limitation would merely invite new imports in mixtures containing less than 45 percent butterfat. This happened at once.

A new mixture, called Junex, promptly made its appearance, Junex contained 44 percent butterfat and 55 percent sugar. In 1966 alone, 104.5 million pounds entered the United States, dwarfing the quota on butter and butteroil to meaningless terms.

As a substitute for action under Section 22, the executive branch negotiated with Australia, Ireland, and New Zealand, limiting imports for Colby cheese, cream and butterfat-sugar mixtures, all nonquota products, in 1962 through 1964. These agreements could not bind nonsignatory countries. As shipments from the latter countries increased, the agreements were abandoned. In mid-1966 the Secretary of Agriculture promulgated regulations under the Sugar Act limiting the importation of products containing 25 percent and more of sugar.

This regulation, too, proved ineffective. Mixtures containing 44 percent butterfat, 24 percent sugar, and 31 percent nonfat milk solids were at sea before the regulation was issued. In 1966 imports of butterfat-sugar mixtures displaced a market for U.S. dairy farmers equal to 10 percent of total ice cream production.

Imports of dairy products thus continued to increase. The U.S. Department of Agriculture predicts that the total of imports in 1967 will approximate 3.5 billion pounds of milk (calculated on a butterfat basis). This level of imports is 12 times the total authorized by import quotas.

LEGAL BACKGROUND OF IMPORT CONTROLS

In earlier years the dairy industry in the United States was largely self-sufficient, and the small differences in domestic and foreign prices were offset by modest tariffs.

Following World War I, the butter tariff was increased from 2.5 cents to 12 cents per pound to reflect increasing price differentials. The Tariff Act of 1930 set the tariff rate at 14 cents per pound on butter with corresponding rates on other dairy products. Although these were fixed rates, they operated effectively for several years.

These tariff rates were subsequently reduced to inadequate levels under the trade agreement acts. The reduced tariffs were unrealistic in that they failed to take into account the substantial price differences which were developing between domestic and world price levels for dairy products.

The tariff reductions were not correlated with the programs of the Department of Agriculture and the results were at cross purposes. Moreover, ready use by foreign nations of heavy export subsidies, currency devaluation, exchange manipulations, and similar practices operated to render fixed tariff rates practically meaningles and to require the use of import quotas.

Import quotas were imposed on major dairy products in 1942 under the Second War Powers Act. This was done primarily to keep fats needed in the allied countries from being drawn to the high-priced American market, and to help carry out an international allocation of dairy products.

These controls continued in part through 1948. Later, in the 1949–51 period, imports of butter were controlled under special legislation to permit the orderly liquidation of stocks the government had acquired under the support program.

To prevent excessive imports from resulting in unnecessary expenditures under the price support program, Congress in 1951 authorized import quotas in Section 104 of the Defense Production Act. These controls were maintained until 1953, when they were shifted to Section 22 of the Agricultural Adjustment Act.

Section 22 of the Agricultural Adjustment Act was enacted back in 1935 as a part of the agricultural programs designed to provide fair returns to agricultural producers as measured in terms of parity prices. Its purpose was to assure that the government programs would not be rendered ineffective by imports. It was materially strengthened in 1951 when Congress amended it to state clearly and forcefully that the protection which it had authorized for the agricultural programs would take precedence over the trade agreements.

Although Section 22 has been available since 1935, it was not until 1953 that use of it was made to protect the agricultural programs provided by Congress for dairy farmers.

Since that time, the controls set up in 1953 have been continuously eroded because administration of the section has been weak and ineffective.

Particularly in more recent years, evasion of the import controls has become a popular and profitable pastime for importers and foreign nations. Huge quantities of imports are being brought into the country in open and flagrant evasion of the import quotas.

These have resulted in millions of dollars of added and unnecessary cost to the dairy price support program, and they are interfering substantially with the attainment of the goal of the program which is parity prices in the marketplace.

Dairy Import Act of 1967

The National Milk Producers Federation, after careful study and consultation with members of Congress, developed a new import control program which was incorporated in a bill introduced last year by Senator Proxmire and 21 other Senators. Numerous similar bills were introduced in the House.

Legislation has now been introduced in the new Congress, and the Federation will make an all-out fight for its passage. This will not be an easy task, since it must be assumed that there will be strong opposition. The bill should be supported because it sets a fair guideline under which government and industry can operate.

Opposition will arise in spite of action by other nations, such as those in the European Common Market, to protect their own agriculture, and in spite of tremendous differences between our domestic prices and world export prices which make free trade concepts with respect to dairy products completely visionary and unrealistic.

The legislation proposed would use as a base the average annual quantities of butterfat and nonfat milk solids imported during the five calendar years 1961–65. 1966 would not be included in the base because it was not a normal year. Heavily subsidized exports of surplus production in foreign nations, coupled with price increases in this country needed to stop a dangerous decline in domestic production, resulted in abnormally large volumes of imports of evasion-type products during 1966. The same condition threatens serious harm to American dairy farmers in 1967, unless Congress acts to fix a limit on imports under this legislation.

The 1961–65 average would be an automatic control and would not require lengthy and unsatisfactory Tariff Commission proceedings as under present law.

The controls would be flexible as between products and countries, subject to the overall limitation that the annual total of all dairy-product imports could not exceed the 1961–65 average. This would permit recognition of any legitimate new dairy products which might be developed while at the same time preventing evasion.

Provision is made to permit the President to authorize additional imports in the national interest. If additional imports are admitted under this provision, at a time when dairy prices are below parity, a corresponding quantity of dairy products would be removed from the domestic market. This would permit the market to respond to domestic market forces and help attain the goal of the agricultural program authorized by Congress, which is parity prices in the marketplace for American dairy farmers.

The bill also provides that as the domestic market expands due to population or other factors, the import total would increase in the same ratio.

Thus foreign countries would share in the growth of the United States market in the same relative proportion as our own farmers, but their exports to this country could not grow by displacing domestic production. This would prevent serious impairment of our dairy industry which is much too important to our national economy and national security to be sacrificed for concepts of free trade which, so applied to the dairy industry, are unrealistic and impractical.

Most important, the new bill would put an end to the subterfuge and evasion practiced under the present inadequate import controls.

Furthermore, a definite and known level of imports would be established to which the market could adjust and on which our own farmers and foreign countries could make sound future plans.

Mr. COTTON. Mr. President, will the Senator yield for one-half minute?

Mr. McGOVERN. I yield.

Mr. COTTON. Mr. President, as a person who was born and reared on a dairy farm and who has watched the depletion of the dairy industry in my State, which used to be one of its leading activities, I commend the Senator. I am glad that he and other Senators associated with him are striking a blow to save this industry.

Mr. President, as a cosponsor of the dairy import bill, I associate myself with them in this amendment.

Mr. McGOVERN. I thank the Senator from New Hampshire.

Mr. NELSON. Mr. President, will the Senator yield for a question?

Mr. McGOVERN. I yield.

Mr. NELSON. It is clear in the amendment pending before us that it would not freeze the situation, and freeze an import quota; but that it allows for a growth factor as the increase in the total amount of consumption of dairy products grows greater in this country.

Mr. McGOVERN. Yes. As the consumption pattern increases, assuming that it will, as our population grows, or for whatever cause, the quota would be raised proportionately in amount to allow for the additional demand.

Mr. NELSON. It is correct, is it not, that over a period of years the Department of Agriculture has been advising and suggesting the dairy industry cut its production so that it will have a balance as between production and demand in this country?

Mr. McGOVERN. The Senator is correct.

Mr. NELSON. During a relatively brief period of time, in the past 3 or 4 years—I do not have the exact figure before me, but during a relatively brief period of time—milk production has been cut from the 126-billion-pound mark last year, to the 120-billion-pound mark. But, in the meantime, imports ballooned to replace in substance what was cut back by the farmers in this country. In recognition of this, the President did set in order 1 billion pounds of importation of dairy products or equivalent; is that not correct?

Mr. McGOVERN. The Senator is correct. I might say to the Senator that for many years other countries have provided this kind of protection to their dairy producers. The Senator from Wisconsin knows that we are not asking for something for our own producers which has not been available for a long time to the dairy producers in other countries.

There are two reasons for that; one, to protect their own domestic dairy industry and, two, to protect their balance of payments.

I am advised that the dollar drain on our balance of payments by dairy imports is something over $36 million a year for dairy imports that are not really needed in this country. They increase the burden on our dairy producers and on our price support mechanisms in addition to complicating the balance-of-payments position.

Mr. AIKEN. May I add that as a result of the deluge of imports in violation of the Milk Act, our own Government had to purchase the equivalent of 8 billions pounds of milk in the price support program. That meant several hundred million dollars of expense to this Government in addition to whatever it may have lost in the balance of payments.

Mr. McGOVERN. Yes. The Senator makes a very good point. I have been concerned for a long time with our food-for-peace program and the use of surplus commodities in this country to reduce hunger in the world. But, it seems to me, with so many food deficits in many of the developing countries of the world, that it makes no sense to export surplus food to the United States where we already have so much food that it is

depressing the markets and adding to the cost of the price-support operation.

I think it would be better taken if some of those exporting dairy products to the United States would join us in sending commodities to those areas where there is a food deficit which will assist us in the so-called war on hunger. There is a strong moral argument to be made here, in addition to the economic appeal to protect our dairy producers. It is in the interest of the world as a whole to send food to countries which are short of it and not send surpluses here where we have more than enough.

Mr. AIKEN. One more thing that disturbs me even more is that when Congress enacts legislation, in the Senate at least, there is an agency of the Government that will go to work in an attempt to circumvent that legislation. We seem to have it in this case. Those people know perfectly well that evaporated milk is a dairy product that comes from milk. They must know it comes from a cow. But, I am not sure.

Anyway, it is a deliberate attempt to circumvent the intent of Congress and I think we should put a stop to it, so far as it lies within our power. However, I am sure that they will then go to work and try to figure some other way.

Mr. McGOVERN. I thank the Senator for his comments.

Mr. President, I have nothing further to say on this legislation. I am prepared to yield back the remainder of my time.

Mr. HARRIS. Mr. President, I have a great many dairymen in my State, and I know and am concerned about the pressures they feel from dairy imports. I have been trying my best to help them. But the adoption of this amendment is not the way to help them; it does not belong in this bill and will surely be dropped in conference.

As I said in opposition to the textiles quota amendment, these matters are serious enough to require their consideration in a regular, orderly and careful manner.

Lastly, if we are going to add this amendment, then I fear there will be a flood of other such amendments, accomplishing nothing except damage to our chances to improve our balance of trade and help American agriculture and industry.

Mr. CHURCH. Mr. President, America's dairy farmers have been burdened with unfair competition from heavily subsidized imports. They have not been sharing in the prosperity of this country. It's time they had a chance to do so.

This amendment, which I am pleased to cosponsor, would limit dairy imports to the average of the 1961–65 period.

Mr. President, dairy farmers are getting tired of paper gestures which have been used in the past to discourage Congress from enacting permanent import controls. The present system of setting import levels has been marred by a long history of evasion on the part of importers.

The Food and Drug Administration recently ruled that evaporated milk is not covered by the Federal Import Milk Act. This means that importers will be able to turn surplus milk into evaporated products and evade the quotas which the President proclaimed last July.

This flagrant evasion must stop. Our dairy farmers need legislative protection against excessive imports in order to enjoy a stable market for their milk and dairy products.

Other countries have for many years controlled their imports—not only to protect their own industry, but to conserve their balance-of-payments positions as well. They cannot object to our doing the same thing.

Mr. LONG of Louisiana. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER (Mr. HARRIS in the chair). The Senator from Louisiana is recognized for 2 minutes.

Mr. LONG of Louisiana. Mr. President, we already have quotas on dairy imports. I hold in my hand the President's proclamation of June 30, 1967, pertaining to quota limitations on dairy imports, which is in line with the legislation on that subject to which the Senator has made reference. It was issued pursuant to the terms of section 22 of the Agricultural Adjustment Act.

I ask unanimous consent to have the President's proclamation printed in the RECORD.

There being no objection, the proclamation was ordered to be printed in the RECORD, as follows:

STATEMENT BY THE PRESIDENT ON DAIRY IMPORTS, JUNE 30, 1967

I have today signed a proclamation which will reduce dairy imports to the normal level which prevailed before 1966. On the basis of these new quotas, annual imports will be approximately one billion pounds of milk equivalent.

This action has been taken on the recommendation of the Vice President, the Secretary of State, the Secretary of Agriculture, the Chairman of the Council of Economic Advisors and the Director of the Bureau of the Budget, and numerous members of Congress concerned.

Dairy imports from 1961 through 1965 averaged 850 million pounds of milk equivalent annually, 1965 imports were 900 million pounds. The level established by this action will permit us to meet all existing international commitments and will restore dairy imports to historic and normal levels.

This action is of benefit to all Americans:

It will help the dairy farmer to obtain a fair return.

It will save tax dollars of between 100 and 200 million annually from lower government purchases of dairy products.

It will provide the consumer with more stable domestic production at no increase in milk prices.

It will still permit us to honor our trade commitments to other nations.

A PROCLAMATION BY THE PRESIDENT OF THE UNITED STATES OF AMERICA AMENDING PART 3 OF THE APPENDIX TO THE TARIFF SCHEDULES OF THE UNITED STATES WITH RESPECT TO THE IMPORTATION OF AGRICULTURAL COMMODITIES

Whereas, pursuant to section 22 of the Agricultural Adjustment Act, as amended (7 U.S.C. 624), limitations have been imposed by Presidential proclamations on the quantities of certain dairy products which may be imported into the United States in any quota year; and

Whereas, in accordance with section 102 (3) of the Tariff Classification Act of 1962, the President by Proclamation No. 3548 of August 21, 1963, proclaimed the additional import restrictions set forth in part 3 of the Appendix to the Tariff Schedules of the United States; and

Whereas the import restrictions on certain dairy products set forth in part 3 of the Appendix to the Tariff Schedules of the United States as proclaimed by Proclamation No. 3548 have been amended by Proclamation No. 3558 of October 5, 1963, Proclamation No. 3562 of November 26, 1963, Proclamation No. 3597 of July 7, 1964, section 88 of the Tariff Schedules Technical Amendments Act of 1965 (79 Stat. 950), and Proclamation No. 3709 of March 31, 1966; and

Whereas, pursuant to said section 22 the Secretary of Agriculture advised me there was reason to believe that the dairy products described hereinafter are being imported, and are practically certain to be imported, under such conditions and in such quantities as to render or tend to render ineffective, or materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat;

Whereas, at my request, the United States Tariff Commission has made an investigation under the authority of section 22 of the Agricultural Adjustment Act, as amended, with respect to this matter and related questions outlined in my request for an investigation and has reported to me its findings and recommendations made in connection therewith; and

Whereas, on the basis of such investigation and report, I find that the articles described below are being imported and are practically certain to be imported into the United States under such conditions and in such quantities as to materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat:

(1) American-type cheese, including Colby, washed curd, and granular cheese (but not including Cheddar) and cheese and substitutes for cheese containing, or processed from, such American-type cheese;

(2) Articles containing over 5.5 percent but not over 45 percent by weight of butterfat which are classifiable for tariff purposes under item 182.91 of the Tariff Schedules of the United States (TSUS), the butterfat content of which is commercially extractable, or which are capable of being used for any edible purpose (except articles packaged for distribution in the retail trade and ready for use by the purchaser at retail for an edible purpose or in the preparation of an edible article); and

(3) Milk and cream, fluid or frozen, fresh or sour, containing over 5.5 percent but not over 45 percent by weight of butterfat; and

Whereas, on the basis of such investigation and report, I find and declare that for the purpose of the first proviso to section 22(b) of the Agricultural Adjustment Act, as amended, the representative period for imports of such articles is the calendar years 1961–1965; and

Whereas, on the basis of such investigation and report, I find and declare that changed circumstances require that the section 22 quotas on dairy products be changed to a calendar year basis, with semi-annual allocations when the yearly quota is periodically allocated; and

Whereas, at my request, the United States Tariff Commission has also made an investigation under the authority of section 22 of the Agricultural Adjustment Act, as amended, to determine whether an additional quantity of Cheddar cheese could be imported without materially interfering with the price support program and has reported to me its findings and recommendations made in connection therewith; and

Whereas, on the basis of such investigation and report, I find and declare that changed circumstances require the modification, as hereinafter proclaimed, of the quota on Cheddar cheese, and cheese and substitutes for cheese containing, or processed from Cheddar cheese; and

Whereas, on the basis of such investigations and reports, I find and declare that the imposition of the import restrictions hereinafter proclaimed is necessary in order that the entry, or withdrawal from warehouse, for consumption of such articles will not render or tend to render ineffective, or materially interfere with the price support program now conducted by the Department of Agriculture for milk and butterfat;

Now, therefore, I, Lyndon B. Johnson, President of the United States, acting under and by virtue of the authority vested in me as President, and in conformity with the provisions of section 22 of the Agricultural Adjustment Act, as amended, and the Tariff Classification Act of 1962, do hereby proclaim that part 3 of the Appendix to the Tariff Schedules of the United States is amended as follows:

"(1) headnote 3(a) is revised to read as follows:

" '3. (a) *Dairy Products.*

" '(i) imported articles subject to the import quotas provided for in items 950.01 through 950.11, except 950.06, may be entered only by or for the account of a person or firm to whom a license has been issued by or under the authority of the Secretary of Agriculture, and only in accordance with the terms of such license; except that no such license shall be required for up to 1,225,000 pounds per quota year of natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months which prior to exportation has been certified to meet such requirements by an official of a government agency of the country where the cheese was produced, of which amount not more than 612,500 pounds may be entered during the period July 1, 1967, through December 31, 1967, or during the first six months of a quota year. Such licenses shall be issued under regulations of the Secretary of Agriculture which he determines will, to the fullest extent practicable, result in (1) the equitable distribution of the respective quotas for such articles among importers or users and (2) the allocation of shares of the respective quotas for such articles among supplying countries, based upon the proportion supplied by such countries during previous representative periods, taking due account of any special factors which may have affected or may be affecting the trade in the articles concerned. No licenses shall be issued which will permit entry during the first six months of a quota year of more than one-half of the quantities specified for any of the cheeses or substitutes for cheese (items 950.07 through .10) in the column entitled "quota Quantity."

" '(ii) not more than 4,406,250 pounds of the quota quantity specified for articles under item 950.08 for the period July 1, 1967, through December 31, 1967, and not more than 8,812,500 pounds of the annual quota quantity specified in such item for each subsequent 12-month period shall be products other than natural Cheddar cheese made from unpasteurized milk and aged not less than 9 months,'.

"(2) The superior heading preceding items 950.00 through 950.13 of part 3 is changed to read as follows:

" 'Whenever, in any 12-month period beginning January 1 in any year, the respective aggregate quantity specified below for one of the numbered classes of articles has been entered, no article in such class may be entered during the remainder of such period:'.

"(3) item 950.00 is added preceding item 950.01 which reads as follows:

" '950.00	Milk and cream, fluid or frozen, fresh or sour, containing over 5.5 percent but not over 45 percent by weight of butterfat:	
	For the 12-month period ending Dec. 31 1967:	
	New Zealand	The quantity entered on or before June 30, 1967, plus 750,000 gals.
	Other	None.
	For each subsequent year:	
	New Zealand	1,500,000 gals.
	Other	None.'

"(4) item 950.08 is amended to read as follows:

" '950.08A	Cheddar cheese and cheese, and substitutes for cheese containing, or processed from, Cheddar cheese:	
	For the 12-month period ending Dec. 31, 1967	The quantity entered on or before June 30, 1967, plus 5,018,750 lbs. (See headnote 3(a)(ii) of this part.)
	For each subsequent 12-month period	10,037,500 lbs. (See headnote 3(a)(ii) of this part.)'

"(5) item 950.0810 is added following item 950.08, which reads as follows:

" '950.08B	American-type cheese, including Colby, washed curd, and granular cheese (but not including Cheddar) and cheese and substitutes for cheese containing, or processed from, such American-type cheese:	
	For the 12-month period ending Dec. 31, 1967	The quantity entered on or before June 30, 1967, plus 3,048,300. lbs.
	For each subsequent 12-month period	6,096,600. lbs.'

"(6) item 950.12 is divided into two items and is amended to read as follows:

" 'Articles containing over 5.5 percent by weight of butterfat, the butterfat content of which is commercially extractable, or which are capable of being used for any edible purpose (except articles provided for in subparts A, B, C or item 118.30, of part 4, Schedule 1, and except articles imported packaged for distribution in the retail trade and ready for use by the purchaser at retail for an edible purpose or in the preparation of an edible article):

" '950.12	Over 45 percent by weight of butterfat	None.
950.13	Over 5.5 percent but not over 45 percent by weight of butterfat and classifiable for tariff purposes under item 182.91:	
	For the 12-month period ending December 31, 1967:	
	Australia	The quantity entered on or before June 30 1967, plus 1,120,000 lbs.
	Belgium and Denmark (aggregate)	The quantity entered on or before June 30, 1967, plus 170,000. lbs.
	Other	None.
	For each subsequent 12-month period:	
	Australia	2,240,000 lbs.
	Belgium and Denmark (aggregate)	340,000 lbs.
	Other	None.' "

In witness whereof, I have hereunto set my hand and caused the Seal of the United States of America to be affixed.

Done at the City of Washington this 30th day of June in the year of our Lord nineteen hundred and sixty-seven, and of the Independence of the United States of America the one hundred and ninety-first.

LYNDON B. JOHNSON.

By the President:

DEAN RUSK,
Secretary of State.

[From the U.S. Department of Agriculture, Washington, June 30, 1967]

PRESIDENT ACTS TO RESTRICT DAIRY IMPORTS

Imports of dairy products will be reduced to one-fourth the present volume beginning July 1, 1967, under a proclamation issued today by President Johnson which will place import quotas on a number of dairy products for the first time.

Hailing the action as promising "long-sought relief both to dairy farmers and the taxpayer," Secretary of Agriculture Orville L. Freeman pointed out that dairy imports would be cut from an annual rate of nearly 4.3 billion pounds milk equivalent currently to about 1 billion pounds.

Since Jan. 1 through June 27, the Secretary noted, USDA purchases under the dairy price support program are 208 million pounds of butter, 101.9 million pounds of cheese, and 379 million pounds of dry milk—or the milk equivalent of 5.5 billion pounds—at a cost of $265.6 million.

Dairy imports have increased sharply from about 900 million pounds milk equivalent in 1965 to 2.8 billion pounds in 1966 and are running at an annual rate of nearly 4.3 billion pounds during the first half of 1967. Most of the increase has been in the form of butterfat/sugar mixtures used in ice cream manufacture, and Colby cheese, a cheddar-like cheese used mainly in manufacturing process American cheese.

The Proclamation, issued under the authority of Sec. 22 of the Agricultural Adjustment Act, as amended, will result in an overall annual level or dairy imports of around one billion pounds of milk equivalent. This will bring imports to less than 1 percent of domestic milk production, which currently is running at about 121 billion pounds annually.

The cutback in imports will be achieved by bringing the high-volume items under the existing import quota system for the first time. These items include the butterfat/sugar mixtures, such as Junex; Colby and other American types of cheese other than Cheddar (which is now under quota); and frozen cream. Butter, butteroil, dried milks, certain competitive cheese, and other dairy products already are imported under quotas. Certain items with limited markets, including chocolate crumb, process Edam and Gouda, and processed Italian-type cheese will not be placed under the quotas system.

Secretary Freeman emphasized that the Presidential Proclamation will result in a volume of imports substantially below the overall level recommended by the Tariff Commission. Under Sec. 22, the President directs the Commission to investigate the impact of imports on domestic farm programs and to report its findings and recommendations to him. The Commission report, which is being made public today, recommends quotas under which total imports would have been around 2.8 billion pounds milk equivalent, or about the 1966 level.

"The President could not accept that recommendation," Secretary Freeman said, "since it would add about $100 million annually to the cost of the dairy price support program compared with the level proclaimed by the President."

The Secretary welcomed the President's action as a measure which "will help relieve the cost-price squeeze which dairy farmers particularly have felt in recent years.

"The upsurge of imports—made up largely of low-priced products specifically manufac-

tured to avoid our import quotas—has greatly aggravated that condition.

"The President's action will end an intolerable sitation where both the farmer and the taxpayer have lost, and where the consumer has gained no discernible benefit."

According to the Proclamation, effective July 1, 1967, annual imports of all American-type cheese will be limited by quotas to a total of approximately 16 million pounds. This includes an increase in the previous Chedder cheese quota of about 2.8 million pounds, as well as a new quota for Colby and other American-type cheese, and a separate quota of 1,225,000 pounds for Cheddar aged 9 months or more. By comparison, 1966 imports of Colby cheese alone were 46.8 million pounds. In the first half of 1967, Colby imports were about 50 million pounds.

Butter fat/sugar mixtures will be restricted to 2,580,000 pounds annually. This figure is only a fraction of the 106 million pounds imported in 1966 and is approximately the 1961–1965 average before the import surge began.

Frozen cream also will be brought under quota. The limit is set at 1.5 million gallons annually.

Secretary Freeman called the new Proclamation "a vital move in our continuing effort to assist the dairy farmer by bringing production and supply into a healthy relationship with demand." He also noted that the new commodity descriptions called for by the Proclamation should effectively foreclose the type of wholesale quota evasions which prompted the Administration's Sec. 22 action.

Quota shares (by country) for American-type cheese will be announced later. Secretary Freeman stated that, "I have been directed by the President to allocate the quotas among the supplying countries, taking into account trade during the representative period and any special factors involved."

Detailed regulations covering licensing procedures and related matters will be issued by the Department of Agriculture in the near future. All firms now eligible for dairy import licenses, as well as firms on record as desiring an import license, will be notified of the new regulations and license-application procedures, which will also be published in the Federal Register.

Mr. LONG of Louisiana. Now, Mr. President, I understand that the Senator is not satisfied with the President's proclamation and that he feels that more should be done on the subject. Perhaps he is correct. I am not the best witness of that because I certainly am no expert, as are some of those who have studied this matter more deeply than I.

Jurisdiction over this matter lies in the Committee on Agriculture and Forestry. It is an agricultural issue which has historically been handled by the House Committee on Agriculture, and by the Senate Committee on Agriculture and Forestry.

I have before me a bill by the Senator from Wisconsin [Mr. PROXMIRE] and many other sponsors—I have not counted the number, perhaps it is the same 60 to which the Senator from South Dakota [Mr. MCGOVERN] made reference. The number of the bill is S. 612. That bill was referred to the Committee on Agriculture and Forestry which, of course, has jurisdiction over that legislation as does the equivalent committee on the House side.

Mr. AIKEN. Mr. President, we are not dissatisfied with the President's proclamation of last June 30. What we are mad about now is that an agency of the Government can thwart the intent of the President as well as Congress. I do not think the President will like it, either. It seems to be a sharp practice to think that these speculators can make a few million dollars without much work and have a Government agency to smooth the way for them.

Mr. MCGOVERN. We can all understand the feelings of the Senator from Vermont. The Food and Drug Administration took evaporated milk and condensed milk out of the President's order, and that is one of the reasons for this amendment, we must close that loophole. I frankly praise the President for what he is trying to do. We are trying to reinforce his efforts.

Mr. NELSON. Mr. President, I support this amendment to place permanent restrictions on all dairy imports. The Presidential proclamation of last summer was a positive step in the right direction.

But loopholes still exist. Massive imports of foreign dairy products not covered by the President's action are streaming into the country. Evaporated milk, condensed milk, milk crumb, and certain specialty cheeses, all excluded from the proclamation, are now entering the country at record high levels.

Farmers have been told time after time that if they reduce their production and get supply in better balance with demand, the result would be better prices. But, the events of the past few years have proven that this is not to be correct for our dairy farmers.

In 1966, dairy farmers cut milk production to barely 120 billion pounds nationally, more than 3 percent less than the previous year. But prices stayed down because imports ballooned from only 900 million pounds in 1965 to 2.7 billion pounds in 1966 and reached an import rate of 4 billion pounds a month in 1967 prior to the Presidential order limiting imports to 1 billion pounds per year. This dairy import explosion wiped out any chance of improving dairy prices.

This recent experience has clearly demonstrated that we need permanent comprehensive controls on dairy imports. Otherwise, our own American dairy industry is destined for elimination or take over by huge factory dairy farms, operated by corporations.

In the last 15 years, the number of farms selling whole milk nationally has dropped from more than a million to some 500,000 today. Current reports from Wisconsin indicate that farmers there are leaving dairying at a rate of 50 per week.

The number of dairy cows in the United States dropped to a record 13,800,000 in December, the lowest figure in this century. In my own State of Wisconsin, our milk cow population has fallen below the 2 million mark for the first time since the 1930's.

These downward trends have forced national milk production down to below 120 billion pounds last year.

Domestic dairy prices have been drastically depressed by the record high foreign imports in 1966 and in 1967. While imports totaling some 900 million pounds of milk equivalent were shipped to the United States in 1965, the volume shot up to 2.7 billion last year. Sources indicate that current estimates for 1967 reach 4 billion pounds.

The 2.7 billion pounds was the same as 300,000 additional dairy cows producing milk in the United States, or 6,000 more dairy farms. However, instead the Nation lost twice that number of dairy cows and more than seven times that number of dairy farms.

If dairy imports had not increased last year, income to dairy farmers would have been increased by up to $640 per farmer, adding $185 million to gross national dairy income.

Produced and processed under cheap labor and questionable sanitary conditions, these foreign dairy imports drive down domestic prices for our family farmers here in the United States.

The results of continuously low dairy prices are plainly evident. In 1964, there were 641,000 family farms selling milk and cream in the United States. As of last year, that number had been reduced to 460,000 farms.

In my home state of Wisconsin—America's Dairyland—we lost 1,039 dairy farmers between May and September of last year alone. We now have less than 70,000 dairy farms in the entire State, where 132,000 existed in the 1950's.

Milk production on family dairy farms is at its lowest level in 15 years as tens of thousands of farmers are leaving dairying every year. Last year, milk production dropped below 120 billion pounds for the first time since 1952, 5 percent less than the 1961–65 average. Wisconsin milk production was off 2 percent from the previous year.

There is always going to be a demand by our Nation's families for pure, nutritious Grade A milk. If family farms cannot stay in business and produce it, then corporation farms will certainly take over with consumers paying royally for dairy products.

Today's American family farm is the most efficient and effective producer of food in the world. That is the reason why American consumers pay a smaller share of their income for food than anyone else in any other country.

But our family dairy farmers need a better return on their investment of labor and capital. The Wisconsin dairy farmer producing the milk realizes a $1 or $1.25 an hour for his labor with a $75,000 investment while the Chicago milkman delivering the milk earns more than $3.50 an hour with little or no investment. Many people do not realize that the Wisconsin dairy farmer receives only about 9 cents per quart for the milk he produces.

It is abundantly clear that the prices that our family farmers are receiving for the milk they produce are inadequate to keep pace with rapidly increasing production costs.

Ten years ago a Wisconsin dairy farmer could buy a new three-plow tractor by producing and selling 92,000 pounds of milk. Today, he must produce and market 97,300 pounds of milk to purchase the very same tractor.

Hiring a farmworker for a single day cost the dairy farmer the equivalent of 255 pounds of milk in 1958. Today, he

must produce and sell 280 pounds to employ the same worker for the same period of time.

In making spot checks on imported food last year, the Food and Drug Administration found that more than 10 percent of imported foreign dairy products were contaminated, adulterated or otherwise unfit for human consumption. This is a continuing health hazard for consumers as well as being grossly unfair to our dairy farmers whose pure, wholesome products compete with them in the market place.

American dairymen must invest thousands of dollars in equipment and facilities to meet local, State and Federal health regulations. But, there are no comparable sanitary requirement for the production of foreign dairy imports. The extra cost that American producers must pay to insure the sanitary quality for domestic products gives the unregulated foreign product its vital price advantage in the market place.

My Foreign Dairy Inspection Act would resolve this inequity by requiring foreign dairy farms and plants producing dairy products for importation to the United States to meet sanitary standards established by the U.S. Government.

Mr. LONG of Louisiana. Mr. President, as I have pointed out before, the press has labeled the pending bill an "Easter basket" bill because it has picked up so many amendments not really related to the subject of the legislation brought before the Senate at the beginning, and on which, therefore, the committee had no opportunity to reach a conclusion.

This particular quota matter is one over which we really do not have jurisdiction. Historically, it has been a matter for the Committee on Agriculture and Forestry. I suspect that if the Senate saw fit to agree to this kind of amendment, the House Ways and Means Committee members who confer with us would probably take the attitude that it was not within their jurisdiction.

Not being an expert on the matter, I must protest, even though I can understand how Senators who feel strongly would want to offer it.

Mr. AIKEN. Mr. President, may I say I am familiar with the bill the Senator from Louisiana has referred to. May I also add I understand it was not intended to offer that bill as an amendment to the pending legislation until yesterday when the decision of the Food and Drug Administration became known, and today it appears necessary to pass it if we are going to protect the intent of the Congress and protect the President of the United States in his proclamation of last June, because there are people who will circumvent the President just as quickly as they will circumvent the Senator from Louisiana.

Mr. LONG of Louisiana. Of course, the President can modify his proclamation. I would certainly hope the President, if he thinks his proclamation is being circumvented, would modify it to take care of the situation.

Mr. AIKEN. I have already made that suggestion to the President. I hope he will take prompt action, but there is a question as to whether he can go further than he has, in view of the ruling of the Food and Drug Administration, which is directly controverting the intent of the Congress and the intent of the President.

Mr. LONG of Louisiana. I hope, if the Senate sees fit to agree to the amendment, Senators will be tolerant and understanding of those other Senators who may be conferees. I hope they will recognize that the Senate conferees will be drawn from the Finance Committee, which does not have jurisdiction over the matter, and that the conferees from the House also will be from a committee which has no jurisdiction over it. If the Senate sees fit to agree to the amendment, it will be our duty to see that the House conferees consider it, but I fear their attitude will be that, because they do not have jurisdiction, they will not agree to it.

I would like to point out that the Senator from Indiana [Mr. HARTKE] has an amendment, that he was going to offer yesterday, concerning steel imports. He said he would withhold it in the event no other quota amendments were added to the bill. That happened to be an amendment over which the Finance Committee and the House Ways and Means Committee would have jurisdiction.

Mr. AIKEN. No; not exactly, because I voted against the textile amendment yesterday, not because I did not have sympathy for the textile people, because I did, but because I did not want to clutter the bill up with a lot of amendments. But in view of what happened yesterday, and the ruling of the FDA first became known to the dairy industry, there is no time to lose. As a matter of fact, the timing of the Food and Drug Administration was marvelous. They could not have issued it in a more timely way than if they had been working on it a long time. And maybe they have. But I am not going to let them circumvent the Congress or the President if I can help it.

Mr. LONG of Louisiana. I believe the Agriculture Committee held one meeting on S. 612. That is my information. I would hope we could know what the Committee on Agriculture thought about it.

Mr. GRIFFIN. Mr. President, will the distinguished Senator from Louisiana yield me 5 minutes?

Mr. LONG of Louisiana. Mr. President, I yield 5 minutes to the Senator from Michigan.

Mr. GRIFFIN. Mr. President, it hardly behooves a freshman Senator to rise and suggest that the Senate does not know what it is doing. But I must say that this is one of the saddest days in the period of my service in the Senate as I see this "Easter basket" being loaded down to the point where one can only wonder if there can be any delivery at all.

Mr. President, there are many fine dairy farmers in the State of Michigan, and I know the importation of dairy products is a serious problem. But surely, when the attention of the world is focused on the U.S. Senate—when concerned people around the globe are wondering what we are going to do or not do with the opportunity we have to demonstrate a sense of responsibility, to demonstrate a sense of fiscal discipline—this is the wrong time to consider import quota amendments.

I am very frustrated and disturbed about procedures of the U.S. Senate which require Senators to vote on amendments which are not germane under circumstances such as those we face today.

I do not know what the effect of the legislation would be on our neighbor Canada or on friendly countries such as New Zealand, Australia, and others.

Most of us have no idea what the effect of the amendment would be. We do know, however, that its adoption would have a serious, adverse effect on an important conference going on in Stockholm right now—a conference where other nations of the world are gathered—nations that are concerned about the gold crisis and the threat to the dollar—nations that are interested in cooperating with us and wondering whether we are going to cut back on spending and increase taxes.

But let me say that the final nail in the coffin would be for Congress to tack onto this bill a series of import quota amendments.

Oh, I know that such amendments could be thrown out in conference. Perhaps they would be. But an attitude, a lack of will, on the part of the Senate would be revealed and demonstrated if these amendments should go on the bill—an attitude which would speak very loudly to those who wonder and are concerned about the United States and its intentions.

I suspect—I hope—that many of my colleagues who voted the other day for the textile import quota amendment would like to reconsider that vote as they look now toward the vote on this amendment. If they had realized what the earlier vote would lead to, I believe some of them would have voted the other way.

Surely, we have to vote against this amendment. Because if this amendment should be adopted, the floodgates will be open, and, as the chairman of the Finance Committee has indicated, we might as well add on import quota amendments for steel and for all the other commodities which face tough competition from imports.

Mr. President, I hope the Senate will rise to the occasion and demonstrate a sense of responsibility. I hope the Senate will do what is needed at this hour and vote down the amendment offered by the distinguished Senator from South Dakota.

Mr. AIKEN. Mr. President, will the Senator yield me 1 minute?

Mr. McGOVERN. I yield 1 minute to the Senator from Vermont.

Mr. AIKEN. Mr. President, this amendment will not take a nickel from any foreign country. It will improve the United States' gold position and our balance of trade, and it can conceivably prevent the United States from having to spend another half billion dollars in supporting the price of dairy products in this country.

What the Senator from Michigan has said is completely wrong. This amend-

ment is the result of an act taken by an agency of the Government which became known only yesterday, which would play right into the hands of foreign countries, to the detriment of the United States.

The amendment should be agreed to. We have already asked the White House to take what steps they can. The President assured us previously that he would hold them to the 1 billion pounds in imports to which they were entitled under the law; and he did his best to stop the circumventing of the law.

We are not circumventing any law. It was these importers from the foreign countries who were circumventing the law and the intent of Congress. I think we had better administer a little justice here.

Mr. YOUNG of North Dakota. Mr. President, in all due deference to the Senator from Michigan, I hope the time will never come when we who represent agricultural States cannot get up on the floor of the Senate and defend a segment of our economy which is so important and which is in such serious trouble.

It may be true that this amendment will be lost in conference with the House of Representatives. As a result of this amendment having been considered, the people of this country will know a little more about the difficult problems facing the dairy industry. The dairy industry is being ruined by excessive and unnecessary imports.

Mr. AIKEN. If we wanted to improve the lot of foreign countries, instead of concentrating on letting them ship dairy products in here duty free, we had better increase the quotas of Volkswagens and other foreign automobiles.

Mr. McGOVERN. Mr. President, I yield myself 1 minute.

I wish, once again, to remind other Senators that if we fail to act on this measure, far from improving our standing in the world and our image of responsibility, we will be neglecting one of the areas of real economic trouble for our country, and damaging our position in the world.

The present dairy import problem in this country is costing us something more than $36 million in additional drain on our balance of payments that this measure would close. In that respect, it works hand in hand with the overall purpose of the legislation that is pending before us. By strengthening the economic position of a very important industry in this country, we are making our entire economy stronger and our position in the world more viable.

So I would hope that, far from interpreting what we are asking the Senate to do at this point as an irresponsible act, Senators would interpret it for what I believe it to be—the discharge of our responsibilities to our dairy industry, and an action that will benefit the taxpayer and the American economy as a whole.

Mr. MONDALE. Mr. President, will the Senator yield?

Mr. McGOVERN. I yield 2 minutes to the Senator from Minnesota.

Mr. MONDALE. As the Senator from South Dakota knows, many of us have sponsored dairy import quota legislation, with requests for hearings, which were very useful, by the Committee on Agriculture and Forestry, and then pressed the administration to use existing authority under the Tariff Act to impose meaningful restrictions, all designed to promote dairy income and to protect the integrity of our domestic price support system.

Minnesota, together with the State of Wisconsin, lies in the greatest dairying area in the world. I have therefore concerned myself deeply with the problems of the dairy industry and solutions to its problems. Declining prices, increasing costs, sharp drops in dairy cow numbers, competition from imports, and loss of export markets all plague the dairy industry and dairy farmers.

In an effort to promote and encourage this industry, I have sponsored legislation to provide income support for dairy farmers. I am the Senate author of a bill to encourage the consumption of butter through domestic price reductions by butter processors. I have joined in asking for higher basic support prices for manufacturing milk every year since I came to the Senate.

And, more relevant to the present amendment, I sponsored Senator PROXMIRE's bill to impose import quotas on the flood of dairy products being dumped on our domestic markets. I worked hard to get hearings on this bill in the Senate Agriculture Committee, and we were successful in that effort. I also asked the U.S. Tariff Commission and President Johnson to plug the outrageous loopholes and evasions of presently existing dairy quotas—and the President effectively responded.

While I am not an expert on the GATT rules, I am of the understanding that for a domestically supported agricultural product under the GATT rules you are entitled to protect the integrity of your domestic price system; otherwise you have a world price support system.

Mr. McGOVERN. I think the Senator is correct.

Mr. MONDALE. So, under the understanding of the world trade community, dairy products are on a different basis than some other commodities which are unsupported. And the United States has already acted by Executive order.

Mr. McGOVERN. The Senator is correct, and I am sure he knows that all other dairy-producing——

The PRESIDING OFFICER. The Senator's time has expired.

Mr. McGOVERN. I yield myself 3 additional minutes.

The PRESIDING OFFICER. The Senator has only 1 minute remaining.

Mr. McGOVERN. I will take a half minute.

I am sure the Senator knows that all other dairy-producing countries are already exercising the kind of control we are calling for in this measure.

Mr. MONDALE. Mr. President, does anyone have any time to yield?

Mr. LONG of Louisiana. How much time does the Senator require?

Mr. MONDALE. Five minutes.

Mr. LONG of Louisiana. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator has 15 minutes.

Mr. LONG of Louisiana. I yield 5 minutes to the opposition.

Mr. MONDALE. Following this effort, which, as the Senator from South Dakota knows, was under the leadership of the senior Senator from Wisconsin [Mr. PROXMIRE], who is present in the Chamber, we have seen an impressive downward trend in dairy imports under the new Presidential tariff orders.

U.S. imports of all dairy products totaled 2.9 billion pounds milk equivalent in 1967, slightly more than the 2.8 billion in 1966. More than 75 percent of the 1967 imports occurred in the first 6 months of 1967, however, because dairy imports were sharply checked during the last half of the year by the new import restrictions announced by the President on June 30, 1967.

These new restrictions held imports in the last half of 1967 to just under 0.7 billion pounds milk equivalent, compared with 2.2 billion—more than three times larger—in the first half of the year.

For example, last year's 152-million-pound imports of cheese were up about 17 million pounds from 1966—but the bulk of this increase was Colby cheese imported before the new restrictions.

Imports in 1968 are expected to approximate 1 billion pounds milk equivalent—less than half the total for the year 1967.

I ask unanimous consent that a table showing the dramatic drop in dairy imports in the last half of 1967 following the new Presidential import restrictions be printed in the RECORD at this point.

There being no objection, the table was ordered to be printed in the RECORD, as follows:

TABLE 23.—DAIRY PRODUCTS: U.S. IMPORTS, QUOTA AND NONQUOTA, 1965-67

[In millions of pounds]

Product	1965			1966			1967 [1]		
	January to June	July to December	January to December	January to June	July to December	January to December	January to June	July to December [2]	January to December
Cheese:									
Quota types:									
Cheddar	1.4	0.4	1.8	2.6	1.6	4.2	1.6	3.5	5.1
Other American types [3]	8.9	5.3	14.2	15.1	30.9	46.0	45.6	9.7	55.3
Italian types	4.6	3.2	7.8	4.2	4.0	8.2	6.5	3.4	9.9
Edam and Gouda	3.2	4.3	7.5	5.0	5.9	10.9	5.1	6.5	11.6
Blue mold	2.4	2.0	4.4	2.9	2.3	5.2	2.5	2.3	4.8
Total	20.5	15.2	35.7	29.8	44.7	74.5	61.3	25.4	86.7
Nonquota types:									
Swiss	6.6	9.1	15.7	9.3	14.6	23.9	10.9	13.3	24.2
Pecorino	6.0	9.9	15.9	6.2	9.6	15.8	7.0	8.7	15.7
Roquefort	1.1	1.1	2.2	.8	1.0	1.8	.8	1.0	1.8
Other [4]	4.2	5.6	9.8	7.6	11.8	19.4	13.2	10.2	23.4
Total	17.9	25.7	43.6	23.9	37.0	60.9	31.9	33.2	65.1
Other quota products:									
Butter	.3	.4	.7	.3	.4	.7	.3	.4	.7
Butteroil	1.2	----	1.2	1.2	----	1.2	1.2	----	1.2
Butterfat mixtures	----	3.4	3.4	61.3	44.3	105.6	92.4	8.1	100.5
Frozen cream	6.2	6.4	12.6	9.6	5.4	15.0	9.5	2.7	12.2
Dried cream	----	(5)	(5)	----	----	----	----	----	----
Dried whole milk	----	----	----	(5)	----	(5)	----	(5)	(5)
Dried skim milk	.8	.6	1.4	1.0	1.8	2.8	.1	.8	.9
Dried buttermilk	.1	(5)	.1	.2	.2	.4	.1	.1	.2
Malted milk	(5)	(5)	(5)	(5)	----	(5)	(5)	----	(5)
Nonquota products:									
Canned milk	.6	1.2	1.8	1.1	2.2	3.3	4.0	1.4	5.4
Casein	51.2	40.6	91.8	52.8	55.1	107.9	46.3	52.9	99.2
Milk equivalent, total, all products	458.0	460.0	918.0	1,386.0	1,389.0	2,775.0	2,196.0	659.0	2,855.0

[1] Preliminary.
[2] Includes entries and quantities afloat by June 30 not reported previously by Census.
[3] Includes Colby.
[4] Gjetost, Bryndza, "Other," and Gammelost and Noekkelost.
[5] Less than 50,000 pounds.

Mr. MONDALE. My point in quoting these statistics is to show that dramatic improvement has flowed from the action by the President of the United States under existing authority.

I will continue to oppose the dumping of dairy products onto American markets.

But this amendment—coming as it does after adoption of a textile import quota rider—and at a time when other protectionist riders are waiting in the wings for the opportune moment to come forward—can only result in a serious trade barrier war. If the U.S. imposes new quotas, foreign countries will merely retaliate with new tariff and non-tariff barriers of their own. These are the rules of the game. A retreat to protectionism not only undermines our long run interest, but involves high short run costs. Quotas will immediately increase the price of imported goods and reduce the standard of living for everyone. The price increase, coupled with loss of tariff revenue will fan the already rising flames of inflation—and further seriously impair our balance of payments.

Mr. McGOVERN. Mr. President, will the Senator yield at that point?

Mr. MONDALE. I am happy to yield.

Mr. McGOVERN. I think the Senator's point is well taken. As we have pointed out previously today, the President deserves great credit for the efforts of the executive department in attempting to deal with this problem. But the action of the Food and Drug Administration this week in removing condensed milk, evaporated milk, and other hermetically sealed dairy products from the Milk Import Quota Act has the effect of opening the floodgates again; and we are attempting to close them by the amendment now pending, which, in effect, would strengthen what the President wanted to accomplish under the Executive order.

Mr. MONDALE. One of the problems which I see, and which I am sure the Senator from South Dakota is concerned about as well, is that there are pending before the Senate today dangerously restrictive amendments on various commodities that could affect and halt some $6 billion in world trade. We have already adopted one relating to textile import quotas. I am very fearful that we may be on the verge of starting the adoption of a whole spate of import quotas that could imperil, if not destroy, existing opportunities for expanded free movement in world commerce, and would imperial such exciting new efforts as the one reported in this morning's Washington Post, in which members of GATT have agreed to review their rule relating to border taxes. This is the direction I think we should be going in, not backward into erecting Smoot-Hawley protectionist walls, but forward into trying to knock down these border barriers, which now exist in the form of border taxes and other various kinds of oppressive restrictions.

I am very fearful that, although I see the dairy industry in a slightly different category for the reasons that I have suggested—and I think GATT would view it as such—we may bring forth in the Senate a new, highly dangerous protectionist trend that could have exceedingly serious consequences.

As the Senator from South Dakota knows, quota systems breed economic inefficiency, creating difficult conditions of entry into markets and a tendency toward allocation of quota rights to larger and more powerful concerns.

On the international level—quite apart from trade barriers imposed on U.S. products in retaliation—the Congress would create a serious "credibility gap" which would forever hamper American traders and negotiators. The U.S. position in future negotiations on trade matters would not be taken seriously by other countries, knowing that the Congress would not honor the position of the negotiators and was not committed to free trade.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. LONG of Louisiana. Mr. President, I yield 2 additional minutes to the Senator from Minnesota.

The PRESIDING OFFICER. The Senator from Minnesota is recognized for 2 additional minutes.

Mr. MONDALE. Mr. President, I believe the adoption of the textile import quota was a mistake. But I cannot contribute to an effort which will only encourage the remaining suggested quotas—oil, zinc, lead, and others—to the extent that it would be easy to anticipate all of the kinds of logrolling that could develop.

Such a trade barrier war would gravely endanger U.S. export trade in a large number of agricultural commodities, with extremely serious effects on all farmers and the entire agri-business industry.

This would also have a crippling effect on our balance of payments. In fiscal 1967, estimated commercial agricultural exports earned more than $5.3 billion worth of dollar exchange and prevented our balance of payments from being a disaster. The value of farm exports set a record $6.8 billion in fiscal year 1967.

I know well the plight of the dairy farmer. I have worked very hard on the problem. I think the issue is separate from any of the others. However, I think

we have made remarkable progress in world trade. And I am very fearful that if the pending amendment is agreed to, it could bring forth a trend in a direction that we would all truly regret.

Mr. President, while I know well the plight of the dairy farmer, I know well, too, that many dairy farmers grow cash grain crops or soybeans, which is an excellent cash crop. They and their neighbors can ill afford a loss of export markets for these crops.

One of every four acres harvested in the United States goes for export. In fiscal 1966–67, over half of the U.S. wheat crop—four-fifths of the dried edible peas—two-thirds of the milled rice—one-fourth of the soybean crop—and more than one-third of the grain sorghum—and more than two-fifths of the cotton crop—were shipped to consumers in other nations.

Secretary Freeman has estimated that agricultural exports provide jobs for about one million workers, and this obviously helps labor and business.

I know of the remarkable contributions which the Senator from South Dakota [Mr. McGovern] has consistently made for the best interests of not only the farmers and American agriculture, but also for this country and the world.

It is not easy to vote against his amendment—but I must, because I think the current tendency toward trade protection for a wide range of commodities is ill advised and will cause damaging repercussions in agricultural and other export markets. There may be special equities in the case of dairy imports, and it may be that the Tariff Commission restrictions will be evaded in the future. If that happens—or if signs of "dumping" are present—then I will support action on this as I have in the past.

Mr. President, I ask unanimous consent that the article entitled "On 'Border Tax' Question—U.S. Gets Major Concession From Its Trading Partners," to which I referred earlier, be printed at this point in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

On "Border Tax" Question: United States Gets Major Concession From Its Trading Partners

The United States won a major concession from its trading partners yesterday.

They agreed to restudy the question of border taxes, which U.S. officials have long contended discriminate against American exports.

The General Agreement on Tariffs and Trade in Geneva decided to establish a "working party" to delve into the whole question of border taxes with a view toward making possible "adjustments."

For years the United States, arguing that such levies are inequitable, has sought such a study—but to no avail.

"It's a major step forward," an American trade official said last night. But he cautioned against expecting early results.

The development may have an important impact on American policy. Administration and Congressional leaders have been working covertly on a possible retaliatory border tax for the United States. Concessions on the issue by other industrialized nations might soften the U.S. stand.

Border taxes on imports are generally combined with export rebates. They work this way:

Sales, excise, value-added and similar taxes are refunded to a manufacturer on those goods he ships into foreign markets. An amount equal to the rebate is levied as an import surcharge on similar goods coming into the country. This makes exports more competitive in price and subjects imports to the same levy on domestic products.

The United States contends this works a hardship because it depends more on income taxes, which are not rebatable under GATT rules, and less on excise and value-added taxes, which are the mainstay of revenue in European countries. GATT does permit the rebate of these latter levies.

The GATT action yesterday is the latest in a series of unexpected concessions by other nations to help ease American balance of payments problems and strengthen confidence in the dollar.

The others are a proposal that the European nations accelerate their schedules of tariff cuts under the 53-nation Kennedy Round GATT agreement last summer and indications the Japanese may voluntarily limit their exports of steel to the United States.

Mr. McGOVERN. Mr. President, I ask unanimous consent that a staff explanation by the Senator from Wisconsin [Mr. Proxmire] of the bill (S. 612) which is the substance of the pending amendment, and appears on pages 2 and 3 of the Senate committee hearings, be printed at this point in the Record.

There being no objection, the staff explanation was ordered to be printed in the Record, as follows:

Staff Explanation of S. 612

(Subcommittee No. 3)

SHORT EXPLANATION

This bill restricts imports of dairy products (containing five percent or more butterfat and nonfat milk solids) to those not resulting in total imports of either butterfat or nonfat milk solids in excess of—

(A) the average quantity imported in the five years 1961 through 1965, increased or decreased by

(B) the percentage that domestic consumption of milk and milk products excluding those used in Federal distribution programs) increases or decreases in relation to such consumption for 1961 through 1965.

The President may permit additional imports if he finds such action is required by overriding economic or national security interests, and if either (1) prices received by farmers for milk are at parity or above, or (2) the Secretary of Agriculture removes a corresponding quantity of dairy products from the market.

NEED FOR THE BILL

Senator Proxmire stated at page S. 762 of the Congressional Record for January 24, 1967 that in order to insure a stable, adequate supply of fluid milk at reasonable prices, some surplus must be produced and there must be a market for this surplus in the form of products. Importation of excessive quantities of products destroys this market and results in additional Government support program purchases and costs. Import limitations under section 22 of the Agricultural Adjustment Act have been circumvented by the importation of Junex, Colby cheese, and other products which vary slightly from the products subject to quotas. The Tariff Commission is holding hearings on May 15, 1967, to investigate the need for further limitations under section 22.

SECTION-BY-SECTION EXPLANATION

The first section provides a short title, "Dairy Import Act of 1967".

Section 2 prohibits importation of dairy products except pursuant to authorizations issued by the Secretary of Agriculture.

Section 3 prohibits the issuance of authorizations which would result in total imports in any calendar year of butterfat or nonfat milk solids, in any form, in excess of the respective average annual imports thereof during the 5 years 1961 through 1965. This would set up one quota for butterfat content and a separate quota for nonfat milk solid content, each of which would be subject to adjustment as provided in section 4.

The bill does not require the Secretary to issue authorizations or to allocate authorizations among particular products or importers. The bill might be construed as leaving these matters to the discretion of the Secretary or requiring the issuance of authorizations for all within quota imports.

Section 4 provides that the total volume of imports authorized under section 3 shall be increased or decreased by the percentage by which the total annual domestic consumption of milk and milk products is greater or less than such consumption during the base period. Milk and milk products used in Federal distribution programs would be excluded in computing or estimating domestic consumption. Estimates of domestic consumption could be made on a quarterly basis and reflected in imports authorized in subsequent quarters or in the subsequent year.

Section 5 provides an escape clause. If the President finds such action is required by overriding economic or national security interests, he may permit additional imports of any dairy product. However, no additional imports may be addmitted when prices received by farmers for milk average less than parity, unless the Secretary removes a corresponding quantity of dairy products from the domestic market. The quantity thus removed would have to be in addition to and separate from other price support purchases and operations. The cost of such removal would be separately reported and would not be charged to any agricultural program.

Section 6 defines "dairy products" as including all forms of milk and dairy products, butterfat, nonfat milk solids, and any combination or mixture thereof, and also any article, compound, or mixture containing 5 per centum or more of butterfat, or nonfat milk solids, or any combination of the two. The bill regulates the importation of "dairy products" so as to prevent total imports of "butterfat" or "nonfat milk solids" in any form, from exceeding the respective average annual imports thereof during 1961 through 1965, adjusted in relation to domestic consumption of "milk and milk products". Use of these varying defined and nondefined terms may require some clarification. For instance, imports of products containing less than 5 percent butterfat and nonfat milk solids would count against the quota and reduce the quantity of dairy products that could be imported. Determination of these small amounts might prove difficult, particularly for the 1961–1965 period. Domestic consumption of "milk and milk products" would probably also have to be reduced to some common denominator, such as milk equivalent, for comparison purposes.

Section 7 authorizes the Secretary to prescribe rules and regulations.

Section 8 disclaims any intention of repealing section 22 of the Agricultural Adjustment Act, or any import limitation established thereunder.

Mr. McGOVERN. Mr. President, I ask unanimous consent that the excellent statement of the Senator from Wisconsin [Mr. Proxmire], appearing on pages 6 through 8 of the Senate committee hearings also be printed at this point in the Record. It is one of the most complete and thoughtful of any statement that

the Senator from Wisconsin has made on this subject.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

Senator PROXMIRE. Mr. Chairman, I am delighted to appear before your subcommittee today in support of S. 612, the Dairy Import Act of 1967.

In response to your question as to whether anyone had any information as to whether the Secretary had taken any position on this bill, to the best of my knowledge he has not on this particular bill, but on two separate occasions, once before the Holland Subcommittee of the Appropriations Committee he did indicate that if the Tariff Commission did not act satisfactorily, he would favor legislation, and yesterday, when he appeared before the Tariff Commission, he repeated that statement; so that he would favor some kind of legisation whether it is this bill or not.

Senator HOLLAND. As I have already stated, we will hear from the Secretary and his people on Thursday, and if you care to be here at that time, we will be glad to have you present.

Senator PROXMIRE. Thank you very much. I certainly will.

I introduced this legislation on January 24, in response to a dairy import explosion that has driven down domestic dairy prices to ever lower levels.

In 1965, 900 million pounds of dairy products were imported into the United States. In 1966 imports more than tripled to an incredible 2.7 billion pounds. The Department of Agriculture estimates that imports in 1967 will reach 3.5 billion pounds.

This chart, which I understand is that of the milk producers, shows what an enormous increase this is, and anybody, with any basic knowledge or any knowledge at all of agriculture markets, can see that that kind of an import explosion is bound to have a very serious adverse, direct, and explosive effect in knocking down prices.

Senator HOLLAND. Will this chart be offered for the record at a later time?

Senator PROXMIRE. It is my understanding that it will be.

My proposal is being cosponsored by 56 of my Senate colleagues including four members of your distinguished subcommittee. It would place permanent controls over dairy imports based on a 1961–65 average. This average is 844 million pounds. It would also allow imports to share in any growth in domestic consumption. Finally, it would give the President the power to authorize additional imports if he felt they were in the national interest. However, if domestic market prices were less than parity the Secretary of Agriculture would have to purchase an amount of domestic dairy products corresponding to the amount authorized to be imported by Presidential order.

Significantly, the Secretary of Agriculture would not be forced by S. 612 to set a given quota on each and every imported product. The bill simply sets the total quantity of butterfat or nonfat milk solids which may be imported in a given year. Within this overall restriction the Secretary can use his judgment in adjusting quotas on a product-by-product basis. In other words, he may increase the quota on item A and a corresponding reduction in the quota on item B in a given year and still comply with the language in S. 612.

Many have asked me why this legislation is necessary, especially in view of the powers available under section 22 of the Agricultural Adjustment Act of 1933 to curtail imports that "render ineffective, or materially interfere with, any * * * program or operation undertaken by the Department of Agriculture." As this subcommittee knows, section 22 hearings on dairy imports started yesterday before the Tariff Commission.

The historical answer is that these controls have never proven effective in the past on an extended basis and there is no reason to think that they will prove effective in the future. For example, when butteroil imports were placed under a section 22 quota, importers promptly concocted a butterfat-sugar mixture called exylone. Exylone imports were then barred by a regulation applying to mixtures containing 45 percent or more of butterfat. Almost immediately "junex," containing 44 percent butterfat, started to pour into the country.

Or take the case of *Colby* v. *Cheddar Cheese*. Cheddar imports are controlled under section 22. Colby imports are not. Both products contain not more than 40 percent moisture and, in solid state, not less than 50 percent milk fat. In fact, the standards of identity are almost identical. The taste is also very similar, much to the despair of domestic cheddar producers who have been badly hurt by Colby imports. The only basic difference between the two cheeses is that there are differences in the manufacturing process. This does not mean much to the housewife who shops at the cheese counter of her supermarket.

These blatant attempts to circumvent section 22 controls have never been more obvious than over the past 2 years. Imports of Colby cheese in 1965 came to a grand total of 14.3 million pounds. In 1966, 46.5 million pounds squeezed through the section 22 loophole. Junex imports went from a relatively minor 3,510,032 pounds in 1965 to a whopping 104,522,904 pounds in 1966. Foreign producers knew a good thing when they saw it.

Now, the lumbering machinery available under section 22 has been cranked up again. On March 30 the Secretary of Agriculture called for a Tariff Commisison investigation of dairy imports as soon as possible. The President seconded this request on April 3; the Tariff Commission announced hearings on April 10. The hearings got underway on May 15—yesterday. When the investigation will be completed, a report made, and the recomemndations contained in the report carried out is anybody's guess. However, by that faraway date dairy product importers may well have come up with another way to beat the system.

S. 612 would set up a system that just cannot be circumvented. All products containing 5 percent or more of butterfat—all products—or nonfat milk solids or any combination of the two would be covered. Furthermore, the bill would, with great fairness, permit foreign producers to share in an increase in domestic consumption. However, it would not put a premium on attempts to get around the letter of the law, as the section 22 system now does.

The consumer may well ask why import controls of any sort are necessary, let alone the stricter controls contained in S. 612. The answer lies, in large part, in the perishable nature of dairy products. Because fluid milk is so perishable and because it is essential in the diets of our youth, a standby supply, or "surplus" must always be available in case of emergency demand. This necessary surplus dampens prices because supply will always outstrip demand. Therefore, Congress authorized domestic milk marketing orders—controlled price markets—guaranteeing that the dairy farmer will receive a sufficient return on his investment to keep him in business. The alternative would be prices so low that a great many dairy farmers would be driven out of business.

In the long run, this could mean sky high prices to the consumer because of the very low milk production.

Imports, of course, can have the same effect. By cutting into domestic prices, driving dairy farmers out of business and thus reducing domestic production, such imports will ultimately drive fluid milk prices way, way up. For fluid milk cannot be imported—it is too perishable. We must rely on domestic production and make sure that production stays above the danger point by controlling imports In other words, excessive imports may mean low prices to the housewife in the short haul, but in the long run, by destroying our capacity to produce fluid milk, excessive imports will result in excessive domestic prices for fluid milk.

Finally, Mr. Chairman, I would like to point out that those who feel this legislation would tinker with the machinery of international trade are proceeding on the naive assumption that other countries are letting that machinery run freely This is far from the truth. In fact, "junex" imports are being indirectly subsidized. The butter used in the butterfat-sugar mixture called "junex" receives vast subsidies from European countries. The Dutch sell butter at home for 64 cents a pound. This means Dutch exporters can offer butter free on board Dutch ports at around 26 cents per pound This butter is used by Canada and the United Kingdom in butterfat-sugar mixtures for ultimate sale in the United States. With this type of subsidy, U.S. importers have been able to offer these mixtures on a delivered basis in this country at prices ranging from 30 to 35 cents per pound. And in times of surplus production in the domestic dairy industry, each pound of this imported subsidized dairy product means that the Commodity Credit Corporation has to use tax dollars to purchase and store an equivalent amount of domestic dairy products.

Mr. Chairman, the passage of S. 612 is essential to dairy farm price stability. For too long American dairy farmers have been at the mercy of foreign producers who have not hesitated to tailor their products to fit the loopholes in section 22. We must not continue to reward these efforts. We must make it clear by passage of S. 612 that foreign producers can go so far and no further in their attempts to invade American markets.

The PRESIDING OFFICER. Who yields time?

Mr. McGOVERN. Mr. President, I yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time having expired, the question is on agreeing to the amendment of the Senator from South Dakota. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The bill clerk called the roll.

Mr. LAUSCHE (after having voted in the affirmative). On this vote I have a live pair with the Senator from Montana [Mr. MANSFIELD]. If he were present and voting, he would vote "nay." If I were at liberty to vote, I would vote "yea." I therefore withdraw my vote.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from South Carolina [Mr. HOLLINGS], the Senator from Montana [Mr. MANSFIELD], the Senator from Arkansas [Mr. MCCLELLAN], the Senator from Oklahoma [Mr. MONRONEY], the Senator from Rhode Island [Mr. PASTORE], the Senator from Rhode Island [Mr. PELL], the Senator from Alabama [Mr. SPARKMAN], the Senator from Mississippi [Mr. STENNIS], the Senator from Georgia [Mr. TALMADGE], the Senator from Maryland [Mr. TYDINGS], and the Senator from Texas [Mr. YARBOROUGH] are necessarily absent.

I also announce that the Senator from Alaska [Mr. BARTLETT], the Senator from Michigan [Mr. HART], the Senator from New York [Mr. KENNEDY], and the Senator from Missouri [Mr. LONG] are absent on official business.

I further announce that, if present and voting, the Senator from New York [Mr. KENNEDY], the Senator from Rhode Island [Mr. PELL], and the Senator from Michigan [Mr. HART] would each vote "nay."

On this vote, the Senator from South Carolina [Mr. HOLLINGS] is paired with the Senator from Rhode Island [Mr. PASTORE]. If present and voting, the Senator from South Carolina would vote "yea" and the Senator from Rhode Island would vote "nay."

Mr. KUCHEL. I announce that the Senator from Tennessee [Mr. BAKER], the Senator from Utah [Mr. BENNETT], the Senators from Illinois [Mr. DIRKSEN and Mr. PERCY], the Senator from Arizona [Mr. FANNIN], the Senator from Iowa [Mr. MILLER], and the Senator from Texas [Mr. TOWER] are necessarily absent.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Arizona [Mr. FANNIN] and the Senator from Texas [Mr. TOWER] would each vote "yea."

On this vote, the Senator from Iowa [Mr. MILLER] is paired with the Senator from Illinois [Mr. PERCY]. If present and voting, the Senator from Iowa would vote "yea" and the Senator from Illinois would vote "nay."

The result was announced—yeas 37, nays 38, as follows:

[No. 94 Leg.]

YEAS—37

Aiken	Eastland	McGovern
Allott	Ellender	McIntyre
Brewster	Ervin	Montoya
Burdick	Gruening	Morse
Byrd, Va	Hartke	Mundt
Byrd, W. Va.	Hayden	Nelson
Cannon	Hickenlooper	Prouty
Carlson	Hruska	Proxmire
Church	Jackson	Smith
Clark	Jordan, Idaho	Spong
Cotton	Magnuson	Young, N. Dak.
Curtis	McCarthy	
Dominick	McGee	

NAYS—38

Anderson	Hill	Muskie
Bible	Holland	Pearson
Boggs	Inouye	Randolph
Brooke	Javits	Ribicoff
Case	Jordan, N.C.	Russell
Cooper	Kennedy, Mass.	Scott
Dodd	Kuchel	Smathers
Fong	Long, La.	Symington
Gore	Metcalf	Thurmond
Griffin	Mondale	Williams, N.J.
Hansen	Morton	Williams, Del.
Harris	Moss	Young, Ohio
Hatfield	Murphy	

PRESENT AND GIVING A LIVE PAIR, AS PREVIOUSLY RECORDED—1

Lausche, for.

NOT VOTING—24

Baker	Hollings	Pell
Bartlett	Kennedy, N.Y.	Percy
Bayh	Long, Mo.	Sparkman
Bennett	Mansfield	Stennis
Dirksen	McClellan	Talmadge
Fannin	Miller	Tower
Fulbright	Monroney	Tydings
Hart	Pastore	Yarborough

So Mr. MCGOVERN'S amendment was rejected.

Mr. SCOTT. I rise to seek clarification on the amendment by the distinguished Senator from Connecticut [Mr. RIBICOFF], which we passed yesterday to end the tax-exempt status of industrial development bonds. This amendment provides for the specific exclusion of bonds of a clearly nonindustrial nature which would continue to remain exempt from any obligation for the payment of Federal taxes on related interest.

Essentially, this amendment is the language of the bill introduced by the Senator from Connecticut [Mr. RIBICOFF] as S. 2636 on November 8, 1967. A Treasury Department technical explanation entered in the CONGRESSIONAL RECORD for that date indicates, in part:

> The phrase "industrial or commercial purposes" is intended to have its customary meaning and is not specifically defined by the bill. Thus, for example, bonds issued to construct a facility for an exempt organization, such as a college dormitory, would not be an industrial development.

A colloquy with the Senator from New York [Mr. JAVITS] yesterday further indicated that bonds issued for this purpose by a State dormitory authority would be similarly exempt. However, I should like to ask the Senator from Connecticut [Mr. RIBICOFF] these additional questions:

First, would bonds issued for classroom and other college facilities also be excluded under the terms of this amendment in the same way as bonds for college dormitories?

Mr. RIBICOFF. Certainly; my amendment is limited to bonds issued for industrial or commercial purposes and will not affect bonds issued to finance any college educational facilities.

Mr. SCOTT. Second, unlike the New York State Dormitory Authority, to which reference was made yesterday, some dormitory authorities in other States are not empowered to exercise the right of eminent domain. This is true, for example, of the Pennsylvania Higher Educational Facilities Authority, which does not have the right of eminent domain. Am I correct in assuming that the amendment intends no distinction for exemption purposes between those State dormitory authorities which do, and do not, have the right of eminent domain?

Mr. RIBICOFF. The distinguished Senator from Pennsylvania is absolutely correct.

The PRESIDING OFFICER. The bill is open to further amendment.

What is the will of the Senate?

Mr. LONG of Louisiana. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Louisiana is recognized.

Mr. COTTON. Mr. President, may we have order?

The PRESIDING OFFICER. The Senate will be in order.

Mr. LONG of Louisiana. Mr. President, in view of the large number of absent Senators, many of whom had requested that we postpone the vote until such time as they could be here, I am going to move, after Senators have made their speeches and offered amendments, that we postpone the final vote on the Williams-Smathers substitute and the bill, too, until those Senators are able to return.

Mr. DOMINICK. Mr. President, may we have order? We cannot hear.

The PRESIDING OFFICER. The Senate will be in order.

UNANIMOUS-CONSENT REQUEST

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that when the Senate convenes on Monday the Williams-Smathers substitute may be the pending business before the Senate; and that no further amendments will be considered at that time.

Several Senators addressed the Chair.

The PRESIDING OFFICER. The Senator from Oregon is recognized.

Mr. MORSE. Mr. President, reserving the right to object, is it the suggestion of the Senator that we vote on Monday?

Mr. LONG of Louisiana. Yes; on the Williams-Smathers substitute.

Mr. COTTON. Mr. President, reserving the right to object, if it has been determined by the majority—and certainly with respect to those on this side of the aisle, like the Light Brigade, ours is not to reason way, ours is but to do or die—that this vote is to go over until Monday, I think other amendments might well be offered this afternoon.

Mr. President, we have opened the door. Some of us are very much interested in importation of electronics, the importation of shoes, and some Senators are interested in the importation of beef. The door is open. I do not think the leadership should have its cake and eat it, too.

After we have canceled our reservations and stayed in town to wind up the bill today, if the vote is going to go over until Monday, let us not close the door to other amendments.

Mr. LONG of Louisiana. Mr. President, if the Senator suggests that point of view, I wish to make the request that the Senate vote on the Williams-Smathers substitute at 4 o'clock on Monday afternoon.

The PRESIDING OFFICER. Is there objection?

Mr. MORSE. I object.

Mr. GORE. Mr. President——

Mr. JAVITS. Mr. President——

The PRESIDING OFFICER. Objection is heard.

Mr. MORSE. Mr. President, I wish to put my objection in the form of a reservation.

We have been debating this bill all week. I think we should conduct the business of the Senate in the regular order—and the regular order, it seems to me, is to vote on the bill today.

I shall be very frank with respect to the situation in which this puts me, as well as certain other Senators. There is a very important conference to be held in Mexico City on Monday. The administration has asked us to go to Mexico City to represent it at the conference with the Vice President. It was expected we would dispose of this bill today, I, of course, will not go to Mexico City, even though I am the chairman of the Subcommittee on Latin American Affairs.

I shall stay, but I am not going to permit a vote on Monday because if we are going to follow the regular order in the Senate—I object. I will be in good voice and good health on Monday.

The PRESIDING OFFICER. The bill is open to further amendment.

Mr. MUNDT. Mr. President, I rise to direct a question to the acting majority leader.

The PRESIDING OFFICER Who yields time?

Mr. LONG of Louisiana. I yield 2 minutes.

Mr. MUNDT. Mr. President, some time this afternoon I would like to have 12

minutes in order to speak on a different topic.

Mr. LONG of Louisiana. Mr. President, I yield myself 1 minute.

The PRESIDING OFFICER. The Senator is recognized for 1 minute.

Mr. LONG of Louisiana. Mr. President, it was my hope that Senators who had amendments to offer would offer them so that we could proceed to vote and dispose of them today. We would then proceed, in view of the requests I have had, to vote on the substitute and then vote on the bill on Monday. Senators certainly have the right to object.

Mr. MURPHY. Mr. President, can we vote on the substitute right now?

The PRESIDING OFFICER. Who yields time?

Mr. LONG of Louisiana. Mr. President, I yield 30 seconds to the Senator.

Mr. MURPHY. Mr. President, I would like to know why we cannot vote on the substitute now.

If the substitute carries, we would have accomplished what we came here for; if it fails, we can go to the regular order of business on the bill.

We should clear away the confusion. Let us vote on the substitute today.

Mr. COTTON. Mr. President, will the Senator yield to me for a minute?

Mr. LONG of Louisiana. I yield.

Mr. COTTON. Mr. President, the position of the Senator from New Hampshire was not in criticism of the leadership, nor was it intended to be obstructive.

I do hope we will not start with a large group of amendments on steel, cattle, and everything else. However, to avoid that, I do not think it fair to close the door and then wait until Monday. I hope we can go ahead and vote on the substitute now and stop delaying with amendment after amendment. If we are not going to vote, then I hope the door will be left open.

Mr. JAVITS. Mr. President, will the Senator yield to me for 1 minute?

Mr. LONG of Louisiana. I yield.

Mr. JAVITS. Mr. President, I deeply appreciate the situation in which the leadership finds itself. However, is it not a fact that if the Smathers-Williams substitute should be rejected, any other substitute could be offered prior to third reading of the bill?

As a suggestion, I think the Senator would be in a much better position if we had a vote—which seems to be the attitude of the Senate—on the Williams-Smathers substitute.

Then, if the Senator wanted to go over until Monday on the bill, either as amended by the Williams-Smathers substitute—because that would lock it up and it is as effective as a third reading—or, if defeated, on the bill as reported before the Senate, that procedure would seem to make sense.

For the Senate not to act after so much debate, and when we are ready to vote, it seems to me is dragging out the matter unnecessarily.

I make these remarks as a suggestion to the leadership.

Mr. LONG of Louisiana. Mr. President, does the Senator from South Dakota wish to make his statement at this time?

Mr. MUNDT. I am prepared to proceed.

Mr. LONG of Louisiana. Mr. President, I yield 12 minutes to the Senator from South Dakota.

The PRESIDING OFFICER. The Senator from South Dakota is recognized for 12 minutes.

THE COSTLY VENTURE OF THE F–111

Mr. MUNDT. Mr. President, events of yesterday resulted in more unhappy news for the American people concerning the continuing sorry story of the ill-fated adventure to develop a military aircraft which would be suitable for use by both the U.S. Air Force and the U.S. Navy. I speak of the F–111 program, the TFX plane, about which the Senator from Arkansas [Mr. McCLELLAN] addressed the Senate yesterday.

The Senate Armed Services Committee has now voted its disapproval against the expenditure of any additional funds for the Navy—F–111B—version of this plane. I welcome this decision, amply supported by testimony from high-ranking Navy officials, which will result in utilizing well over $400 million for the purpose of developing another aircraft instead of continuing to pour these massive amounts into a plane for which there has been evidenced little support from those directly concerned with utilizing a Navy defender.

The user services, through long investigation of the TFX contract, consistently, persistently, and aggressively opposed the idea of developing a single plane with commonality features to do a variety of jobs in the air.

While the committee's decision is welcome, it also is unhappy, for it marks confirmation of a contention raised many, many months ago that the commonality theory simply would not work with respect to the TFX. As was pointed out yesterday, by the distinguished chairman of our Permanent Investigations Subcommittee [Mr. McCLELLAN], had the requirement for commonality been dropped at a time it was recommended, a Navy fighter plane could undoubtedly have been ready now to fulfill its fleet defense needs, for it was in 1964 when a redesign proposal was made by the Gruman Co.

The second unhappy event of yesterday—truly a tragic one—is the loss in combat of one of the first six F–111A's of the Air Force to fly in action in the Vietnam war.

Mr. President, some 8 months ago in questioning Pentagon witnesses at the appropriations hearing on the F–111 program, it was brought out by our committee that the Air Force version of the TFX had some serious problems to be solved. The Congress was assured, however, by the civilian witnesses from the Pentagon that these problems would be fixed before the airplane was committed to combat operations. I did, however, have what proved to be a prophetic colloquy with Admiral Connolly regarding this situation. I said:

I don't see how you can train the crews to get ready for this kind of operation if you have bad speed brakes, if you have had bufeting from the speed brakes, or if you cannot do the other things you have been saying to Senator McClellan about the plane. Maybe the story is wrong, but I don't know. We ought to have it in the record because we are going to be confronted with that; we have a plane now that we can win the war with in Vietnam.

F–111 CAN FLY

Admiral CONNOLLY. We sit here and discuss all the things wrong with the F–111. There are some things that the F–111 can do. It can fly. Even though the speed brake is not what it ought to be, we can fly without it. It has gone [deleted] on the deck with the same bum speed brake. It won't serve the pilots' needs like it should, and it ought to be fixed and fixed properly, but it still can fly [deleted].

Senator MUNDT. I think so, too. If you are going to take it out before it is fully operational, with a billion and a half dollars invested in research, and get it shot down in a dogfight by some Russians so that they get all the research free, I don't think it is a good bargain.

Admiral CONNOLLY. I agree with you. [Deleted.]

As all of us are well aware, this event came to pass yesterday on the F–111A's third combat mission in Vietnam. While the Pentagon has clamped a veil of secrecy over the exact circumstances surrounding the disappearance of this aircraft, this morning's newscasts indicate that the North Vietnamese are taking credit for having knocked it down. Quite obviously, they know it has disappeared. But I bring this up today, not because I want to get any personal satisfaction out of saying "I told you so" but because of a much more serious, and much more fundamental, problem with this airplane program that it is my duty to bring to the attention of the Congress. As an introduction to my remarks, I now ask unanimous consent that an article from last Monday's Aviation Week and Space Technology magazine, dated March 26, 1968, be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

[From Aviation Week & Space Technology, Mar. 25, 1968]

SHORTCUTS SEND F–111'S TO VIET TEST—SIX VARIABLE-GEOMETRY FIGHTER BOMBERS ARRIVE IN SOUTHEAST ASIA FOR COMBAT EVALUATION BEFORE NORMAL USAF TRIALS ARE COMPLETED

(By C. M. Plattner)

LOS ANGELES.—Deployment of six USAF/General Dynamics F–111A fighter bombers to Southeast Asia Mar. 15 for combat operation and evaluation short-circuited normal Air Force development patterns, and probably will force the aircraft to operate under some flight restrictions.

In addition, because tactics best suited to the variable-geometry fighters are not defined in detail, they will be flown on the basis of contractor-furnished information and use hastily adapted standard weapons delivery techniques.

The six F–111s, forming Detachment 1, 428th Tactical Sqdn., flew from Nellis AFB, Nev., to Takhli Royal Thai Air Base, 85 mi. north of Bangkok, where they arrived Mar. 16. Takhli, also the base of a Republic F–105 wing, is about 500 naut. mi. from Hanoi.

The Air Force designation for the evaluation is Combat Lancer.

The 428th Sqdn., based at Nellis, received the first Tactical Air Command F–111A last summer and began qualifying a small group of pilots for deployment under project Harvest Reaper. The aircraft used by the Harvest Reaper group were pre-production

models initially intended for the Category 2 test program.

In terms of configuration, F–111 No. 31 was regarded as the first production aircraft, although several minor modifications have since been required, and aircraft No. 42 is now regarded as the standard production version.

The substantial number of modifications made during the F–111A development program has resulted in long delays and an almost continuous juggling of schedules and plans.

One officer says that the situation now is so confused that the status of the original incentive contract, with its penalties and rewards, is unclear. A key element, an Air Force reliability and maintainability evaluation, has been postponed repeatedly, and it is not clear now if it will be run at all.

Aside from the modifications, the pressure to prepare a group of aircraft for combat has forced additional juggling of flight test activities and Category 3 work at Nellis.

Excessive drag and engine inlet problems have been responsible for much of the delay, but avionics systems modifications have been equally troublesome, an Air Force officer said.

The original goal in the F–111A development program was to proceed normally through the standard Category 1, 2 and 3 test program to the operational phase. Category 2 testing was to have been completed by the end of 1967 at about the time the first squadron was to have become operational.

Currently, Category 2 testing of the F–111A at Edwards AFB, Calif., is only partially completed, and present estimates are that it will not be finished until late 1969. This does not include Category 2 tests of the F–111D, with its advanced Mk. 2 avionics equipment, nor testing of the FB–111A Strategic Air Command bomber version.

Category 1 contractor testing of the F–111A is 80–85% complete. General Dynamics said. Category 3 user command testing at Nellis began only early this year. It is generally unrelated to the Harvest Reaper crew training program, although some benefits are expected from the combat deployment.

In general, all three category test phases are far behind original schedules, although, paradoxically, aircraft deliveries have stayed fairly close to schedule.

Although most of the contractor modifications of the engine, inlet and avionics are believed now to be correct, Air Force verification of them through its own testing is far from complete. This does not mean that the aircraft is unsafe to fly. Basic F–111 airworthiness has long been established, but as a weapons system, it has yet to be shaken down in standard fashion.

Stability and control work is only about one-half done in Category 2, and performance testing of the most recent version of the aircraft just got under way. Systems testing also is unfinished.

The F–111A will carry an impressive load of conventional ordnance in various combinations, but not all combinations and types of ordnance have been cleared for release from the aircraft.

However, the major part of Category 1 ordnance qualification has been completed, including the use of:

Internally mounted M–61A1 gatling gun.
Variety of bombs—from 500 to 3,000 lb.
Napalm.
Cluster bomb unit (CBU).
2.75-in. rockets.
Nuclear weapon shapes.

Air Force is pressing to clear the F–111A for most standard ordnance but has not completed this work. While sufficient standard load configurations have been cleared to permit its use in combat, some specific types of ordnance, such as the Mk. 2 Mod 0 Walleye TV-guided glide weapon, have not been tested.

The variable-sweep wing has added considerably to the work loan of ordnance qualification, because tests must be repeated with various wing plan-forms.

Within the Air Force structure, the F–111 is expected ultimately to be essentially a Republic F–105 replacement. Its principal attributes in relation to the F–105 are longer range, faster speed, greater load-carrying capability and substantially improved avionics, providing better all-weather low-level penetration and weapons delivery characteristics.

Otherwise, in design philosophy, the F–111A resembles the F–105, being primarily an air-to-ground interdiction and nuclear weapons delivery aircraft with only limited air-to-air fighter capability.

Most weapons will be carried externally on the F–111A's four inboard stations, which swivel to remain parallel to the fuselage as the wing sweeps. For high-speed flight up to Mach 2.5 at high altitude and Mach 1.2 at ground level, the wing is swept aft. This precludes carrying ordnance on the outboard four stations, which have fixed pylons. Each station is stressed for the same maximum load, at least 4,000 lb.

Bombs, rocket pods and napalm canisters will be slung from either triple ejector racks (TERs) or multiple ejector racks (MERs).

A vibration problem encountered during flight test last summer has been solved by modification of the standard multiple ejector racks. The MER suspension lugs have been shifted 10.35 in. forward to move aft the over-all center of gravity of the loaded rack. The aft end of the MER also has been tilted downward 1.75 deg. No modifications have been necessary to the triple ejector racks.

The bomb bay of the F–111A can carry ordnance as well as the internal gun. Two 750-lb. M117 bombs can be stowed in the weapons bay if no gun is carried. On one test flight, General Dynamics has carried 32 M117 bombs.

Mr. MUNDT. Mr. President, I want to emphasize the title of that article, "Shortcuts Send F–111's to Vietnam." The author avers that these airplanes sent over in this Harvest Reaper program were not operationally ready, contained many unsolved problems, and had not completed their normal Air Force test program. I happen to know that the charges he makes are true. He also says that airplanes are rolling down the production line today with all of the many faults and problems he describes being built into each and every one of them. That charge also is very, very true.

I also know that there are other problems with the F–111A which have been hidden behind the Pentagon's cloak of secrecy. In January of this year, additional serious faults were uncovered in the course of normal testing and yet, only 2 months later, the airplanes were sent to Vietnam with these faults unremedied.

Without belaboring the matter further or speculating as to just why these planes were sent over there, I want to get back to the major issue involved here. In last July's hearings on the F–111, we were assured that all of the problems with these planes that we were questioning the Defense officials about would be fixed in airplane No. 31, the first so-called "production configured" airplane.

The Aviation Week reporter was told that airplane No. 44 is now considered to be the real production configuration. Yet the actual fact of the matter is that airplane No. 160 is the first one that will really have all of the scheduled engineering fixes built into it. To name a few, it gets a new air intake and a new speed brake, both of which we were assured 8 months ago would be tested and ready for airplane No. 31.

These airplanes are quoted by the Pentagon as costing some $6½ million each, and to my mathematical reckoning that means that over $1 billion will be spent building F–111A's before they get around to producing one that really works as advertised. As a matter of fact, they even plan to change the name of the F–111A to the F–111E when they finally get to that number 160, which indicates to me that there must be quite an improvement in it if it is worthy of a new name.

Now, the F–111A is supposed to be the Air Force's primary tactical bomber during the decade of the 1970's. What they are going to be doing with those first 160, I do not know. They are going to be a distinctly inferior version, with many, many built-in deficiencies and weaknesses. Is there some particular reason for wanting to get all those planes built immediately, other than to be able to say that the contract has been kept "on schedule"? After all, they are supposed to be one of our mainstays of defense for many years to come, and in view of the new advancements that the Russian planes are showing, I think that we had better be ready with our best, and only our best, in the years ahead.

Mr. President, in conclusion, I have two recommendations to make on this F–111A program. First, I think it is mandatory that the remaining five "Harvest Reaper" airplanes be brought back immediately from Vietnam and not returned to combat until they are fully tested and ready. I also think it is imperative that the production line be held up until the design of the airplane number 160 configuration is completed and tested and can be incorporated into the very next plane the Air Force buys. If this drastic step is not taken, then we will truly be committing another billion dollar blunder in this TFX program which already has cost the American taxpayers many, many fruitless billions of dollars.

Mr. President, I leave these recommendations to be considered by the Congress, by the Defense Department, and by the President. I can only hope that those with authority will act upon them.

Mr. President, I ask unanimous consent that the appropriate pages, 1052 to 1058, from last year's F–111 hearing, held July 14, 1967, be printed in the RECORD.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

DEPARTMENT OF DEFENSE APPROPRIATIONS FOR FISCAL YEAR 1968—PART 3

(Excerpt from the hearings before the Subcommittee of the Committee on Appropriations, U.S. Senate, 90th Congress, first session, on H.R. 10738, making appropriations for the Department of Defense for the fiscal year ending June 30, 1968, and for other purposes)

TAKEOFF WEIGHT GUARANTEE OF AIR FORCE PLANE

Senator MCCLELLAN. The takeoff weight guarantee, as I recall, the takeoff weight of the Air Force plane was 69,122 pounds. What do you say, or give us your estimate of what

its weight is going to be now as you did for the Navy?

Mr. NITZE. I will supply that for the record.

COMBAT CEILING GUARANTEE

Senator MCCLELLAN. Combat ceiling was guaranteed at [deleted] feet. Your estimate of what it will actually be? This I would like to know about. With an [deleted] mile radius mission to penetrate at a low-level dash to the target at mach [deleted] for [deleted] nautical miles. That was guaranteed. Now my understanding is that it will not do that, that it is down below [deleted]. And that is your estimate that it will be below [deleted]. Quite a deficiency. What can you say about that as of now?

Mr. NITZE. May I supply the answer to that for the record?

Senator MCCLELLAN. Very well.

(The information follows:)

"It is estimated that the initial operational F–111A will have a gross take-off weight of approximately 81,400 pounds for the basic design mission.

"(Additional classified material has been furnished separately to the Committee.)

"The F–111A has flown to an altitude of over [deleted] at heavier than combat weight in the flight test program. The current Air Force estimate for the production aircraft combat ceiling under specification conditions is [deleted] feet.

"(Additional classified material has been furnished separately to the committee.)

"Since the 1962 evaluations, it has never been estimated that supersonic dash of [deleted] nautical miles, the originally stated parameter, could be provided over a total mission radius of [deleted] nautical miles. The current estimate is [deleted] nautical miles. At the [deleted] nautical mile figure cited, the total mission radius as currently estimated would be approximately [deleted] nautical miles. This represents a significant increase in existing tactical air capabilities and is considered militarily acceptable, particularly in view of the inherent flexibility of the F–111A for farward basing. The range can also be substantially extended by the use of external tanks and in-flight refueling, provisions for which have been included in the F–111A.

"(Additional classified material has been furnished separately to the Committee.)

"Under the contractual provisions on the correction of deficiencies, the contractor is penalized by a downward adjustment in the R&D contract price for any uncorrected failure to meet contract specifications."

FERRYING RANGE

Senator MCCLELLAN. Your ferrying range was guaranteed at [deleted] nautical miles. Whereas, the actual capability estimate as of now is what?

Mr. NITZE. About [deleted].

Senator MCCLELLAN. According to my information [deleted].

Mr. NITZE. I think it is in excess of that. I think they have demonstrated [deleted].

Senator MCCLELLAN. It will be considerably lower. You have had the same experience in the same areas with the Air Force plane as with the Navy?

Mr. NITZE. I think what the Air Force is interested in is a ferry range of [deleted] miles and I think they are confident that they will meet that.

ACCEPTABILITY

Senator MCCLELLAN. Again we come back, it is going to be acceptable. That is a word that we are having to use in this program, where it fails to meet the requirements and so forth we come back to the word "acceptable."

OPERATIONAL REQUIREMENT FOR SUPERSONIC DISTANCE

What was the Air Force's specific operational requirement for supersonic distance in the [deleted] mile radius mission when General Dynamics was awarded the contract in 1962? Was it not [deleted] miles?

Mr. NITZE. [Deleted] miles.

Senator MCCLELLAN. Has that basic requirement changed?

Mr. NITZE. I think the Air Force is prepared to live with less than that.

Senator MCCLELLAN. It would have to if it can't get that. If it can't get it it will have to live with less. How much less?

Mr. NITZE. May I supply the specific figure for the record?

Senator MCCLELLAN. Very well.

(The answer was previously provided for the record on p. 1052.)

REQUIREMENT FOR FERRY RANGE

Senator MCCLELLAN. What was the Air Force's specific requirement for ferry range? You stated you thought it was [deleted].

Mr. NITZE. I think the contract provision was [deleted]. I think what they really need is [deleted]. I think that is what they think they can get.

Senator MCCLELLAN. They will take [deleted] whereas they contracted for [deleted] without penalty.

Mr. NITZE. This is the same situation as with the weight problem with respect to the B.

Senator MCCLELLAN. What is the ferry range of Air Force plane No. 31 now estimated to be?

Mr. NITZE. May I supply that for the record? I think what has been demonstrated, as I said before, is around [deleted].

(The information follows:)

"The Air Force ferry range requirement is defined in terms of non-stop deployment to Europe, as recently demonstrated, and specifies an unfueled mission of [deleted] nautical miles. It is estimated that F–111A #31 will have the capability of meeting this requirement."

(An additional request was made to include information on the basic airplane ferry range in the same configuration as the proposal plus increments for (*a*) bomb bay tanks; (*b*) Navy wing tips; (*c*) external tanks; and (*d*) whether or not the 5-percent fuel flow factor is included. The information follows:)

"a. F–111A No. 16 (RDT&E) has flown some [deleted] NM with internal fuel (excluding the weapons may tank). With incorporation of scheduled changes to the TF–30/P–3 engine, some [deleted] NM in additional range is expected.

"b. The range increments for the items stated are estimated as follows: left hand weapons bay tank—[deleted] NM, wing tips—[deleted] NM, two external fuel tanks—[deleted] NM.

"c. The demonstrated range of [deleted] NM has not been degraded for higher engine fuel flows."

Senator MCCLELLAN. According to my information here it is between [deleted] miles.

Mr. NITZE. I think it is substantially in excess of that.

Senator MCCLELLAN. If you put the Navy tips on it, I think that increases the range a little, does it not?

Mr. NITZE. That would be over and above what I have said. That will contribute toward the [deleted].

Senator MCCLELLAN. You put the Navy wingtips on the planes, don't you?

Mr. NITZE. Yes.

Senator MCCLELLAN. That increases the range another [deleted] miles, does it not?

Mr. NITZE. Yes.

I think the [deleted] has been demonstrated without the Navy tips.

CALCULATED ALLOWANCE FOR FUEL

Senator MCCLELLAN. Let me ask you this. There is a 5-percent calculated allowance, is there not, for fuel on this ferry range flight; is that correct?

Mr. NITZE. I think that is correct, but I would like to check that.

Senator MCCLELLAN. Is that 5 percent?

Admiral MCDONALD. Are you familiar with this Air Force version, Bill?

Admiral SWEENEY. Yes, sir. I think the Secretary has given the figures that the Air Force has given us.

Senator MCCLELLAN. I want to ask you if that 5 percent was not omitted in giving this total range?

Mr. NITZE. I don't know the answer to that.

Admiral SWEENEY. The 5 percent is in addition to the range calculation.

AIR INLET CONFIGURATIONS

Senator MCCLELLAN. You spoke a while ago about Triple Plow 1; is that correct?

Mr. NITZE. That is right.

Senator MCCLELLAN. There is a Triple Plow 2; is there not?

Mr. NITZE. There is

Senator MCCLELLAN. According to the Air Force plane, there is trouble with the speed brake. Is that correct?

Admiral SWEENEY. Yes, sir. We are having some vibration in the speed brake.

Inadequate inlet

Senator MCCLELLAN. According to this information that I am quoting from, it will have an inadequate inlet. I understood you a while ago as saying that inlet was sufficient and it would not have to be enlarged.

Mr. NITZE. That is my understanding.

Senator MCCLELLAN. It will have an inadequate inlet. It will be unstable at landing, center of gravity too far out and will not have a usable speed brake. This is Air Force plane No. 31 I am talking about. These are some of the estimates on it. An inlet design that should be safe, however, has resulted from the 6 months of extensive wind tunnel testing at the end of 1966 through the spring of 1967. This wind tunnel program, as I understand it, was directed by Mr. Fred Rall, the Air Force's top inlet expert. Is that correct?

Admiral CONNOLLY. That is correct.

Senator MCCLELLAN. Did he not come up with this recommendation to you with a configuration called Triple Plow No. 2?

Admiral SWEENEY. Yes, sir; which is the one we are putting on.

Senator MCCLELLAN. Did that not include blunting or rounding the inlet lips?

Admiral SWEENEY. Yes, sir.

Senator MCCLELLAN. Moving the inlet 4 inches outboard from the fuselage?

Admiral SWEENEY. Yes, sir.

Senator MCCLELLAN. Increasing the area 10 percent?

Admiral SWEENEY. Yes.

Senator MCCLELLAN. I thought you said it didn't a while ago.

Rall report

Mr. NITZE. I was talking about Triple Plow No. 1.

Admiral CONNOLLY. This is the Rall report you are talking about. That is what it included.

Senator MCCLELLAN. That is what he recommended. Whether you put it on the Air Force plane or not it has been recommended in order to solve this problem; has it not?

Also No. 4 replacing the translating cowl with blow-in doors. Is that contemplated?

Admiral SWEENEY. We are working on that.

Senator MCCLELLAN. Are all of these being done or just three being done and the area inlet not being increased? Which is correct?

Admiral SWEENEY. They are all being done to the Navy airplane, but not for the F–111A.

Senator MCCLELLAN. You are not doing that for the Air Force 111–A?

Utilization of Triple Plow No. 2

Mr. NITZE. As I understood it, Triple Plow No. 2 will be put on an Air Force plane in August and will be flown experimentally, but it is not contemplated that that will go on Air Force No. 31.

Senator MCCLELLAN. It will be a later plane?

Mr. NITZE. I think it is the Air Force's view that Triple Plow No. 1 is adequate because it has opened up the envelope that they require to mach [deleted].

Senator McCLELLAN. This consideration or something else has supplanted this since the recommendations has been made?

Mr. NITZE. What I said was that they are going to put Triple Plow No. 2 on an airplane which will fly experimentally in August. They will see how it compares in effectiveness and efficiency with Triple Plow No. 1. No. 1 is the one they are contemplating for Air Force No. 31. That one has No. 1 without the recommendation of the Rall report and has opened up the envelope that is adequate to the Air Force.

Senator McCLELLAN. The one you will fly this summer will not have the enlarged intake?

Mr. NITZE. I think it will. Will the one in August have the enlarged inlet?

Admiral SWEENEY. Not the enlarged one. Just the inlet move out 4 inches from the fuselage. The enlarged one is going for the P–12 only.

Configuration Change

Senator McCLELLAN. Is not the moving out of these inlets a major operation, so to speak?

Admiral SWEENEY. It is a structural change.

Senator McCLELLAN. A configuration change?

Admiral SWEENEY. Yes, sir.

Senator McCLELLAN. The landing center of gravity is so far out that the plane is unstable at landing. This gives the pilot a difficult control problem particularly if the artificial stability like an autopilot built into the flight control system should not be working. This defect was reported in 1964 by an outside review committee of civilian experts, yet nothing has been done to correct it. Is that correct?

Admiral CONNOLLY. Are we talking Air Force airplanes?

Mr. NITZE. I would like to supply the answer to that for the record.

Senator McCLELLAN. The wings cannot be swept any further back in the Air Force plane since they are already at the full aft position from flaps down 26 degrees. The only quick solution is to add lead ballast in the nose; about [deleted] pounds will be required to make the airplane stable. Is that correct?

Mr. NITZE. I think there are other ways of curing this problem. Again I would like to supply the answer for the record.

(The information follows:)

"Flight tests have shown that the F–111A fully meets the requirements with respect to static balance under the standard established design conditions with the Stability Augmentation System (SAS) in operation. Even in the event of emergency conditions when there is both a complete failure of the Low Speed Trim Compensator (LSTS) and the aircraft is light with minimum fuel reserves no ballast is required. Negative static margin can be avoided under these conditions by small increases in the approach speed in the same manner as for other operational conditions such as high wind gusts."

Senator McCLELLAN. The speed brake causes extreme and unacceptable buffeting or shaking of the airplane when open at supersonic speeds. Does that condition still prevail?

Mr. NITZE. It buffets and it needs to be made better, but it is not that bad.

Senator McCLELLAN. Can it be opened now to full deflection subsonically without similar unacceptable buffeting?

Admiral SWEENEY. This is the Air Force plane.

Senator McCLELLAN. This is substantially the same thing.

Admiral CONNOLLY. We can give that for the record, sir.

Senator McCLELLAN. Do you know?

Admiral SWEENEY. I know the contractor is experiencing some vibration such as this.

Senator McCLELLAN. Also it causes engine compressor stall due to its location near the engine inlet. Is that a factor?

Admiral SWEENEY. It is considered a possible factor.

Senator McCLELLAN. In short the present design of the speed brake is not operationally ready. Is that correct?

Admiral CONNOLLY. I would agree with that, yes, sir.

ADEQUACY OF AIR BRAKE

Senator McCLELLAN. The result is that the pilot does not have its use for, one, maneuvering in dogfighting; two, holding stable speed in dive-bombing runs and, three, rapid slowdown in emergency. Is your present air brake adequate for those functions?

Admiral CONNOLLY. No, sir.

Mr. NITZE. I would rather have a reply for the record.

(The information follows:)

"The original speed brake design caused moderate to severe buffet at high speed. However, the contractor has designed and is testing a modified speed brake that is expected to perform acceptably up to the established structural limits of the aircraft. This speed brake is scheduled for installation in Air Force aircraft Number 31 and subsequent."

(Additional information was requested as to whether the speed brake is operable within the speed and altitude limits, including a statement as to whether or not the airplane buffet is acceptable. The information follows:)

"It is anticipated that the redesigned speed brake now being tested will be operable throughout the flight envelope with an acceptable level of buffet."

Senator MUNDT. May I ask a question at that point?

Senator McCLELLAN. Yes, sure. I am trying to hurry along. Go ahead.

Senator MUNDT. In view of this exchange of testimony, will you comment on this Washington Post article this morning:

"It is expected to send some TFX's—F–111's—the headline says, "TFX"—"into Vietnam in an operation called Harvest Reaper to start bombing sites now."

How can you send a plane with those deficiencies in combat duty.

Mr. NITZE. [Deleted.]

Senator MUNDT. [Deleted.]

Mr. NITZE. [Deleted.]

Senator MUNDT. All these things you have been responding to, to Senator McClellan, would have to be corrected before you could take these planes in combat?

Admiral McDONALD. Some of these he has been speaking to recently; yes.

Senator MUNDT. This is the Air Force plane?

Admiral McDONALD. What he has been talking to about recently would have to be corrected; yes.

Senator MUNDT. That is what I am talking about.

Mr. NITZE. [Deleted.]

Senator MUNDT. It says here:

"The Air Force plans to announce soon that the first F–111A crews will start receiving combat training at the Air Force base at Las Vegas."

I don't see how you can train the crews to get ready for this kind of operation if you have bad speed brakes, if you have bad buffeting from the speed brakes, or if you cannot do the other things you have been saying to Senator McClellan about the plane. Maybe the story is wrong, but I don't know. We ought to have it in the record because we are going to be confronted with that; we have a plane now that we can win the war with in Vietnam.

F–111 CAN FLY

Admiral CONNOLLY. We sit here and discuss all the things wrong with the F–111. There are some things that the F–111 can do. It can fly. Even though the speed brake is not what it ought to be, we can fly without it. It has gone [deleted] on the deck with the same bum speed brake. It won't serve the pilots' needs like it should, and it ought to be fixed and fixed properly, but it still can fly [deleted].

Senator MUNDT. I think so, too. If you are going to take it out before it is fully operational, with a billion and a half dollars invested in research, and get it shot down in a dogfight by some Russians so that they get all the research free, I don't think it is a good bargain.

Admiral CONNOLLY. I agree with you. [Deleted].

Senator McCLELLAN. It was supposed to be a tactical fighter when it started.

Senator JACKSON. Tactical fighter experimental.

Mr. NITZE. [Deleted.] What has been decided is to try to get a capability.

Senator McCLELLAN. It started out as a fighter.

Mr. NITZE. This will be very carefully vetted before a decision is made.

Senator McCLELLAN. Is it not going to be a good fighter plane?

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. LONG of Louisiana. Mr. President, it is now clear that this bill will not be finally enacted before April 1. The House of Representatives has already adjourned for the weekend and they will not reconvene until after the statutory deadline—which is midnight Sunday.

I understand there is some misapprehension among the automobile dealers and manufacturers as to how the tax should be handled during the early part of next month while Congress is finishing its work on this bill. The telephone companies, too, should know what tax they should apply in the brief interval between the April 1 deadline and the final enactment of this bill.

I want to make it as clear as I possibly can that the way this bill is drafted—the way it passed the House—and the way it is being considered here today—there will be no temporary reduction in the 7-percent automobile tax and there will be no reduction in the 10-percent tax on telephone service. It has not been intended that these taxes would go down on April 1 and this bill, H.R. 15414, makes it clear that they will not be reduced on that date.

The bill does not permit any "temporary" reduction in these excise taxes. Under the bill, there will be no roller-coaster effect on these rates just because April 1 comes before the bill is finally enacted. To the contrary there will be a continuation, throughout the interval between April 1 and the date of final enactment of this bill, of the 7-percent excise tax on automobiles and the 10-percent tax on telephone communications.

I urge those industries to proceed with "business as usual" next week. We are going to continue these taxes and there will be no break—or interim period of reduction—in the rate.

That is clear from the bill.

The Internal Revenue Service has advised the auto companies and the telephone companies by a special news release—dated March 28—that in planning for the period following April 1, they

should take the excise tax extension bill into account.

I ask unanimous consent that this news release be printed at this point in the RECORD.

There being no objection, the news release was ordered to be printed in the RECORD, as follows:

MARCH 28, 1968.

WASHINGTON, D.C.—The IRS today said if the Tax Adjustment Act of 1968 is enacted in its present form, reductions in excise taxes on autos and telephone service scheduled for April 1, 1968, will not take place even though the bill is not approved until after that date.

Under these circumstances, auto manufacturers and phone companies will continue to be liable for excise taxes at existing levels after April 1.

Under present law, the excise tax on manufacturers' sales of autos is scheduled to be reduced from 7 percent to 2 percent on cars sold on or after April 1. Similarly, the excise tax on amounts paid for telephone service would be reduced from 10 percent to 1 percent effective April 1, 1968.

The Tax Adjustment Act of 1968, as passed by the House and reported to the Senate by its Finance Committee, provides for continuation of these excise taxes at their present rates until Jan. 1, 1970. However, the pending bill repeals the existing provisions dealing with floor stock refunds.

Under the bill's effective date, which is March 31, there would be no reduction in the tax rates on April 1, 1968, even though the bill is not enacted until after that date.

The IRS suggested that auto manufacturers, telephone companies, and others liable for excise taxes under sections 4061 and 4251 of the Internal Revenue Code take this excise tax extension bill into account in planning for the period following April 1.

ORDER OF BUSINESS

Mr. LONG of Louisiana. Mr. President, if Senators desire me to yield them additional time, I shall be glad to yield for statements, reserving my right to the floor.

Mr. MAGNUSON. Mr. President, may I ask the Senator from Louisiana a question, on behalf of the Senator from California [Mr. KUCHEL], not pertaining to the bill? It was planned to bring up a bill on the calendar pertaining to fishing vessels. Is that still the plan?

Mr. LONG of Louisiana. It will not come up until some time after we dispose of the pending bill.

Mr. MAGNUSON. We will still go right on until we dispose of the pending bill, and then the Senate will consider the fishing vessel bill?

Mr. LONG of Louisiana. Yes; some time after we dispose of the pending bill.

Mr. MAGNUSON. The Senator from California [Mr. KUCHEL] wanted me to ask.

Mr. COTTON. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. COTTON. Is it the purpose of the Senator to have third reading of the substitute and then go over until Monday?

Mr. LONG of Louisiana. I regret that is not possible. I tried to limit debate as much as possible. It simply is not possible. I regret it.

Mr. COTTON. I want to cooperate with the Senator. If this substitute goes over until Monday, there are people in my State deeply interested in the shoe situation. There are in my State people deeply interested in the electronics situation. There are Senators who have people in their States interested in beef. Between now and Monday, there can be much pressure. If it were possible to vote on the substitute now, we would not have the door open, and a long list of amendments they might be compelled to offer, even though they dislike to do it. On the other hand, we can hardly consent to having a third reading bar others, and then wait until Monday.

Mr. LONG of Louisiana. I have not asked that. I would welcome the opportunity to discuss the parliamentary situation confidentially with the Senator. I believe I have made my position as clear as I can with the Senator.

Mr. COTTON. This Senator does not want any confidence handed to him. I wanted to know whether we were going over until Monday and leave it open.

Mr. LONG of Louisiana. I desire to move to adjourn as soon as Senators conclude statements they may have.

Mr. COTTON. Without third reading?

Mr. LONG of Louisiana. Yes.

Mr. COTTON. I thank the Senator.

Mr. CARLSON. Mr. President, yesterday amendment No. 644 was adopted, which dealt with hospitals. The amendment was approved to the Smathers-Williams amendment. I ask unanimous consent that it be transferred to the bill as reported by the committee, if the Chairman has no objection.

Mr. LONG of Louisiana. Mr. President, can that request be agreed to?

The PRESIDING OFFICER. What was the request?

Mr. LONG of Louisiana. That the Carlson amendment (No. 644) be added to the bill.

The PRESIDING OFFICER. Is there objection? There being no objection, it is so ordered.

Mr. MORSE and Mr. THURMOND addressed the Chair.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that, without prejudicing my right to the floor, I may yield to Senators briefly.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LONG of Louisiana. I had promised to yield to the Senator from Oregon [Mr. MORSE].

Mr. MORSE. Mr. President, I send to the desk an amendment to the present substitute and ask that it be printed and lie on the table.

The PRESIDING OFFICER. The amendment will be received and printed, and will lie on the table.

Mr. MORSE. Mr. President, I ask unanimous consent to have printed and lie on the table a series of amendments now being prepared that I shall introduce on Monday.

The PRESIDING OFFICER. The amendments will be received and printed, and lie at the desk.

ORDER OF BUSINESS

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that, without prejudicing my right to the floor, I may yield to the Senator from South Carolina [Mr. THURMOND] 6 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

VIOLENCE IN MEMPHIS

Mr. THURMOND. Mr. President, this morning's papers are filled with stories and headlines about the violence which erupted in Memphis, Tenn., as a result of Martin Luther King's supposedly nonviolent demonstration in favor of the Memphis sanitation workers. These news stories clearly indicate that there was no provocation for this violence, except the heated tension that Martin Luther King himself has built up in that city.

Fires, looting, vandalism, and violence are the natural outcome of King's tactics. Newspaper pictures showed policemen with blood streaming down their faces as a result of attempting to restore law and order. Everywhere that King goes, he says that he does not intend to stir up violence and hatred. Yet it is an accepted maxim of law that he who pursues a certain course of action may be assumed to have intended the natural consequences of that action. The events in Memphis are the natural consequence of King's course of action.

Mr. President, King says that he is nonviolent. Nevertheless, he has linked his cause with the most outspoken advocate of violence in the United States, Stokely Carmichael. In a press conference described by Frank van der Linden, and published as an article in the Charleston News and Courier, February 11, 1968, King is quoted as saying that he was not " 'worried' about the danger that more militant Negroes might resort to open violence" in the planned demonstrations here in Washington. I wonder what King says today after the Memphis affair? Was his demonstration infiltrated by Negroes who were more militant, or were King's own followers worked up to a fever pitch or agitation? I do not think the distinction is very important. Human nature is human nature. Once passions are unleashed, there is no way they may be held in control. King knows exactly what he is doing.

I would like to point out some more of King's statements last month. He said that if his demands are not met, then "we will consider disruptive protests and it will be necessary to go to broader civil disobedience." Surely this is stretching human nature too far. He is deliberately provoking his followers to violence. King says further:

> We will not destroy life or property, but we happen to know that non-violence must be militant.

Examine that phrase: militant nonviolence. It is a contradiction in terms. This is Orwell's Newspeak, where words mean the opposite of their accepted meaning. War is Peace; Love is Hate. It is apparent that King is not only doing violence to language but is also doing violence to our Nation. Unless protective steps are taken, what happened in Memphis is what will happen in Washington. I wonder if he is already planning to have another car waiting in the alley, as he did in Memphis, so that he can scoot away to safety.

Mr. President, these demonstrations are inspired or directed by men who do not believe in our represenative form of government. King and his followers are seeking to tie up the organs of government so that democracy will be paralyzed. Blackmail and mob rule have no part in our system of government. King and his followers are proposing such tactics in order to bring our Government down. I believe that President Lyndon Johnson knows what King is trying to do, and that he should do something about it. I call upon President Johnson to make public the information about King which is available to him. This information is openly talked about in Washington. References to it have appeared in the newspapers. I challenge the administration to let all the citizens of this country know what kind of a man King really is, and what his true purpose is.

The article I have just been quoting, by Frank van der Linden, has a headline entitled "King, Carmichael To Join Forces." I have here another article, by UPI writer Jack V. Fox, published in the Northern Virginia Sun, which has a headline that reads as follows: "Carmichael Conducting Sabotage School in the District of Columbia."

Mr. President, I ask you to consider these two headlines in conjunction: "King, Carmichael To Join Forces," and "Carmichael Conducting Sabotage School in District of Columbia." I believe these headlines speak for themselves.

I ask unanimous consent that the articles, "King, Carmichael To Join Forces," written by Frank van der Linden and published in the Charleston News and Courier of February 11, 1968, and "Carmichael Conducting Sabotage School in the District of Columbia," written by Jack V. Fox and published in the Northern Virginia Sun of February 28, 1968, be printed in the RECORD.

There being no objection, the articles were ordered to be printed in the RECORD, as follows:

KING, CARMICHAEL TO JOIN FORCES

(By Frank V. D. Linden)

WASHINGTON.—Dr. Martin Luther King and black power revolutionary Stokely Carmichael are allies now and will work together in a massive civil disobedience campaign in Washington, D.C., starting the first or second week in April.

King, after meeting privately with Carmichael and other Negroes here, said their campaign might last all summer and affect the presidential race.

The presidential candidate who responds to the Negroes' demands for jobs, income, and housing, "will get the Negro vote," the Atlanta minister said.

"We'll have the Negro community, by that time, so fired up by our demands that they will refuse to support the candidate who opposes them."

NONVIOLENT TACTICS

King said his demonstrators would first try non-violent tactics to pressure Congress into adopting a program for the "poor," to cost from $10 to $30 billion. It would include a guaranteed annual income for everybody, "good housing and free choice of neighborhoods."

If Congress refuses, the protests will "escalate to a level much more massive" and "it may be necessary to block a little traffic," he said. But he wasn't "worried" about the danger that more militant Negroes might resort to open violence.

King said Congress will be to blame if the cities have another summer of riots. "Our nation will sink deeper and deeper into the tragic valley of chaos and our cities will continue to go up in flames," he said.

King feared that another "dark desolate summer would lead to more repression and a Fascist state . . . a rightwing take-over" of the government.

King conceded that Congress would not eagerly adopt his proposals at a time when the government has a large deficit because of the "senseless, cruel war in Vietam," which he bitterly opposes.

He predicted that Southern Democratic chairmen of key committees in this "rural-dominated Congress" would cooperate with "right-wing Republicans" to hold down domestic spending.

OTHER MEANS

If appeals to Congress do not solve this "desperate situation," King said, "we will then consider disruptive protests and it will be necessary to go to broader civil disobedience."

"Our aim is not to tie up Washington," he added. "Our civil disobedience will be centered on the government and Congress, not the city." Blocking traffic on streets and bridges, he said, would be "a last resort."

King foresaw "simultaneous demonstrations in more than 15 other cities" and said some Negroes "may picket Congressmen's homes and offices."

King said he and Carmichael had agreed to work together in "the most effective way" and Carmichael "made it clear he would not engage in a philosophical debate over nonviolence."

Asked if he "welcomed" the Black Power chieftain, King replied that he welcomed "all organizations" to aid his cause.

"Our operations will be nonviolently executed," he said. "We will not destroy life or property, but we happen to know that nonviolence must be militant. We often have to be obedient to a higher law to make people see the problems."

SENSE OF HOPE

"If Congress had sense enough," King said, it would "sign a promissory note" of at least ten billion dollars in aid to the Negroes and the poor, to give them "some sense of hope," and ease their "anger and despair."

King, who has talked about building a settlement of tumble-down shacks amid the cherry blossoms, to dramatize the plight of the poor, said these "shanty towns" wouldn't necessarily be illegal.

"Poor have built tent towns in Washington before," he said. "We are not going to be driven out."

If forced off public property, he indicated, his followers could build their shacks on "private property" in "two or three different places."

SUSPEND PROTEST

King said he might have to suspend his Washington project temporarily in the summer so that his people could demonstrate at the two major national political conventions. The Republicans will meet at Miami Beach, Fla., Aug. 5 and the Democrats at Chicago, Aug. 26.

"There are those who feel very strongly that we must have demonstrations at the conventions," he said.

King also is expected to join the pickets protesting President Johnson's Vietnam war policies. Chicago authorities are so worried about the danger of violence that Mayor Richard Daley has announced plans for beefing up his police force.

Helicopters may be used to fly the President and other officials from their downtown hotels to the Chicago convention hall.

Dr. King outlined his demonstration plans at a press conference at the Church of the Redeemer in Washington. On a bulletin board in the sanctuary was a poster bearing a picture of a Negro woman and this message:

"Black is beautiful—it's so beautiful to be black, Dr. Martin Luther King, Jr., Southern Christian Leadership Conference."

CARMICHAEL CONDUCTING SABOTAGE SCHOOL IN DISTRICT OF COLUMBIA

(By Jack V. Fox)

The kingpin of violent Negroes in America is Stokely Carmichael. He is now conducting a secret school for black militants in Washington.

Carmichael told newsmen in Paris last autumn he hoped for a U.S. defeat in Vietnam. Not withdrawal, Defeat.

Carmichael was on his way back from visits to Cuba and North Vietnam.

He held a press conference at the "Latin American Solidarity Conference" at the Havana Libre Hotel (the old Havana Hilton). At Carmichael's request, American newsmen were barred but the Algerian Press Agency reported his comment on the racial picture in the United States.

"Only the gun can pull us out of this situation," Carmichael said.

"Up to last year we were organized only to defend ourselves, since the white man had convinced us that violence was bad for our struggle even though he was using it freely outside the United States.

"Now our people employ passive violence. However, the line between defensive and offensive violence is a slight one. Once an individual has fired a gun to defend himself, he is capable of using it to attack. We are advancing toward guerrilla violence in the American urban center."

Barry Goldwater says Carmichael should be tried for treason. If found guilty, he should be sentenced as a traitor.

According to reliable informants, Carmichael is operating in Washington a school for black militants from about a dozen cities. The location of the school and its curriculum are secret but it is not anything so sensational as a "School for Sabotage."

Carmichael is said to be teaching some 50 militants how to organize the black community in each ghetto, to obtain key positions of leadership so they can call signals if and when there is a riot or other incident. The militants are then to go home and conduct similar schools in their own communities.

This month, Carmichael held two private meetings with Dr. Martin Luther King. Carmichael is reported to have promised King not to try to take over, or inject violence into King's "Mobilization of Poor People" which is supposed to begin in the Capital in early April.

Why doesn't the Department of Justice prosecut Carmichael?

"We feel we do not have enough evidence to warrant prosecution of Mr. Carmichael on any federal charge," a spokesman told UPI. "We will try to match prosecutions with any violations we do find. But the department will not institute a prosecution unless it has conclusive evidence."

High administration officials fear prosecution which failed to produce ironclad evidence and secure a conviction would make a martyr of Carmichael and fire up the black community worse than ever. Legal officials point out that courts traditionally have been loathe to convict any man of sedition just for shooting off his mouth.

Carmichael is a native of Trinidad, a handsome West Indian who can be charming of manner. Now 27, he came to New York in 1952 and became an outstanding student among 50 Negroes at the Bronx High School of Science, mixing amiably with whites.

He went on to graduate from Howard University with a degree in philosophy.

He participated in a sit-in in Virginia in 1960 and quickly became involved in the civil rights movement. By 1966, he had become chairman of the Student Nonviolent Coordinating Committee. Originated in 1960 at the urging of King, SNCC had swung far from the teachings of its patron.

After the killing of Malcolm X, the Black Muslim whose autobiography is virtually a bible to militants, Carmichael replaced him as something of a national figure for extremists. He has been jailed, briefly and on various local charges, 27 times. Today he is the idol and is quoted by many of the angry men in the ghettos.

One of those attracted was H. Rap Brown. A six-foot, three-inch native of Baton Rouge, La. At Southern University where he majored in sociology he was Hubert Geroid Brown.

He was dropped from the school in his senior year for failure to attend classes.

Last May he succeeded Carmichael as chairman of SNCC. Carmichael said at the time, "People will be glad to have me back when they hear him—he's a bad man."

Brown fulfilled his buildup. At his first press conference he attacked Lyndon Johnson as a "Mad Dog." "Violence is as American as cherry pie," he said.

A few nights later at a gathering of 1,000 Negroes in a Washington church, Brown said:

"Get you some guns and burn this town down if it doesn't come around don't love the white man to death. Shoot him to death."

"The American civil rights movement is dead. It is going to be replaced with something else. The people of America will have to wait and see."

A few months later he was charged with inciting to riot and arson in Cambridge, Md. The trial is pending. In August he was released on $15,000 bail in New York after being charged with carrying a loaded .30-caliber carbine on a plane to New Orleans and back. In January he grappled with a New York policeman outside the Cuban United Nations mission and faces trial for interfering with an officer's performance of duty.

Last Tuesday, he was arrested again—this time for making an unauthorized trip to California while under court order to stay in New York. He had gone to Los Angeles to appear at a black power rally with Carmichael.

There are many responsible people who feel the Carmichaels and Browns have been built into bogeymen, alarming and inflaming both the Negro and white communities, by the mass media reporting of their actions and particularly their words.

If it were only a handful, it might be well to let them shrivel in obscurity. But there are dozens like them, as bad or worse, spouting off in the Negro neighborhoods of most big cities.

In Chicago, the angriest man in the black slums is Russell Meek, 34, chairman of the Afro-American Unity Committee and the Black Impeachment Committee. Meek has a goatee and mustache, usually dresses in Afro-styled garb with beads and bracelets. He participated in the open housing march into the white suburb of Cicero in September, 1966, in which six persons were seriously injured and more than 30 arrested.

Meek buys one hour of radio time from a Chicago FM station and broadcasts from his living room Sunday night at 10 p.m.

"I teach blacks to love blacks and to hate injustice, oppression and the people who create this—white people, of course," he says.

He warns whites: "The die is cast,. you shall pay for the past."

"No more Negro generations will grow up under the same conditions as this one has, this I swear." Meek declares, "I don't advocate riots. I advocate revolution."

His type of revolution calls for isolation of Negro neighborhoods—anyplace where Negroes are in a majority—from white communities. Once in control, the blacks should live in cooperatives and share responsibilities and income.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. LONG of Louisiana. Mr. President, if there be no further business to come before the Senate, I move that the Senate stand in adjournment until 12 o'clock noon on Monday.

Mr. BYRD of Virginia. Mr. President, will the Senator withdraw that motion, and yield briefly to me?

Mr. LONG of Louisiana. How much time does the Senator from Virginia require?

Mr. BYRD of Virginia. Two minutes.

Mr. LONG of Louisiana. Mr. President, I withdraw the motion and yield 2 minutes to the Senator from Virginia.

AMENDMENT NO. 695

Mr. BYRD of Virginia. Mr. President, I send an amendment to the desk, and ask that it be printed.

The PRESIDING OFFICER. The amendment will be received and printed, and will lie on the table.

Mr. BYRD of Virginia. The purpose of this amendment is as follows: As I understand the pending proposal, if the surtax is agreed to, it would become effective April 1. It is now obvious that the bill will not be enacted by that date, and it seems to me that, unless the date is changed, wage earners and other taxpayers will be called upon to pay taxes retroactively which have not been deducted from their paychecks, which would be a hardship and a burden on them.

My amendment would make the effective date of the surtax the first day of the month following whatever date the bill is signed into law.

ADJOURNMENT TO MONDAY

Mr. LONG of Louisiana. Mr. President, if there is no further business to come before the Senate, I move that the Senate stand in adjournment until 12 o'clock noon on Monday next.

The motion was agreed to; and (at 3 o'clock and 45 minutes p.m.) the Senate adjourned until Monday, April 1, 1968, at 12 o'clock meridian.

CONFIRMATIONS

Executive nominations confirmed by the Senate March 29 (legislative day of March 27), 1968:

U.S. Air Force

Lt. Gen. Jack G. Merrell, FR1687 (major general, Regular Air Force), U.S. Air Force, to be assigned to positions of importance and responsibility designated by the President, in the grade of general, under the provisions of section 8066, title 10, of the United States Code.

U.S. Navy

The following-named officers of the Navy for permanent promotion to the grade of rear admiral:

LINE

Thomas D. Davies	Ernest W. Dobie, Jr.
Fillmore B. Gilkeson	Dick H. Guinn
John R. Wadleigh	Maurice F. Weisner
Burton R. Shupper	Roy M. Isaman
Frederick E. Janney	Frederick H. Michaelis
Robert B. Erly	Roy G. Anderson
Valdemar G. Lambert	William E. Lemos
Ben B. Pickett	Gerald E. Miller
Leslie J. O'Brien, Jr.	Isaac C. Kidd, Jr.
William N. Leonard	James F. Calvert
Walter L. Small, Jr.	Elmo R. Zumwalt, Jr.
Lucien B. McDonald	James J. Stilwell
Leroy V. Swanson	John W. Dolan, Jr.
Frank W. Vannoy	William C. Hushing
Thomas J. Rudden, Jr.	James H. Smith, Jr.
Charles D. Nace	Kenan C. Childers, Jr.
Lloyd R. Vasey	

MEDICAL CORPS

Frank B. Voris

SUPPLY CORPS

Fowler W. Martin
Frederic W. Corle
Joseph L. Howard

In the Navy

The nominations beginning Peter D. Abbott, to be lieutenant commander, and ending Paul F. Bolding, Jr., to be a permanent chief warrant officer (W–3) and a temporary chief warrant officer (W–4), which nominations were received by the Senate and appeared in the Congressional Record on March 18, 1968.

In the Navy and Marine Corps

The nominations beginning William M. Adney, to be ensign in the Navy, and ending Francis P. Warrington, to be second lieutenant in the Marine Corps, which nominations were received by the Senate and appeared in the Congressional Record on March 18, 1968.

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. MORSE to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: At the end of the bill insert the following new section:

SEC. . LIMITATION ON NON-VIETNAM DEFENSE EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures for national defense (other than special expenditures for Vietnam) under the Budget of the United States (referred to in the budget message of the President as totaling $54,000,000,000) during the fiscal year ending June 30, 1969, shall not exceed $49,000,000,000.

(b) To effectuate the provisions of subsection (a), the

Amdt. No. 682

President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available for national defense (other than for our military effort in Vietnam), as he may prescribe.

Amdt. No. 682 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. MORSE to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

AMENDMENT

Intended to be proposed by Mr. MORSE to amendment numbered 662 to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz:

On page 6, lines 22 and 23, change the figure "$180,000,000,000" to read "$183,000,000,000".

Amdt. No. 686

Amdt. No. 686 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. MORSE to amendment numbered 662 to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

AMENDMENT

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SEC. . LIMITATION ON NON-VIETNAM DEFENSE EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures for national defense (other than special expenditures for Vietnam) under the budget of the United States (referred to in the budget message of the President as totaling $54,000,000,000) during the fiscal year ending June 30, 1969, shall not exceed $34,000,000,000.

(b) To effectuate the provisions of subsection (a), the

Amdt. No. 687

President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available for national defense (other than for our military effort in Vietnam), as he may prescribe.

Amdt. No. 687 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. MORSE to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

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90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

MARCH 29 (legislative day, MARCH 27), 1968
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AMENDMENT

Intended to be proposed by Mr. MORSE to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, viz: At the end of the bill insert the following new section:

SEC. . LIMITATION ON NON-VIETNAM DEFENSE EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures for national defense (other than special expenditures for Vietnam) under the budget of the United States (referred to in the budget message of the President as totaling $54,000,000,000) during the fiscal year ending June 30, 1969, shall not exceed $39,000,000,000.

Amdt. No. 688

(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available for national defense (other than for our military effort in Vietnam), as he may prescribe.

Amdt. No. 688 Calendar No. 995

90TH CONGRESS
2D SESSION

H. R. 15414

AMENDMENT

Intended to be proposed by Mr. MORSE to H.R. 15414, an Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

MARCH 29 (legislative day, MARCH 27), 1968
Ordered to lie on the table and to be printed

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U.S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued April 2, 1968
For actions of April 1, 1968
90th-2nd; No. 54

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HIGHLIGHT: Senate concurred in House amendment to bill to prohibit unfair trade practices regarding cooperatives.

SENATE

1. TRADE PRACTICES; COOPERATIVES. Concurred in the House amendment to S. 109, the proposed Agricultural Fair Practices Act of 1967 (pp. S3674-5). This bill will now be sent to the President. The bill prohibits unfair trade practices (such as coercion, discrimination, intimidation, bribery, falsehood, and conspiracy) in agricultural commodities, and declares a producer's right to decide whether to join a cooperative.

2. TAXATION; EXPENDITURES. Continued debate on H. R. 15414, the tax adjustment bill Sen. Long, La., inserted a summary of the Williams-Smathers substitute amendment. pp. S3704, S3705, S3720-3, S3665-6, S3667-8

3. WEATHER RESEARCH. Agreed to without amendment S. Con. Res. 67, requesting the President to cooperate in the world weather program, including research and a weather watch system. pp. S3675-6

4. FOOT-AND-MOUTH DISEASE. Both Houses received from this Dept. a proposed bill to authorize the Secretary of Agriculture to cooperate with Central America in the prevention, control, and eradication of foot-and-mouth disease or rinderpest; to Senate Agriculture and Forestry and House Agriculture Committees. pp. S3696, H2429

5. BUILDINGS. Both Houses received from GSA "prospectuses of proposed public buildings projects." pp. S3696, H2429

6. WILDERNESS. Both Houses received from the President a communication urging the Congress "to consider making 26 additions to the Nation's wilderness system" (H. Doc. 292); to Interior and Insular Affairs Committees. pp. S3696, H2429

7. FARM BARGAINING. Several Senators were added as cosponsors of S. 2973, the farm bargaining bill. p. S3697

8. AWARDS. Sen. McGovern commended the presentation by the National Farmers Union of awards to Sen. Carlson and Ovid A. Martin, of the Associated Press, "for distinguished service to agriculture." pp. S3700-1, S3703-4

9. PUBLIC LAW 480. As reported (see Digest 53), S. 2986 extends the Agricultural Trade Development and Assistance Act for 3 years (through Dec. 1971), requires at least 5% of total sales proceeds to be made available for voluntary population control programs if requested by the foreign country, specifically includes "carrying out voluntary programs to control population growth" among the self-help measures to increase per capita production to be considered by the President before entering into an agreement, extends the cultural and educational exchange provisions to include any activities which would either assist such exchanges or provide for strengthening educational agencies for international studies and research under the Mutual Educational and Cultural Exchange Act of 1961 and a number of additional listed acts, and requires that at least 2% of total sales proceeds received each year in each country be used to finance these educational activities.

HOUSE

10. SALINE WATER. The Interior and Insular Affairs Committee reported with amendment S. 2912, to authorize appropriations for the saline water conversion program for fiscal year 1969 (H. Rept. 1247). p. H2429

11. PESTICIDES. Passed, 333-25, under suspension of the rules, H. R. 15979, to continue for 3 years (through June 30, 1971) the program under which the Interior Department investigates the effects of insecticides, herbicides, fungicides, and other pesticides on fish and wildlife, and the Agriculture Department

Senate

MONDAY, APRIL 1, 1968

The Senate met at 12 o'clock meridian, and was called to order by the President pro tempore.

Dr. David S. Evans, executive secretary, Board of Christian Social Concerns, Michigan Conference of the Methodist Church, Grand Rapids, Mich., offered the following prayer:

Gracious and Eternal God our Father, we gather this day as free members of a nation blessed in so many ways by Thy divine providence. For Thy goodness unto us we give Thee our earnest thanks and ask that we might merit Thy favor in the days to come.

Comfort us in the moments when we feel buffeted by the winds of change, that Thou art ever near us to sustain us and give us the strength we need. Grant us wisdom to do that which is most creative for the cause of freedom at home and abroad regardless of the fear or favor of man.

This day, O God, the beauty of spring is all about us. Neither the harshness of winter cold nor the scorching heat of summer torment us. In this time of the blooming of the new flowers and the gentleness of nature's reawakening, may our spirits be touched with that spirit of hope and new beginnings that what we do may be freighted with a new promise and benefit for our own people and all mankind. We pray in the Saviour's name. Amen.

THE JOURNAL

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the reading of the Journal of the proceedings of Friday, March 29, 1968, be dispensed with.

The PRESIDENT pro tempore. Without objection, it is so ordered.

LIMITATION ON STATEMENTS DURING TRANSACTION OF ROUTINE MORNING BUSINESS

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that statements in relation to the transaction of routine morning business be limited to 3 minutes.

The PRESIDENT pro tempore. Without objection, it is so ordered.

TAX ADJUSTMENT ACT OF 1968

Mr. LONG of Louisiana. Mr. President, because of circumstances I did not wish to discuss at the time, I thought it necessary to move to adjourn the Senate early on Friday afternoon.

I can say at this time that I was informed by a representative of the Secretary of the Treasury that the latter felt that if the Senate voted on Friday not to increase taxes, it would have had an adverse effect on negotiations going on in Stockholm at that time.

It was feared that such action might give the impression that the U.S. Senate was not willing to vote for a tax increase.

I believed that it would be possible to make the legislative history clear to the effect that on occasion when the House saw fit to send the Senate a measure recommended by the House, many of us who were not inclined to vote for a major tax increase under the parliamentary situation existing on this last Friday, would consider the matter in an entirely different light in the case of a major tax measure originating in the House. In other words, in my opinion, turning down a tax increase last Friday would not necessarily have closed the door at all.

Nevertheless, it was felt that this would be viewed by the foreign press in an entirely different light and might be very much misunderstood. This apparently was on the theory that the Senate would by such a vote be indicating its intention to not, under any circumstances, vote for a major tax increase. As I said, I believe this would not be an accurate reflection of the will of the Senate. But I, for one, as manager of the revenue bill on the floor of the Senate, did not wish to take any action at that point that might embarrass, or in any respect prejudice, the delicate negotiations in Stockholm in which the Secretary of the Treasury and the Chairman of the Federal Reserve Board were engaged, as representatives of this country.

It was for that reason that I moved to adjourn the Senate rather than have a vote on the Williams-Smathers substitute at that time. I have no idea what the result would have been. I believe it would have been a close vote, in any event. One can only speculate as to the outcome.

I believe Senators noted at that time that the Senator from Oregon [Mr. MORSE] felt that by the Senate adjourning until Monday, he had been done an injustice, and that he would feel compelled to hold the floor all day Monday in order to keep the Senate from voting on the Williams-Smathers substitute. In view of this position—I had no doubt that the Senator felt strongly about the matter and would accomplish just what he said—I assured him that if it were within my power, I would postpone the vote on that matter until sometime on Tuesday.

The PRESIDING OFFICER (Mr. HART in the chair). The time of the Senator has expired.

Mr. LONG of Louisiana. I ask unanimous consent that I may proceed for 3 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. WILLIAMS of Delaware. Does that mean that there will be no votes on the Smathers-Williams package today?

Mr. LONG of Louisiana. I have no objection to amendments that may be offered to it.

Mr. WILLIAMS of Delaware. I mean the final action.

Mr. LONG of Louisiana. As I have said, if it were within my power, I will postpone votes on amendments until sometime Tuesday, in view of the gentleman's commitment I made to the Senator from Oregon. I honestly believe that had I not done that, he would have felt it his duty—each Senator must respond to his own conscience—to hold the floor all day.

Mr. WILLIAMS of Delaware. Some of the Senators on this side of the aisle would like to have the record made clear and would like to make plans accordingly. Do I understand that it is the intention of the leadership that there be no vote on final action on the Smathers-Williams package today?

Mr. LONG of Louisiana. That is my intention, yes.

Mr. WILLIAMS of Delaware. Mr. President, in further reference to the remarks of the Senator from Louisana, I am familiar with the situation in which he found himself last Friday. I know that the Secretary was greatly concerned about the possibility that the Williams-Smathers substitute, which embraced both expenditure reductions and a tax increase, would be defeated and the effect that such action would have on the opinions of some of the leaders of the central banks in Europe as well as at home. I believe he was correct in that evaluation.

The rejection of the Williams-Smathers substitute, in my opinion, would be a firm announcement not only to the central bankers but also to the country that the U.S. Senate or Congress and the administration were not going to take any action toward fiscal restraint. I am afraid that would be the interpretation put upon the matter, at least is the interpretation put upon it.

I believe the administration would do well to be on notice and should have a clear understanding as a result of last week's votes that they will not get their tax increase bill unless it is accompanied by a bona fide, realistic, and firm control over spending.

That was made clear by the results of the previous votes. It is most certainly clear as to my own position. I regret very much that thus far the administration has not seen fit to support those of us who are trying to write into this package bone fide control over spending.

I listened to the President's speech last night, in which he chided Congress for its inaction on the proposals to cut spending and the proposals to raise taxes. Yet, this morning in conference with

administration officials I am told that they still will not support the spending controls in this package.

I believe it is the height of fiscal irresponsibility on the part of the Johnson administration not to stand up and tell the American people what the position of this administration really is on the pending Williams-Smathers substitute bill. If they are against a cut in spending they should say so in clear language. If they are in favor of some control over spending then I would appreciate their support on tomorrow's votes here in the Senate.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. I ask unanimous consent that I may proceed for 3 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. WILLIAMS of Delaware. I believe we will have to face up to the situation. Spending reductions and a tax increase must go together.

I hope that during the remainder of this day—before we vote tomorrow—the administration will make clear to Congress and to the country their position on this package, that is, whether they want it approved or not.

I believe it will be disastrous if Congress does not take some action dealing with both control over spending and the question of taxes. I am not excusing the House or the Senate of its responsibility. We have a responsibility. I have said many times that we cannot point a finger at the President and then excuse our own responsibility by inaction.

By the same token, however, the President has a responsibility to speak to the Congress through his Budget Director and other representatives of the various agencies as well as on television. All I want the administration to do is to back up the President's statement of last night with support of this proposal to achieve the same result.

I thank the Senator for yielding.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that I may proceed for 3 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LONG of Louisiana. Mr. President, the thoughts stated by the Senator from Delaware are, of course, in line with the views of the chairman of the Ways and Means Committee of the House of Representatives, and I believe they are probably reflected by a majority of the members of the Ways and Means Committee in the House of Representatives, which has been conducting hearings on the administration tax bill this last year.

As I can best deduce, it has been the attitude of the senior members of that committee, particularly the chairman and the senior members generally, that they wanted to see what reductions were going to be made in the proposed spending program of the President before they reported a tax bill, if, indeed, they did report one.

My impression was that they were conducting hearings to consider the President's tax measure, and that there was a decided possibility that they will report a tax bill, although perhaps not precisely what the President recommended. It might reflect their views more than the administration's views. However, it was my view that in due course, if they were satisfied with respect to the level of spending and that a tax increase was necessary, the committee would recommend a tax bill. I have yet to see any indication from the House that the House suggests we pass a tax bill and approach it in this way.

It is my view that those statesmen in the House of Representatives are equally as aware of their responsibility and this Nation's interest as those of us who serve in the Senate.

I have seen no indication from them that they wish us to initiate the major tax bill by an amendment to one of the bills they have sent us. That view has had a considerable bearing on the attitude I have taken with regard to the Williams-Smathers substitute.

PRESIDENT JOHNSON'S DECISION NOT TO BE A CANDIDATE FOR REELECTION

Mr. LONG of Louisiana. Mr. President, I have issued a statement to the press with regard to the President's dramatic statement last night. I ask unanimous consent that the statement be printed in the RECORD at this point.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

A STATEMENT BY SENATOR RUSSELL B. LONG OF LOUISIANA IN RESPONSE TO PRESIDENT JOHNSON'S ANNOUNCEMENT THAT HE WILL NOT BE A CANDIDATE FOR REELECTION

During my time, it has been my impression that people never fully appreciate a President while he is carrying the heavy burdens of his office. It is only after he has retired to the sidelines that people begin to reflect on the great difficulties with which he was confronted, and realize that he was doing his very best to protect and advance the interests of our people and, indeed, those of the entire free world.

So it will be with Lyndon Johnson. Now that he has removed himself from the race for re-election, his motives will be less subject to misunderstanding. There will, of course, be skeptics, but events will demonstrate that the President is a man of peace who nevertheless values freedom above all else.

A review of the President's historic speech reveals that, from this point forward, the emphasis will be on building a fighting force of South Vietnamese soldiers capable of bearing the brunt of the enemy attack.

Our adversary will be poorly advised if he views the President's statement as a sign of weakness or lack of resolve on the part of the United States. The President's message was directed toward uniting our people, and I believe that will be its result.

Some events in the short run might not give the impression that greater unity has developed in the Congress, but, as events transpire, it will be seen that the President's noble gesture meets with an appropriate response on Capitol Hill.

What this means with regard to the Presidential race cannot be predicted at this moment. Anyone's guess is as good as mine and, therefore, I shall not venture one.

WAIVER OF CALL OF CALENDAR UNDER RULE VIII

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the call of the calendar under rule VIII be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER FOR RECOGNITION OF SENATORS FOLLOWING MORNING BUSINESS

Mr. LONG of Louisiana. I have had requests on behalf of certain Senators that they be permitted to make speeches after the conclusion of morning business.

I ask unanimous consent that immediately after the conclusion of the morning business the Senator from Wyoming [Mr. HANSEN] be recognized for 1 hour, that the Senator from Pennsylvania [Mr. CLARK] be recognized for 45 minutes, and that the Senator from New Jersey [Mr. CASE] be recognized for 20 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

MESSAGE FROM THE HOUSE—ENROLLED BILL AND JOINT RESOLUTION SIGNED

A message from the House of Representatives by Mr. Bartlett, one of its reading clerks, announced that the Speaker had affixed his signature to the following enrolled bill and joint resolution, and they were signed by the President pro tempore:

S. 2029. An act to amend the National Traffic and Motor Vehicle Safety Act of 1966 relating to the application of certain standards to motor vehicles produced in quantities of less than five hundred; and

H.J. Res. 933. A joint resolution to proclaim National Jewish Hospital Save Your Breath Month.

DECISION OF THE PRESIDENT NOT TO SEEK REELECTION

Mr. GORE. Mr. President, the American people sat on the couch with history last evening. They watched and lived with a strong and virile leader in an hour of travail in the leadership of our country at a time of danger.

Unquestionably, in my mind, the hearts of millions of people reached out to our President as he dramatically and eloquently placed peace, unity, and the interest of his country ahead of all else.

For one who has had a career of public service spanning almost four decades to make the decision which President Johnson announced last night demonstrates a patriotism and a magnanimity which will live in history.

It is true that our country is deeply divided. It is not deeply divided about the patriotism, the generosity, or the courage of President Johnson. It is divided over the wisdom and the rightness of our policies in Vietnam.

President Johnson made a contribution toward the unity of our country and a possible peace. Unity is needed, but unity can only come in a policy that offers hope for peace.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. GORE. Mr. President, I ask unanimous consent that I may proceed for 3 additional minutes.

The PRESIDING OFFICER. The Senator from Tennessee is recognized for 3 additional minutes.

Mr. GORE. Mr. President, in removing himself as a candidate for public office President Johnson has freed himself from the political inhibitions of a candidate.

If w are to have peace in 1968 it will only come, in my view, as a result of concession and compromise; consessions and compromises which would subject a candidate to charges of appeasement and ugly questions of being soft on communism.

The example which the President set last night and the act which he has taken places him in a position, in my opinion, more effectively than a candidacy would have done to take the hard decisions necessary for peace and to led the American people into acceptance of the hard choices that I think we must make and accept in order to achieve peace. At least, this is by earnest hope.

The choices before the President in the reassessment that has been under way, seemed to me to be generally threefold:

One, to escalate the war as had been recommended by many military leaders, not only an escalation in intensity of violence but also a geographic escalation. This has many risks and dangers which I shall not now discuss.

Second, to continue what we have been doing with all the consequent loss of life, uncertainty of time and outcome.

Third, deescalation—a reduction of violence in the war in the hope of a negotiated settlement.

To what extent the policy has been changed in this direction, I do not know. Perhaps we will learn as time unfolds.

There is a difference in policy and the strategy, tactics, and forces to implement that policy. The partial bombing pause is not a policy, it is a tactic. But it may indicate a policy.

I took more hope in the President's reiteration of his view that the Geneva Accord, to which we and other nations agreed in 1954, was an adequate basis for peace. It provided for self-determination for all the Vietnamese. It was the departure from this Accord that created and set in motion the course of events which has led us and the Vietnamese to such tragedy.

I have long believed, and I suggest to the President now, that a return to the Geneva Accord and a nonalined or neutral status for the former colonies of France, known as Indochina, offers the best hope for peace.

Mr. President, the President has moved toward unity. In this move, he deserves the compassionate and sympathetic regard of all Americans. Unity is a national need, unity upon a policy that will offer genuine hope for a negotiated settlement and America's ultimate extrication from a tragedy which has brought bloodshed, heartache, and trouble to our people.

Mr. McINTYRE. Mr. President, like millions of other Americans last night, I was shocked and stunned by President Johnson's statement that he would relinquish his chances for continuation in office as a sacrifice for the cause of peace and national unity.

I cannot recall a truly comparable act by any other individual in the history of this or any other nation. As we continue to defend the security of the United States and the strength of the American economy and as we continue to build a better America for our children and their posterity, we too, will be called upon to sacrifice for the good of the Nation. President Johnson has set an example whose leadership will serve his people well.

Those of us from the State of New Hampshire who supported President Johnson in his victory in the New Hampshire Presidential Preference Primary last month have had our judgment that he was the best possible man to lead our Nation in these troubled times vindicated. His actions last night have proven beyond any doubt his dedication to peace and to America, and his willingness to pay any personal price for the good of his country. My only regret is that we will not have his continued leadership during the next 4 years.

THE DECISION FOR PEACE

Mr. KUCHEL. Mr. President, all of a sudden, a doubting world was electrified last night by the sudden realization of a simple fact too long overlooked in the bitterness of public debate. The American people believe in peace. They are a peace-loving people. They want peace with justice in this war weary globe. The President of the United States, the most powerful public servant in the free world, abruptly announced the termination of his public career, a sacrifice to signify beyond any shadow of uncertainty that this is the belief and the goal of a united American people. He lent an enormous credibility to his entreaties for peace. It was a worthy act to achieve a noble end. There should be no longer any question of America's willingness to negotiate with honor—that is the key word—for peace and stability in Southeast Asia.

The road to a just conclusion of this conflict will at best be arduous and difficult. The President's action sought to remove the issue from domestic American politics in a fateful election year. Last night, he put Vietnam above party, where it belongs. I believe with Republican help, it can be clearly demonstrated that we, most of us in this Nation, Democrats and Republicans together, have the same fundamental view.

Speaking to the Senate last May, as a member of the minority, I said that the Republican Party had a solemn duty to avoid making the Vietnam war, in which so many young Americans are now engaged in combat, a source of maneuvering for political advantage:

> The issue before us now is not the origin of our involvement in the conflict, but bringing it to a conclusion, honorably, and hopefully, peacefully.
>
> The role of our party is to seek that end, not for the sake of potential political gain but for the sake of the course of freedom for human beings.
>
> The role of a Republican Party must be a forthright one—criticizing where blame is due, providing alternative avenues for solution, and encouraging, advising, and warning the administration regarding our national policies, as we conceive them.

I believe that the American people have a right now to demand from both of our great political parties a pledge to unite in the common effort for peace with honor and justice—not solely for Vietnam, but for all of Southeast Asia.

Hanoi has now been given the clearest possible sign of American intentions and desires. I cannot resist the comment that it is probably more than it deserves. Radio Moscow has already characterized the President's dramatic action as a "maneuver."

Whatever the wellsprings of cynicism that have brought forth this scornful comment, let reasoning men understand. America, as a united country, has now thrown down the gauntlet for peace. Hanoi can either accept or reject the challenge. We pray ardently that she will accept, for the alternative would be dark, indeed. Let the Communist world realize that the President's actions cannot be tossed aside as a mere gesture. The alternatives to a genuine effort for peace are frightening to contemplate. Sane persons want to avoid a re-escalation of hostitilies. Hanoi must realize that whatever action is taken during the remainder of this year will have the united support of the American people.

Mr. President, I want to commend the President for moving toward a settlement on a broad international basis. The rapid response to the provocations in the Gulf of Tonkin in the summer of 1964 which brought us into the Vietnam conflict were not, regrettably, accompanied by our Western allies in joint action against North Vietnamese aggression.

We must not make the same mistake on the way out that we made on the way in. A just solution of this conflict must bring a durable peace. The human race needs assurance that the cycle of bloodshed raging over the past 20 years in East Asia will have come to an end, and a durable one. This can only be achieved by broad agreement among all those who have a joint interest in a fair settlement. Conclusion of hostilities on a bilateral basis between America and Hanoi could not possibly solve the broader issues and could easily be made a sound stage to drum us out of Vietnam in dishonor or—God forbid—defeat. Geneva, or its equivalent, is the correct forum. The President, to his great credit, stated that was his judgment in his address to the Nation last night.

TAX ADJUSTMENT ACT OF 1968

Mr. KUCHEL. Mr. President, representing the minority, I want to ask my able friend, the acting majority leader [Mr. LONG of Louisiana], whether he is in hopes of arranging a unanimous-consent agreement for a vote tomorrow on the Smathers-Williams amendment. If he did, I would hope it would not come before the middle of the afternoon, to accommodate some of our returning colleagues.

Mr. LONG of Louisiana. Mr. President, there is nothing firm at all in my mind. As I said before the distinguished acting minority leader came in, I received an entreaty from the Secretary of the Treasury that we should not have a vote on the matter Friday. That being

the case, I felt I could not explain my reasons for it at that time. I will see if I can discuss the matter with my colleagues.

Mr. KUCHEL. I thank the Senator.

SUBCOMMITTEE MEETING DURING SENATE SESSION

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the Subcommittee on Separation of Powers of the Committee on the Judiciary be authorized to meet during the session of the Senate today.

The PRESIDING OFFICER. Without objection, it is so ordered.

PRESIDENT JOHNSON'S NEW INITIATIVE TOWARD POLITICAL SETTLEMENT OF WAR IN VIETNAM

Mr. COOPER. Mr. President, President Johnson's new initiative toward a political settlement of the war in Vietnam affirms the best purposes and character of our country. His decision to cease the bombing of North Vietnam and to seek the good offices of the Geneva Conference offer an opportunity for negotiations and an honorable peace, if North Vietnam and its supporters, Communist China and the Soviet Union, truly seek an end of the war.

Whatever may be the political and domestic implications of President Johnson's decision not to seek again the Presidency, his decision, in a moving way, supports the sincerity of his purpose to bring the war to an honorable and peaceful close.

I have urged that the question of Vietnam be submitted to the Geneva Conference, and as one who since 1966 has urged an unconditional cessation of the bombing of North Vietnam to test the possibilities of negotiations, I consider the President's order, which he characterized in his speech as unilateral, essentially unconditional and above quibbling.

I do hope this pause and cessation will be of such duration that it will provide without question an opportunity for acceptance.

Leaders of countries throughout the world have urged this course of action upon the President. They ought now to give him their full support. And it is the duty of the Congress and of our people to support the President in every way that we can to help achieve the honorable peace that our country so earnestly seeks.

I join with others in saying the President last night spoke courageously, and spoke with honor and with nobility.

PRESIDENT JOHNSON'S WITHDRAWAL FROM PRESIDENTIAL CAMPAIGN

Mr. McGEE. Mr. President, President Johnson's withdrawal from the presidential campaign was a dramatic act of statemanship. In doing so, he moved by deed not by platitude, in the direction of his long professed belief that the war in Vietnam and its successful resolution should take precedence over anyone's political role or political ambitions. I believe that this act will loom very large in the history of our time.

But I sense, in listening to the comments that have been made today, and some of the press reactions to the President's action that the point of his move may be misread. It may be misread both here at home and abroad. If the President's move is interpreted as an American recession from its basic position in Southeast Asia, if it is regarded as a retreat from our firmness, then Hanoi can hardly be expected to respond favorably to an effort to bring them to the negotiating table.

I submit to my colleagues the thought that if we are genuine in looking toward negotiations, we would do well not to foster false hopes about a steady American deescalation and retreat from our position in Southeast Asia; for if it is indeed the impression we convey, Hanoi's position will be, "Let us sit it out; let us wait, because we do not have to negotiate anything."

The only real hope for negotiations, it seems to me, is negotiation from a position of steadfastness and firmness.

Likewise, through the airwaves I have noticed with some serious misgivings the rather uniform response out on the campaign trail some of the more beligerent critics of the administration's policy in Asia that this proves that they were right all along and that the President was wrong and he has now confessed it. I want to say to those fostering that criticism, Mr. President, that they have grievously misread the President's motivation and his reasons. President Johnson, in the deep sense of history that has moved him in the pursuit of his policy in Southeast Asia, is mindful of how dangerous it is to play the tune of policy in the Far East to the scales of a political election year. The trust of President Johnson's proposal to Hanoi, it seems to me, is not based on any so-called reversal the second guessers wish to read into the President's brave act. His motivation last night, his withdrawal, was inspired on a much higher level than that.

The PRESIDING OFFICER. The time of the Senator from Wyoming has expired.

Mr. McGEE. Mr. President, I ask that I may proceed for an additional 3 minutes.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. McGEE. Mr. President, I think it well that before we over-expect or overreact to all the implications attendant upon last night's drama, we search our own souls again; that we remember that the pursuit of a basic American policy with respect to this issue is now more than 20 years of age. Harry Truman and Dean Acheson spelled out this national-interest implication in the chances for a favorable balance in Asia to emerge from the wreckage of war. President Eisenhower and John Foster Dulles, his Secretary of State, were very specific in expressing it as a part of that continuing policy; namely, that what happens in Southeast Asia makes a difference to the United States. President John F. Kennedy pursued the same conviction, as has President Johnson.

The point that should not be lost upon us is that that policy has not changed; that nothing that was said last night altered it; and that the basic interests of our country are to stand for the simple and obvious fundamental fact which has come to be dramatized in the agony and the bitterness of Vietnam, that is, that the geography of Southeast Asia should not be transformed or transferred by force of arms, and that if it happens again, it will happen again, and still again and again.

The best place to arrest that impulse, the best place to thwart that kind of grand design, is at its inception, at its beginning. That, it seems to me, is what the President of the United States is trying to get through to all of America: That with all the divisiveness that has occurred, with all the bitter criticisms that have been hurled in the direction of the President, we should not lose sight of these deep fundamentals. I think that otherwise we would run the risk of missing the whole point of the President's act.

The PRESIDING OFFICER. The time of the Senator from Wyoming has again expired.

Mr. McGEE. Mr. President, I ask that I may have an additional 2 minutes.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

Mr. McGEE. I would hope that the surviving contenders for this most awesome office in the land, yes, in the world, the office of President of the United States will reassess their own language that they have been using during the last 2 weeks on the stump.

They should reassess the options that they believe honestly to be available to their country before they plunge ahead with new promises—most of which, in my judgment, they would find it very difficult to live up to once the ballots were counted and the results were in.

I would like to believe that those who would seek this highest office in the land this year would be straightforward enough, now, to come to grips with the problem of American policy in Eastern Asia in the national interest rather than in the context of an election year expediency, it behooves all of the candidates to readdress themselves to a much higher level in their quest for the awesome office of the President of the United States. Hopefully, the President's action will also force the other candidates to weigh more rationally the options open to the United States in Southeast Asia.

We must remember, Mr. President, that we have now a whole generation of new governments in Asia, a whole generation of new leaders in Asia, a whole generation of new economic developments and social restructuring, all of which were dependent upon an American presence that, in effect, pledged stability and resistance to the use of force and violence as to instruments to prohibit Asia's self-determination.

What happens, then, if we follow the advice of those who propose that we steadily withdraw and back out? What happens to the prospects of those who took that chance? I think the consequences are obvious, Mr. President; and I think, if we welsh in Vietnam, the

was ordered to be printed in the RECORD, as follows:

[From the Washington (D.C.) Star, Mar. 31, 1968]

PAPER GOLD AS AN ALTERNATIVE TO CHAOS

It is probable that gold, the most beautiful of all the elements, was the first metal to attract man's attention. It is certain that since the earliest civilizations, gold has held a mystic fascination for mankind; a fascination that defies all rational explanation.

Man has fought wars for gold. He has murdered for gold, enslaved his brother, denied his gods and—in recurrent legend—sold his soul to the Devil for gold. The worth of the individual and the wealth of nations has been measured in gold from the beginning of recorded time down to the present.

But at this moment in time, men have planned the most decisive move ever made to free themselves from the ancient thralldom of gold. This weekend, in Stockholm, officials of the Big Ten—the major financial powers of the free world—have tried to move the international monetary system toward logic and away from the idolatry of gold as the basic medium of international financial transactions.

The idea of an international scrip—paper gold—for use in dealings between central banks is not new. In 1944, representatives of 45 nations met in Bretton Woods, N.H., with the aim of creating international machinery to prevent wild fluctuations in the value of national currencies, to pool resources to aid member nations over economic rough spots and to curb the sort of financial adventurism on the part of the major economic powers that had, in the past, touched off international depressions.

The result was the International Monetary Fund, which now counts a 107-nation membership—nearly all the non-Communist countries of the world—and which exercises a considerable measure of control over the financial practices of all the member nations. At the time of the founding of the IMF, it was decided—largely at the insistence of the United States—to retain the traditional predominance of gold as the basic medium for international exchange. But prescient voices were raised, notably that of England's John Maynard Keynes, who urged the creation of a new international medium of exchange for use by governments only, and who warned that the world's supply of gold was too limited to cover rapidly expanding international trade and the increasing flow of capital between central banks.

Keynes' vision of 24 years ago has today become a reality. The gold crisis, which has temporarily been brought under control by the creation of a two-prise gold system, was a manifestation of the inability of the gold supply to keep pace with the demands of world trade. So long as the international financial waters remained calm, so long as confidence in the dollar remained high, there was no major problem. Central banks and monied speculators were willing to maintain large percentages of their reserve funds in dollars and to refrain from taking advantage of the United States' pledge to redeem foreign-held dollars for gold at $35 an ounce.

But in recent years, that confidence has begun to erode. Foreign bankers and investors noted that the United States' balance of payments had shown a deficit in 17 of the past 18 years. They noted that the outflow of dollars from the American economy was increasing rapidly. They watched inflationary pressures building up, budget deficits increasing, and they took careful not of the fact that neither the administration nor the Congress seemed to take the matter very seriously.

It was not a question of America going broke. No nation with a gross national product pushing a trillion dollars is going to hit the gutter in the foreseeable future. But serious doubts began to grow that the United States would ever take the fiscal steps necessary to protect the dollar from devaluation. As those doubts grew the demand for gold in return for dollars began to grow. And the doubts began to feed on themselves, creating a 24-karat snowball. The United States, faced with $34 billion foreign-held dollars and $10.4 billion in gold holdings, was forced to take emergency action.

The first emergency step was the creation of the two-price system for gold. One price—$35 an ounce—was fixed for monetary gold. A free market, uncontrolled and unsupported, was established for speculators. The supply of gold on the free market is more than enough to meet the demands of technology, jewelry and dentistry, on which gold depends for its intrinsic value. The big speculators, notably the oil-rich sheiks whose personal wealth rivals that of many governments, had hoped to make a killing by forcing a devaluation of the dollar in relation to gold. They have been left, instead, holding a very dubious bag.

But the monetary crisis is by no means over. Renewed doubts about paper currency and about the determination of the United States to defend the dollar could send the price of gold on the free market skyrocketing again. Some nations would be sorely tempted to go for a quick killing by selling their gold holdings to the speculators, despite the warning that if they do, their gold holdings will not be replaced.

The next logical step to bring a semblance of permanent order to the potential monetary chaos is the one decided upon in Stockholm; a step toward the total abolition of gold as a monetary metal. The idea of establishing an official currency, known as Special Drawing Rights, has been under consideration for years and has won general international acceptance. But now, the need for SDRs has taken on an urgency that should finally produce results.

The final steps will not be easy ones. There is powerful opposition to the concept from Charles de Gaulle, who insists that the Western world should turn back the clock to the 19th century by a restoration of the full gold standard. De Gaulle would solve the problem of a shortage of gold by raising the price of gold to a point at which it would, once again, be of sufficient value to cover international financial transactions.

Such an arrangement would, it is true, be of benefit to France, which is second only to the United States in its gold holdings, and is second to no Western nation in the percentage of its national treasure tied up in gold. But the belief is that even De Gaulle will have to realize that France cannot impose its will on all the other fund nations and cannot refuse indefinitely to join in a general monetary reform.

There are economists in this country who take a very dim view of any move by this or any other government to cut its monetary system completely free from all monetary metal. To do so, they argue, is to remove all restriction on the issuing of paper money. An irresponsible administration could then try to solve its financial problems merely by printing more money.

But the fact is that the International Monetary Fund and the proposed paper gold should themselves act as a very effective curb on any such monetary hanky-panky. SDRs would be in part a form of international currency and in part a form of credit. A given nation's drawing rights would depend, in part, on its credit rating in the community. A disorderly financial house would not sit well with the other partners.

It would mean, for the United States, no relaxation of the necessity to tidy up its affairs by controlling its balance of payments problem, by cutting the budget deeply and by raising taxes materially. It would, if anything, mean an increase of the pressure, for the success of the plan would depend in large measure on the integrity of the dollar, and the failure of the plan would mean international financial chaos.

It would mean some loss of economic sovereignty. But the gold crisis has already shown that the United States is not a financial island unto itself. This country, in its own self-interest, must pay close attention to foreign opinion.

It will mean an agonizing fiscal belt tightening—once the practicalities of the election make it possible—regardless of who is elected president. But there is, it would seem, no reasonable alternative.

OVID A. MARTIN, OF ASSOCIATED PRESS, HONORED BY FARMERS UNION

Mr. McGOVERN. Mr. President, at the banquet session of the National Farmers Union convention in Minneapolis recently, which I was privileged to address, a distinguished service to agriculture award was presented to Ovid A. Martin, farm writer for the Associated Press here in the Capital. He has held that post for more than 30 years.

The Farmers Union's award to Ovid is a well-deserved tribute, and I took satisfaction in being present when it was given to him. Ovid was a veteran of the farm struggle when I came here as a Member of the House in 1957. The very fact that he has survived and won widespread respect while reporting one of the most controversial policy and program fields in American political and economic life is really all that needs to be said to prove that he richly deserved the recognition he received.

I ask unanimous consent, Mr. President, to place in the RECORD the remarks of President Tony Dechant of the Farmers Union when the presentation was made and a sketch of Mr. Martin contained in a brochure presented to those at the meeting.

There being no objection, the remarks and sketch were ordered to be printed in the RECORD, as follows:

PRESENTATION OF AWARD FOR DISTINGUISHED SERVICE TO AGRICULTURE TO OVID A. MARTIN OF THE ASSOCIATED PRESS BY TONY T. DECHANT, PRESIDENT, NATIONAL FARMERS UNION

Telling agriculture's story is one of the challenging responsibilities of a farm organization. And it becomes increasingly important in a society that becomes more and more urban . . . that now has 70% of its people living on 1% of its land.

As one editor from an eastern metropolitan paper said to me recently, "Tony, what you don't seem to realize is that there are hundreds of thousands of people in big cities that have never seen a live cow."

We are confronted with misunderstandings . . . with attitude problems . . . and by outright propaganda. We can not afford to take these things lightly because gaps in information are reflected in editorials . . . in positions taken by labor, business and other urban-based groups . . . in decisions made in Statehouses and in Congress.

Fortunately, most of this misunderstanding about agriculture and farm people is in the big cities. The main reason is that the rest of the country is served by a large number of professional farm writers, editors and broadcasters.

Many of them have been at this convention. All of you know them . . . both from their work and from their appearances at farm meetings.

These men are committed to farm people . . . they identify with you . . . they

attempt to interpret you and your problems to the public . . . they are your advocates.

Their after-hours bull sessions, much like ours, deal with such things as the out-migration of young people from rural areas . . . low farm prices . . . the quality of rural schools and other facilities . . . the effect of low farm income on Main Street businesses.

We don't insist that a farm writer or broadcaster should be biased toward our viewpoint (although we certainly don't discourage that). All we ask is that they present our position fairly . . . and we hope, often. We want our viewpoint to be part of the continuing farm policy debate in agriculture.

A number of farm writers, editors and broadcasters spend a lifetime in the high calling of interpreting agriculture . . . of doing this job in line with the highest standards of objectivity, fairness and responsibility. That is the kind of man we are honoring here tonight.

Ovid Martin, one of the most modest and unassuming reporters in Washington, is the dean of American farm writers. That is a title Ovid would never claim for himself. But it is one that is earned and unchallenged.

His entire career, spanning 42 years of reporting farm policy news, has been closely tied to events shaping the lives of farm and rural people. The byline "By Ovid A. Martin" has appeared in large papers and small. City and farm people alike follow the clear and objective reporting that marks his work.

To Ovid A. Martin, farm writer, we present our 1968 award for distinguished service to agriculture.

FOR OUTSTANDING SERVICE TO AMERICAN AGRICULTURE

OVID A. MARTIN'S RECORD

Ovid Martin, one of the most modest and unassuming reporters in Washington, is the dean of American farm writers. This is a title he would never claim for himself. But it is one that is earned, deserved and unchallenged.

His entire news career, spanning 42 years, has been closely tied to events shaping the lives of farm and rural people. The byline, "By Ovid A. Martin," has appeared in large papers and small, and from border to border. It is the trademark of careful and objective reporting, read and understood by farm and city people alike.

When Ovid Martin came to Washington in 1936, the nation for the first time was attempting to deal directly with the economic and social problems facing agriculture. He witnessed, and reported on, the New Deal, the Depression years effort of President Roosevelt that put the beginning of our farm programs on the books.

He was transferred to Washington by the Associated Press from the bureau in Topeka, Kansas. There, as AP correspondent, he had covered the dust storms, drouth and economic hardship that drove hundreds of thousands of farm families off the land. This experience could not help but move the spirit of a man who, even then, identified closely with the people who tilled the soil.

He also is a perceptive and experienced political reporter. He helped cover the Presidential campaign of Alf Landon, a Kansan, in 1936. A month after the election Ovid Martin was transferred to Washington, a move that prompted Gov. Landon to remark, "Well, Ovid, I'm glad that one of us got to go to Washington anyway."

This transfer removed him from the Missouri and Kansas farm areas he knew so well. He was born in the central Missouri farming community of Iberia in 1904. He grew up in Tuscumbia, Missouri, where his father published a rural county seat weekly paper.

He attended the University of Missouri where, in 1926, he was graduated from that institution's famous School of Journalism. Upon graduation, he joined the news staff of the Springfield (Mo.) News and Leader, with the county agent's office one of his news beats.

In 1933 he joined the news staff of The Associated Press at Kansas City, Missouri, beginning a distinguished career with that international wire service. He went to Topeka, then to Washington to cover the House of Representatives, and finally to the Department of Agriculture assignment.

Ovid Martin has covered the department longer than any other man. He has covered the administrations of six Secretaries of Agriculture—Henry Wallace, Claude Wickard, Clinton Anderson, Charles Brannan, Ezra Taft Benson, and Orville Freeman.

It has been a long time since the farm planks in the platforms of either political party escaped the sharp analysis of Ovid Martin. He has helped cover 15 national political conventions, explaining to his readers the aspects affecting agriculture.

When the United Nations Food and Agriculture Organization (FAO) was organized at an international meeting in Quebec, Ovid Martin was there. He also has covered dozens of conventions of national farm groups including, of course, several by Farmers Union.

He accompanied one secretary of agriculture on a tour of farming areas of West Germany, Yugoslavia, Poland, Finland, Sweden, Norway and the Soviet Union.

He has never been the kind of reporter who sought honors or awards. Among those he has received is the J. S. Russell Award for distinguished service to agriculture, giving annually by the Newspaper Farm Editors Association.

THE CASE AGAINST A TAX INCREASE

Mr. NELSON. Mr. President, the Wall Street Journal on March 22, 1968, carried a very interesting article on the proposed tax increase, substantially endorsing the position of my distinguished colleague, the senior Wisconsin Senator, WILLIAM PROXMIRE.

The article notes that renewed administration pressure has been extered for a tax increase because of the balance of payments and gold crises

Senator PROXMIRE, and the article agrees, says that a tax increase will aggravate and not improve our balance-of-payments position.

I recommend that my colleagues take a few moments to glance through the article, for it makes some powerful arguments. I ask unanimous consent that it be printed in the body of the RECORD at this point.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

THE CASE AGAINST A TAX INCREASE

A great many people, both in and out of Government, contend that the gold crisis has made a 10% income surtax imperative. It is, however, possible to argue quite persuasively that a tax boost, far from solving the balance-of-payments problem, could easily make it worse.

One man who does so is Senator William Proxmire, chairman of the Joint Economic Committee. "The surtax," the Wisconsin Democrat declares, "would weaken our balance-of-payments position. It would aggravate the gold outflow."

In the Senator's view the tax-rise talk is a bit paradoxical. "Consider," he says, "that on February 6, 1964, the then Secretary of the Treasury Douglas Dillon told the House Ways and Means Committee that the tax reduction recommended that year . . . would help our balance of payments.

"He said that it would do so by making American investment more attractive relative to European investment, and help stop the flow of American capital and U.S. gold abroad. And Dillon was right. In the two years following the 1964 tax reduction, America's balance of payments did improve."

This year it is reasonable to assume that a tax increase would depress expectations of after-tax business profits in the U.S. and thus make investment in other countries relatively more attractive. Ironically this would come at a time when Europe's slower economic pace has been diminishing U.S. interest in investments there.

Senator Proxmire is no more optimistic that a tax boost would counter the inflationary forces that are making U.S. exports less competitive abroad. In fact, a tax is a cost that would tend to push prices of America's exports still higher.

The Senator is probably close to the mark when he estimates that it would take more than a year for a tax increase to have any significant anti-inflationary impact on the domestic economy. Even that assumes the Government would not use any revenue gain as an excuse for stepped-up spending—a risky assumption at best.

In any case, the Government almost certainly cannot wait a year or more for improvements in the nation's payments position. Like the rest of the Administration's gadgetry the "two-tier" gold market has given the U.S. some time to maneuver, but the time is more likely to be measured in weeks than in months.

Much more quickly effective, Senator Proxmire comments, would be sizable reductions in nondefense Federal spending. Cuts in outlays, furthermore, would be at least as effective as a tax rise in alerting other nations to the fact that the U.S. had finally awakened to its financial responsibilities.

For our part we would add that spending reductions also would take account of the circumstance that the payments crisis has been caused almost entirely by actions of Government, not the public. Therefore a tax increase, in addition to its other flaws, would be more than somewhat unfair.

Even as a booster of Federal revenue, a tax rise could prove to be self-defeating. In the current uncertain economic situation the increase could deflate economic activity to such an extent that the higher levies would produce not more but less revenue.

Finally, on a politically pragmatic basis spending cuts look fully as good as a tax increase. There are of course potent pressures for maintaining or raising practically all sorts of Federal nondefense outlays, no matter how nonessential or ineffective the spending has been. But Congressmen shouldn't kid themselves into believing that the gold crisis has softened the public's antipathy to a tax rise in this election year.

On all counts, then, the case against a tax increase appears powerful. And, as Senator Proxmire says, the case is strengthened, not weakened, by the urgent need to restore a stable dollar.

INDIAN EDUCATION

Mr. FANNIN. Mr. President, last week it was my privilege to participate in hearings before the Subcommittee on Indian Education of the Committee on Labor and Public Welfare. I regret very much that these hearings, which had already been postponed and rescheduled several times, came during a very busy times in the Senate. Information was uncovered and testimony taken that I think will prove most helpful as we seek to devise ways of improving Indian education.

Mr. President, I invite the Senate's attention to a statement made during

one of our meetings that sums up the Indian educational problem better than I have heard it done before anywhere. When I first heard Miss Marion Antone, of the Papago Tribe, give this statement, I was moved more than I can express. I invited her later to repeat it for the news media, and although she was quite nervous, she did an excellent job.

Miss Marion Antone is a high school senior at the Indian Oasis School, near Sells, Ariz., west of Tucson. I ask unanimous consent that her statement before the Subcommittee on Indian Education be printed in the RECORD.

There being no objection, the statement was ordered to be printed in the RECORD, as follows:

Members of the Senate committee, honored guests, parents, and fellow students, I have been asked to come before you this day to represent high school boys and girls on this reservation. I am supposed to be able to tell you what we the Papago boys and girls of the high school age want for educational opportunities.

Realizing that I cannot possibly speak the minds of all my fellow students I will attempt to tell you how I feel and I am sure that most other Papago boys and girls must feel.

First of all I want to make it extremely clear that we do not like our present position of poverty and ignorance caused by the lack of educational opportunities. We do not want charity—we do want—opportunity. We want the opportunity to help ourselves. We want the opportunity for good education and we can help ourselves.

To me education means more than a diploma. Many of our people have had diplomas from high school. Many of these same people were not educated.

During the entire history of our Papago people, less than 10 people have graduated from college, so I am told by Mr. Ray Narcho.

Gentlemen, does this tell you anything? Some people have said that the Papago people are dumb, some people said that the Papago people don't care, I care. I am not dumb and I don't believe that any other boys and girls on this reservation are anymore dumb or care any less than children anywhere.

What is this education about which I speak?—I do know that it has something to do with knowledge. We need knowledge. We need knowledge about ourselves, about our country and about how to do things like all other Americans.

Education cannot be bought with money—education cannot be bought with dedication. It can be bought by all of the things I just mentioned.

Money has been too often used as a measurement of educational opportunity—not far from this spot you can see a new school building being built. As you travel over this reservation you can see many other school buildings—the old saying, "a house doesn't make a home" applies here—buildings do not make schools.

It is true that we need these buildings but we also need more dedicated teachers who believe in us. We need leaders who seek our opinions. We need leaders who respect us.

We do appreciate what others have tried to do especially on the national level. But we cannot tell other people what is best for them anymore than they can tell us what is best for us.

I am sorry that I cannot tell you just what our schools should be like. I do not have the experience. I do know that all of us want an opportunity to become whatever we desire—limited only by our abilities.

Give us these opportunities and we will give you in return—responsible, productive American citizens instead of wards of the United States Government.

CORRECTION OF RECORD

Mr. McGOVERN. Mr. President, I sometimes wonder when, in our discussions, we have two and sometimes three Senators speak simultaneously, the official reporters of debate are able to record anything resembling the discussion. During the discussion of the excess profits tax on Wednesday, I find that there is an error and omission of one sentence in my remarks which I wish corrected, but I do not want to imply any criticism of anyone for there was some considerable confusion at the time.

On page S3453, of the RECORD, at about the middle of the last column, while I was discussing my vote on Senator LONG's amendment, the RECORD indicates that I stated that I thought "some reduction had to be made on expenditures if we are going to reduce taxes." The word "reduce" should be changed to "increase" and a sentence should be added, which was omitted, in which I stated:

The proposal by Senator CHURCH and me would restore the expenditure cut as Senator LONG tried to do yesterday without success, and it would also provide additional revenue by a tax that is much more equitable than the proposed 10-percent surtax.

Mr. President, I ask that the correction, as I have outlined it, be made in the RECORD.

The PRESIDING OFFICER. The correction will be made.

CONCLUSION OF MORNING BUSINESS

Mr. BYRD of West Virginia. Mr. President, is there further morning business?

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

TAX ADJUSTMENT ACT OF 1968

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Senate proceed to the consideration of Calendar No. 995, H.R. 15414.

The PRESIDING OFFICER. The bill will be stated by title.

The ASSISTANT LEGISLATIVE CLERK. A bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

There being no objection, the Senate resumed the consideration of the bill.

ORDER OF BUSINESS

The PRESIDING OFFICER. Under the previous order, the Chair will recognize Senators HANSEN, CLARK, and CASE.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that Senator CASE may be permitted to proceed out of order notwithstanding rule VIII.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. CASE. Mr. President, I thank the acting majority leader for his courtesy.

Mr. BYRD of West Virginia. I thank the Senator.

PRESIDENT JOHNSON'S ANNOUNCEMENT THAT HE WILL NOT BE A CANDIDATE FOR REELECTION—THE VIETNAM CONFLICT

Mr. CASE. Mr. President, President Johnson's announcement that he will not be a candidate for reelection occupies all our thoughts today.

All Americans, regardless of party, must join in common sympathy and compassion for the travail through which Mr. Johnson must have passed in reaching his decision.

Yet, even as we pause to honor the courage with which he faced and made his personal decision and as we share in a measure the suffering through which he has passed in reaching it, we must continue our concern with the problems which face our Nation and all of us and which inevitably were his chief concern.

And so I feel that remarks which I prepared for delivery today should not be postponed.

They deal with Vietnam and our country's role in that unhappy land.

In his speech last night, overshadowed only by the President's announcement in regard to his noncandidacy, was his statement in regard to deescalation of the bombing of North Vietnam. Incidentally, this is a step which I urged in practically identical terms many months ago. I am glad he has taken it.

But his speech as a whole, it seems to me, does not advance matters much. I waited in vain for some recognition of the essential failure of our policy, namely, the making of this struggle into an American war and the failure to get the South Vietnamese to do what they must do if it is ever to be won.

More than 2 years have passed since Senators MANSFIELD and AIKEN returned from Vietnam to warn that, in the absence of a negotiated settlement, we faced an "indefinite expansion and intensification of the war which will require the continuous introduction of additional U.S. forces."

Nothing has occurred since then to fault the logic of that prediction. To the contrary, everything that has happened confirms its remarkable—and terrible—accuracy. The numbers of American troops in South Vietnam has grown in this time from 170,000 to more than 500,000, and still the war rages on with no end in sight.

It is no wonder that the expanding scope of our involvement—and the swiftly rising number of our casualties—have contributed to the growing sense of frustration, misgiving, and apprehension here at home. But it is not only the "open-ended" nature of this war that underlies the spreading bewilderment and bitterness among Americans.

More and more, the confidence of the American people is being sapped by the growing belief that if the administration continues its present policies it can have no hope of saving South Vietnam except by destroying it.

The recent Tet offensive against the cities revealed far more than the hollowness of claims that we were making steady progress in providing security to the people, that at long last there was "light at the end of the tunnel."

What these bloody weeks have brought into focus is the true costs to the South Vietnamese of relying upon American firepower for their protection. Vast sections of Saigon, Hue, and other cities were reduced to rubble as the only means of dislodging the Vietcong attackers. To the millions of refugees who had already fled the countryside were added hundreds of thousands in the urban areas. And this promises to be only a beginning, for it appears that the enemy retains the capacity to set off further rounds of "saving" destruction.

Is the American commitment in Vietnam such that, inexorably, we must destroy the country and its people if that is the only way to deny victory to the other side?

When I asked that question of Secretary Rusk when he appeared before the Senate Foreign Relations Committee, he responded by denying the premise and asserting that we had inflicted a great deal more destruction on Germany in World War II than has been the case in South Vietnam.

The Secretary's analogy was highly questionable, and in any event most unfortunate, for its was the opposite of reassuring. It implied a commitment to "unconditional surrender" in Vietnam and a willingness to destroy a good deal more of the country if need be. Such a commitment, I submit, speaks more for the failure of administration policy in Vietnam than for its success.

What has become of our essential objective of helping the people of South Vietnam to build a cohesive society and viable nation?

For all the talk of steady progress in nation building, the Thieu government rules today by martial law, holds many of its political opponents in jail, and advances an inch for every mile of proclaimed reform. The proportion of Vietnamese military forces willing and able to provide security for the people remains appallingly small. And of genuine public support for and loyalty to the Government of South Vietnam there is precious little, if any, evidence.

But the lack of significant progress toward strength and stability in South Vietnam is not, of itself, the full measure of our policy failure. The full measure of the administration's failure lies in its refusal to recognize the fact that, by turning this into a largely American war, it has deprived the Vietnamese of any real incentive to take up their own cause.

Last summer, on my return from a trip to Southeast Asia, I called attention to the fact that in the judgment of some close observers, the United States no longer exercised any real influence or "leverage" in South Vietnam because the regime there had come to believe that we were so deeply committed that it could safely ignore any and all suggestions, requests or even demands we might make upon them for self-help.

As I stated then, this was an intolerable position so far as the United States was concerned. I urged the administration to refuse to accept it. At the same time I warned against the constant increase of American personnel in South Vietnam and the danger that the war was becoming an American war.

My own and many other similar warnings were ignored. The President announced last August, without explanation or public justification, that we would send an additional 45,000 troops to Vietnam, for a total of 525,000. Now, that ceiling has been raised to approximately 550,000. Thus, we continue to compound our loss of effective leverage with the South Vietnamese.

It has become clear to me—and to most Americans, I believe—that the course the administration is pursuing in Vietnam is sterile and self-defeating. It is becoming more and more obvious that this administration can destroy South Vietnam and that, without a change in direction, it will destroy South Vietnam.

Success in South Vietnam depends primarily upon the South Vietnamese themselves, and the odds against their doing what only they can do increase in proportion to the growth of the American presence in their country. As one highly perceptive observer pointed out, how can anyone expect the South Vietnamese Government to change its ways when those who control it have never had it so good. Yet, unless it does change its ways, we are faced with an endless involvement in this war on the Asian mainland at an awful cost in American lives and in Vietnamese lives, both North and South, civilian and military alike. And in the end Vietnam reduced to dust and ashes.

The time has come to redirect our policy in Vietnam to fit these facts. Most needed is a credible assertion that we recognize these facts and are prepared to act upon them, that we are determined to deescalate the American involvement.

How do we get from here to there, from the course of constant increase of American military presence and responsibility to the only course which ever made sense, that of supplying marginal help for a nation effectively meeting a challenge to its survival?

There are several ways by which this reversal of policy could be affected. Several have been publicly discussed.

Common to all must be, of course, every consideration for the safety of our own forces and to the avoidance of adding unnecessarily to the problems and difficulties of the South Vietnamese themselves.

A first step might well be to arrange now for the withdrawal of one or more American combat units by a fixed date. Granted, this would seem a drastic action. But so involved have we allowed ourselves to become that only action, drastic action, will convey to the South Vietnamese regime our determination to insist upon a change of course.

Faced with such a determination, the Government of South Vietnam would be obliged, and would be free, to weigh realistically its interests in pursuing a solution to the war. And that is as it should be. Indeed, that is as it must be if any viable solution is to be reached in Southeast Asia.

If this is not America's war to win, it is not our war to lose.

We can no longer refuse to face the truth so well set down by Barbara Tuchman:

> Where will and motive and energy and ability to resist aggression are not present, they cannot be synthetically induced, nor substituted for, nor can the country in question be propped up from outside.

And, as we cannot do these things, neither can we successfully prescribe the nature of any settlement that the people of Vietnam can or should seek. No outsiders can do this. The primary responsibility is theirs. Only they can meet it. So far we have surely fulfilled in more than generous measure whatever commitments we have undertaken to help the people of South Vietnam settle their own future. We can continue to help but only in a secondary role and only if their own effort becomes such as to hold a fair promise of success.

The time has come, I believe, for that change in American policy which will permit the South Vietnamese to choose among the alternatives to the only future that the mushrooming American presence promises: the devastation of their country.

Mr. President, I yield the floor, and suggest the absence of a quorum.

The PRESIDING OFFICER (Mr. ALLOTT in the chair). The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER OF BUSINESS

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that notwithstanding rule VIII, the distinguished Senator from Wyoming [Mr. HANSEN] may proceed for not to exceed 1 hour on a subject that is not germane to the unfinished business.

The PRESIDING OFFICER. Without objection, it is so ordered. The Chair recognizes the Senator from Wyoming.

THE GOLDEN GOOSE—IS IT DYING?

Mr. HANSEN. Mr. President, the President's announcement renouncing his candidacy is uppermost in our minds today. Eloquent expressions have been made already in the Senate and I'm sure that all Americans will weigh this event for some time to come.

Nevertheless, I had prepared a speech to be delivered in the Senate last week. The Senate has been engaged in very pressing business and because of that business I postponed my speech.

Because the Senate will give all its attention to tax matters tomorrow, it appears best, despite the momentous news events of the day, to proceed with my remarks now.

Mr. President, the week before last was a busy time for Washington and for our Nation. That was the week that Members of this body took to the campaign trail making headlines as they went. That was the week when the people of this country and responsible members of the financial banking community around the world sought to catch their breath following the frantic

Operations described in the previous section will use modern developments of the room-and-pillar mining method. Two other approaches have been proposed. One of these is large-scale, open-pit mining that has the potential of producing shale at a low cost per ton. The other new approach to mining is the use of automatic mining machines. Machines that have been proposed are outgrowths of equipment used for tunneling operations that have been successful in materials more easily mined than oil shale.

Several retorting processes, in addition to those previously described, are receiving some attention. One, known as the Petrosix process, is a variation of gas-combustion retorting. Another variation of the gas-combustion retort developed by John B. Jones, Jr., president of Development Engineering, Inc., Denver, Colo., is claimed to be applicable to oil-shale retorting.

In aboveground moving-bed operations, segregation of various sizes of crushed shale creates a serious obstacle to efficient continuous retorting. The degree of segregation increases with the particle size range and the deleterious effects are magnified sharply as the particle size range extends below ¼ inch. Pressure drops through the bed rise to a point where channeling of gas or other heat-carrying media begins and this leads to uneven heat distribution. Heat is concentrated in the channels and, if sufficiently high temperature levels are reached in the bed, fusion of the inorganic material, or clinkering, occurs. The operation then must cease and the fused material must be removed. Movement of the shale through the vessel must be controlled in such a manner that segregation does not occur.

The state of the shale retorting science has not yet advanced to the point where run-of-the-mill crushed shale can be efficiently utilized by the several modern retorting processes that have reached a reasonable stage of development. To avoid waste of a considerable portion of our oil-shale resources (12–15 percent) one of three alternatives may be taken in building a commercial oil-shale plant at the present time, these are: (1) Use a system designed to retort fine shale and grind all mined shale accordingly, (2) use a system designed to retort large particle size shale, screening out the fines and briquetting them for retort feed, or (3) use two types of retorts, one for fines and one for the oversize.

Because mining, crushing, and retorting make up about 60 percent of the cost of producing shale oil, retorting shale in place is being investigated as a means of reducing the cost of shale-oil production. This approach is attractive for several other reasons. It may be applicable to deposits of various thicknesses, grades, and quantities of overburden. In addition, it eliminates the necessity of disposing of large quantities of spent shale. Two major approaches to this problem are in the early stages of investigation. They differ principally in the manner proposed for creating permeability in the shale bed. One approach proposes limited fracturing, whereas the other proposes massive fracturing.

When limited fracturing techniques are employed, wells are drilled into the shale bed, and a series of horizontal fractures are produced between them to provide paths for injected and produced gases and liquids. In one approach the shale adjacent to the injection well is ignited by some suitable means, and the burning zone moved outward from the well at a controlled rate. Heat is transferred from the combustion gases to the cold shale and also by conduction from the burning zone to adjacent shale. The hydrocarbons produced by pyrolysis are swept through the fractures into the producing wells by the stream of gaseous combustion products.

Sinclair Oil and Gas Co. began studying the feasibility of in situ retorting oil shale in 1953. From these tests and subsequent ones made during the following year, it was concluded that communication between wells could be established through induced and natural fracture systems, that wells could be ignited successfully although high pressures were required to maintain injection rates during the heating period, and that combustion could be established and maintained in the shale bed. More recently Sinclair Oil and Gas Co. has been conducting extensive field research at a site on Yellow Creek in Rio Blanco County, Colo.

One of the newer in situ shale recovery processes had been patented by Equity Oil Co. of Salt Lake City. This process employs injection of hot natural gas to retort the shale and it has been applied in a field experiment in the Piceance Creek Basin.

In another approach, in situ retorting by steam is being investigated by Shell Oil Co. In this process, the steam boiler is fired by methane obtained by pyrolysis of the shale. Because of retorting with steam, the methane is undiluted with products of combustion and should make an excellent fuel. However, the fuel value of the carbon residue remaining in the shale would be lost.

In situ field tests have also been conducted by Mobil Oil Co., but little information on their operation has been released.

Success of any in situ process is directly dependent on the permeability that exists or can be created in a shale bed. The Bureau of Mines is presently studying two methods for creating permeability. The first uses high-voltage electricity to fracture the shale at predetermined locations approximately parallel to the shale bedding planes. Field tests are being conducted in shale beds near Rock Springs, Wyo., to determine whether oil shale under pressure of overburden responds the same to the passage of high-voltage electricity as do unrestrained blocks in the laboratory. The second approach, which is underway at the same field location, is a study of the detonation of liquid nitroglycerine, injected into natural or induced permeable zones, to create fracturing in oil-shale beds.

The site of the preceding experiments is also being used for an attempt to recover shale oil from a bed of shale that was fractured first by electricity and then by liquid nitroglycerine. Preliminary tests use superheated steam as a heat-carrying medium. If satisfactory recovery techniques are developed, an attempt will be made to conduct underground combustion.

The second approach is represented by the Plowshare program for peaceful uses of nuclear explosives; study is being made of the feasibility of using a confined underground nuclear explosion for shattering very large quantities of oil shale from which shale oil would subsequently be recovered by in situ retorting techniques. Because of single nuclear explosive would fracture several million tons of shale, its use may offer an economical approach to the utilization of oil shale. An experiment to test this approach is being proposed as a joint effort of government and private industry.

Fuels and chemicals can be produced from shale oil by using established techniques appropriately modified to account for differences in composition between shale oil and petroleum.

OIL SHALE (SHALE OIL)—OUTLOOK

Demand

Inasmuch as there is no shale-oil industry in the United States, the assumption used for the future pattern of utilization of shale oil is that it will follow the patterns projected for total liquid fuels in 1980 and 2000, and that the shale-oil contribution in each section will be in the same proportion as total shale-oil demand to total liquid-fuels demand.

PROJECTED U.S. DEMAND FOR SHALE OIL

[In millions of barrels]

	1966	1980	2000
Median	0	400	1,059

Because no new major shale-oil industry is envisioned for the rest of the world, no estimate of shale-oil demand outside of the United States has been made.

There is a need for continuous evaluation of trends in petroleum-product quality and markets, and of the applicability to shale-oil demand of improvements in petroleum-refining methods as they are developed. The high level of research and development in the petroleum-refining industry and the adaptability of some petroleum-refining techniques to shale oil, mitigate the need for a major effort directed toward development of unique methods for shale-oil refining.

Supply

The extent and nature of domestic oil-shale resources are discussed in the oil-shale background profile. The rate of technologic advancement in reducing operating costs will determine how much shale oil will be produced from these resources. The relationship between operating cost and 1980 shale-oil production is shown on the following chart; the assumptions and operating costs used to develop this chart are summarized in the table below:

EFFECT OF TECHNOLOGY ON THE OPERATING COST OF PRODUCING SHALE OIL AND RELATED BYPRODUCTS FROM SURFACE INSTALLATIONS

Technology used		Year in operation	Operating cost (dollars per barrel)	
Retorting	Mining		Before by-product credit	After by-product credit
1st generation gas combustion	Room and pillar	1972	$2.10	$1.49
Above with a 60-ft. diameter retort	do	1976	1.57	.97
2d generation gas combustion	Cut and fill	1980	1.28	.31

The cost of producing shale oil is the key to when the Nation's vast oil-shale deposits will be developed. Currently, a shale-oil industry appears to be only marginally attractive; thus, reduction in cost is prerequisite if industry is to develop a meaningful shale-oil production rate of the order of at least a million barrels per day by 1980. The extent to which the goal may be met, or perhaps exceeded by a factor or two, depends on how successfuly the envisioned scale-up and technologic improvements are accomplished.

New technological devlopments that might be used to achieve the lowest possible costs in the underground mining of oil shale would be improvements in large mechanized equipment, such as self-propelled drill jumbos, electric or diesel shovels, and diesel trucks. Some further reduction of costs can be achieved through research and development on room-and-pillar configuration.

The principal improvements that might be made in open-pit technology are in the development of large-capacity machines, automation and improved methods of transporting solids.

An ideal oil-shale mining system is one that could be used to extract the full deposit thickness (up to several hundred feet), recover nearly 100 percent of the deposit, prevent land-surface damage and despoilment, and be sufficiently economical to permit extraction of substantially lower-quality shale than possible by current technology. The key elements envisioned for such a system are continuous shale breaking, inexpensive loading and haulage, and positive ground control by filling the underground voids with spent shale. As this system is developed it may be possible to retort the shale underground immediately in a mobile retort.

To reduce the expense of mining, crushing, and retorting, which make up about 60 percent of the cost of producing shale oil, retorting the shale in place should be investigated. The success of this approach will require research on method of creating permeability in the shalebed through use of high-voltage electricity, liquid nitroglycerine, hydraulic fracturing, or nuclear explosives.

Large-scale development of the oil-shale industry will create environmental problems of solid waste disposal, air and water pollution, and damage to vegetation.

Conclusions and appraisal

Although the vast domestic resources of oil shale contain the equivalent of about 70 times the present domestic proved reserves of crude petroleum, commercial development is complicated by technologic gaps and economic and environmental problems. Reduction in production costs is prerequisite to the emergence of a significant commercial shale-oil industry.

SUBCOMMITTEE MEETING DURING SENATE SESSION

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the Subcommittee on Government Research of the Committee on Government Operations be authorized to meet during the session of the Senate today.

The PRESIDING OFFICER. Without objection, it is so ordered.

ORDER OF BUSINESS

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent, without its being charged to either side, that I may suggest the absence of a quorum.

The PRESIDING OFFICER. Is there objection?

Mr. LONG of Louisiana. Mr. President, I withdraw that suggestion for a moment.

Mr. ALLOTT. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. ALLOTT. I understand I must get unanimous consent in order to speak.

The PRESIDING OFFICER. The Senator is correct.

Mr. ALLOTT. Mr. President, I ask unanimous consent that I may speak for 5 minutes.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

CONGRESSIONAL ACTIONS IN REDUCING BUDGET REQUESTS

Mr. ALLOTT. Mr. President, events of the last few hours have caused everyone in America to "reassess" and "reappraise," but one part of the President's speech which seems to have gone past most people, because most people are reassessing the political situation, has to do with the remarks which the President made with respect to the budget and our finances. I am going to read a portion of those remarks, but first I ask unanimous consent that the entire portion of his remarks beginning with "deficit of $20 billion," and going on for several paragraphs thereafter be included in the RECORD at this point.

There being no objection, the extract was ordered to be printed in the RECORD, as follows:

DEFICIT OF $20 BILLION

On many occasions I have pointed out that, without higher taxes or decreased expenditures, next year's deficit would again be around $20 billion. I have emphasized the need to set strict priorities in our spending. I have stressed that failure to act—promptly and decisively—would raise strong doubts throughout the world about America's willingness to keep its financial house in order.

Yet Congress has not acted. And today we face the sharpest financial threat in the postwar era—a threat to the dollar's role as the keystone of international trade and finance.

Last week, at the monetary conference in Stockholm, the major industrial countries took a big step toward creating a new international monetary asset that will strengthen the international monetary system.

But to make this system work the United States must bring its balance of payments to—or close to—equilibrium. We must have a responsible fiscal policy. Enactment of a tax increase now, together with expenditure control, is necessary to protect our security, continue our prosperity, and meet the needs of our people.

What is now at stake is seven years of unparalleled prosperity—in those seven years, the real inocme of the average American—after taxes—rose by almost 30%—a gain as large as that of the preceding 19 years.

The steps we must take to convince the world are exactly the steps we must take to sustain our economic strength at home. In the past eight months, prices and interest rates have risen.

We must move from debate to action. There is, I believe—in both Houses of the Congress—a growing sense of urgency that the situation must be corrected.

My budget in January was a tight one. It fully reflected an evaluation of our most demanding needs.

But in these budgetary matters, the President does not decide alone. The Congress has the power and the duty to determine appropriations and taxes.

REDUCTIONS IN BUDGET

The Congress is now considering proposals for reductions in our national budget.

As part of a program of fiscal restraint that includes the tax surcharge, I shall approve appropriate reductions in the January budget when and if Congress so decides.

One thing is unmistakably clear: Our deficit must be reduced. Failure to act could bring on conditions that would strike hardest at those people we are striving to help.

The times call for prudence in this land of plenty. I believe we have the character to provide it, and I plead with the Congress to act promptly to serve the national interest, and all the people.

Now let me give you my estimate of the chances for peace: the peace that will one day stop the bloodshed in South Vietnam, allow that people to rebuild and develop their land, and permit us to turn more fully to our tasks at home.

I cannot promise that the initiative I am announcing tonight will be any more successful in achieving peace than the more than 30 others we have undertaken and agreed to in recent years.

It is our hope that North Vietnam, after years of fighting that has left the issue unresolved, will now cease its efforts to achieve a military victory and join us in moving toward peace.

And there may come a time when South Vietnamese—on both sides—are able to work out a way to settle their differences by free political choice rather than by war.

As Hanoi considers its course, it should be in no doubt of our intentions. It must not miscalculate the pressures within our Democracy in this election year.

We have no intention of widening this war. But the United States will not accept a fake solution to this long and arduous struggle and call it peace.

No one can foretell the precise terms of an eventual settlement.

Our objective in South Vietnam has never been the annihilation of the enemy.

Mr. ALLOTT. The President said:

On many occasions I have pointed out that, without higher taxes or decreased expenditures, next year's deficit would again be around $20 billion. I have emphasized the need to set strict priorities in our spending. I have stressed that failure to act—promptly and decisively—would raise strong doubts throughout the world about America's willingness to keep its financial house in order.

Mr. President, the President went on last night in the same vein. I think, from a reading of these remarks, it must be apparent not only to all Members of Congress but to all Americans that the President pointed to Congress and said in effect, "If there are any taxes to be levied, I have already asked for them. If there are expenditures to be cut, I have asked for that, and Congress is going to have to do it."

I recently placed in the RECORD some figures on the appropriations of the Congress of the United States, which show that in the last 8 years the Congress of the United States has cut the budget of the President of the United States significantly in all but 2 years. In those 2 years the cuts were still in the neighborhood of $200 to $400 million. In the other years the cuts have been of remarkable amounts.

Last year the Congress of the United States and its Appropriations Committees were able to effect cuts in the President's budget of $6.2 billion.

I think the thing America is missing today in the significance of the President's remarks is that if there is going to be any fiscal policy in this country, if there is going to be any sensible monetary policy, if we are going to take any steps to bring our balance of payments back into normal range, Congress is the one that is going to have to take those steps. Despite the statements of the President, every Member of the Congress in both Houses knows that week after week, and month after month we see more and higher requests for additional money for the President's Great Society programs.

We are all aware of the necessity in these areas, but we cannot continue to buy guns and butter at the same time. Despite what was said last night, this is not the end of the Vietnam war. It is not the end of the cost in dollars or in lives to the American people or to the people of Vietnam.

So it seems to me appropriate today to direct attention to these particular remarks, and to say to my fellow Senators on the Committee on Finance and the Committee on Appropriations that now is the time, as we are doing here, to consider not only a tax increase, but a tax increase with decided restrictions upon expenditures.

The big problem in this country is that no one, either downtown at 1600 Pennsylvania or up here on the Hill, has been willing to set priorities. But someone, somewhere, will have to do it, and I know of no one more appropriate than the members of the Committee on Finance and the Committee on Appropriations, of which I am a member. I must take my share of the responsibility. I know of no one who can properly take the lead in those matters except the membership of those two committees.

So I hope that while we are considering here an excise tax bill, which also, as amended, includes an income tax increase and a $6 billion reduction in expenditures, we will look at these things very hard. I hope, since we have complained—and I do not like that word, but Congress has complained—that the President has taken over too many responsibilities, and, since today and last night the President has tossed this little ball of wax into the hands of Congress, that we will live up to our responsibilities. I think we can. I think we can make meaningful cuts in expenditures. I think that with such cuts—but only with such acts—we can have an increase in the income tax; and I think, with the cuts, we can provide a set of priorities and a sense of direction which this country, in my opinion, has lacked for several years.

So the challenge has been put up to us by the President. I hope that Congress will accept its responsibility, state its priorities, set out its aims for expenditure limitation, and, in addition, take such other steps as will increase the income tax and bring our balance of payments back to a more favorable position.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent to proceed for 10 minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. LONG of Louisiana. Mr. President, tomorrow we shall vote on the so-called Williams-Smathers substitute for the revenue bill which is before us.

I know that some will contend that, because of the President's historic and dramatic statement last night, we should proceed to adopt this substitute. I wish to say, Mr. President, that impressed as I was with the President's statement, it does not change my view, and I do not believe it should change the view of any Senator with regard to the vote which will occur tomorrow.

If we are to agree to a big tax increase, it is certainly within the power of Congress to do it by the thoughtful consideration and the processes that Congress has used for a great number of years. It is possible to enact a tax increase by conducting hearings and making a study of the issue, and not buying the administration's recommendation like a pig in a poke. It is possible to do so only after thoughtfully analyzing the recommendation and seeing that it is the best fashion in which the desired result can be accomplished and to bring forth what we believe is the means best calculated to meet the needs of the country.

For example, I have at the desk an amendment that could be considered, if we wanted to do it—I do not expect to call it up—which indicates how I would go about raising a large amount of revenue, if that is what we want to do. It would restore the corporation tax back to the 52-percent rate which existed prior to the 1964 tax cut. That would bring in about $2.9 billion of additional revenue. Then it would proceed to raise income taxes by what would amount to about one-third, by simply going back to the rates that existed after the first step of the 1964 tax cut on individuals. Instead of having a surtax, we would simply fix a tax increase within the rates. My proposal would then proceed to increase the rates for capital gains from 25 percent to 27½ percent.

Instead of having two taxes, we would have one tax; it would still be the income tax, and to calculate it we would have one set of rates, and that is how much we would owe. That would be a much lesser burden on most taxpayers. It would be a somewhat heavier burden on corporations, but corporations are able to stand a heavier burden.

As I say, Mr. President, I shall not suggest the imposition of that tax at this point. I am fully convinced that the House of Representatives is composed of statesmen equally as loyal, patriotic, and conscious of their duty as we are. I am convinced that the President has as many friends and sympathizers in the House of Representatives as he has here in the Senate. They have a very fine committee over there, the Committee on Ways and Means—the oldest committee in that body, I believe—which is composed of some of the most senior and most highly regarded Members of the House of Representatives. Those gentlemen, in my judgment, will initiate a tax increase—if they think the national interest requires it, if they agree with the President, and if they agree with the statements we have heard on this side of the Capitol about fiscal responsibility to whatever extent they think necessary and proper.

Furthermore, Mr. President, the Williams-Smathers substitute has certain other features not recommended by the President. In fact, it still has an item or two with which the President strongly disagrees. For example, it provides for a ceiling on Government employees, and imposes the ceiling in a way that is totally impracticable. It says that at any time that the number of employees exceeds the number employed on September 20, 1966, no vacancy can be filled unless the director of the Bureau of the Budget approves it. If a man who is the head of some particular agency, or who has the top office in a major city, were to retire, that position could not be filled unless it were cleared with the Director of the Bureau of the Budget who would be controlled to such on extent that only 50 percent of the vacancies referred to his discretion could be filled during any quarter when the number of employees exceeded the number employed on September 20, 1966.

It would make much more sense to say that, were two people to retire, only one of those two jobs, numerically speaking, could be filled. It should be left to the discretion of the person who is the head of the agency, or the personnel executive, to decide whether he wanted to fill the No. 1 slot and dismiss somebody holding a lesser job down the line rather than leave unfilled the position of supervisor.

Those who have studied the matter in the executive branch of the Government find very little reason to recommend the personnel ceiling as it would be applied by the Williams-Smathers substitute. I rather doubt that the Senator from Florida [Mr. SMATHERS] concurred in that section of the amendment, and I imagine it to be the idea of a single Senator, rather than of two Senators.

Furthermore, this $6 billion proposed cutback is more or less a figure picked out of the air. Originally $8 billion was the figure picked by the senior Senator from Delaware [Mr. WILLIAMS] when he thought up his proposal. It was based on what he believed the budget deficit would be, according to earlier administration statements—not its most recent statements—and based on the theory that we could have a balanced budget during a time when the Nation was at war—something that has never happened during my time in the Senate—and it was arrived at by taking the amount of money raised by a 10-percent surtax, reducing the estimated deficit by that amount, and then putting a freeze on expenditures for the difference.

The Senator subsequently adjusted his budget freeze downward by $2 billion, purely in the spirit of compromise. And there is no one to compromise with.

There have been suggestions from the executive branch directed toward the members of the Ways and Means Committee, and, I believe, even directed toward the senior Senator from Delaware [Mr. WILLIAMS] and the junior Senator from Florida [Mr. SMATHERS], indicating their judgment that a lesser figure would be more practicable and far more in the national interest. However, just grabbing a figure of $6 billion out of the thin air is not a practical way to arrive at the level of expenditures.

The Committee on Finance is not a committee with the expertise and knowledge to know what would be the best level at which to freeze expenditures. It is doubtful that the Committee on Appropriations, which does have the knowledge and expertise and the staff, could tell us at what level the expenditures should be frozen, until they have had an opportunity to study all the items that

might be involved and to consider all the problems involved in the matter.

Mr. President, those are just some of the considerations that occur to me. I personally believe that we should not undertake to grab the ball and run off with it until we have had a chance to see whether the House of Representatives would welcome our doing a thing such as that—in view of the constitutional requirement that revenue measures must originate in the House of Representatives.

If the House committee feels it wants to study the matter further and give more thought and study to the proposed tax increase before it recomends it to the House of Representatives, that is certainly its privilege and, in my judgment, it would be well that we recognize that.

For those reasons and for a number of other reasons, I still remain firm in my opinion that now is not the time to add some huge tax increase to a revenue measure which was merely to extend and continue excise taxes that presently exist. And while I am very much impressed by what the President said last night and am moved inwardly to accord the President greater cooperation and consideration for his program and suggestions, I do feel that this is not the way we should discharge our duty.

I believe that we could do a better job and a more thorough job if we were to conduct hearings on all aspects of the tax measure, preferably based on a bill on this subject that originates in the House of Representatives. This is a matter that the House has been studying for a year.

I doubt very much that the House would be constrained to agree to the Senate's action in this fashion if the Senate should see fit to try to impose this provision on the House by amendment to an entirely different revenue bill while it was being considered by the Senate.

Mr. President, I have been asked to insert in the RECORD a summary of the Williams-Smathers substitute amendment so the Members tomorrow, when they are called upon to vote upon this substitute, will know exactly what they are voting upon.

The provisions under the Williams-Smathers amendment can appropriately be grouped into two categories, those which appear only in the substitute and those which are in both the substitute and the underlying bill for which the substitute is offered. It is only the first category which are unique to the substitute and, therefore, are the provisions to which attention should especially be devoted.

Mr. President, I ask unanimous consent that the summary which has been prepared by the staff be inserted at this point.

There being no objection, the summary was ordered to be printed in the RECORD, as follows:

SUMMARY OF WILLIAMS-SMATHERS SUBSTITUTE AMENDMENT TO H.R. 15414

PROVISIONS WHICH APPEAR ONLY IN THE WILLIAMS-SMATHERS SUBSTITUTE

1. Reduction in the number of civilians employees in the Executive Branch (sec. 2): The substitute provides that no vacancy in the executive branch is to be filled, except as determined by the Director of the Bureau of the Budget, during the period the aggregate number of employees in the executive branch exceeds the aggregate number employed on September 20, 1966. However, the Director may authorize the filling of not more than 50 percent of the aggregate number of vacancies. The following executive agencies are excluded from the operation of this provision: the Department of Defense, the postal field service, the CIA (as a result of a floor amendment), and the Federal Bureau of Investigation. Also excluded are certain casual employees, employees employed without compensation, employees appointed by the President with the advice and consent of the Senate, and employees transferred between positions within the same department or agency.

2. Limitation on expenditures during fiscal year 1969 (Sec. 4): The substitute provides that budget expenditures are not to exceed $180 billion ($6 billion less than the budget calls for) except by—(1) expenditures in excess of $25 billion necessary for the military effort in Southeast Asia, (2) expenditures for interest in excess of the budget amount, (3) expenditures for veterans benefits in excess of the budget amount, and (4) expenditures from Social Security trust funds in excess of the budget amount. In the case of categories (3) and (4) the only excess amounts to be taken into account are those provided for by law on March 1, 1968.

3. Reexamination of the Budget (Sec. 5): The substitute directs the Director of the Bureau of the Budget to reexamine the budget to submit to Congress within 30 days after date of enactment a report setting forth proposed reductions in obligational authority of at least $10 billion and priorities for allocating the reductions among the various Government agencies and activities in a manner which least impair the efficiency of the Government.

4. Tax Surcharge (sec. 7): The substitute imposes a 10 percent income tax surcharge applicable both to individuals and corporations. In the case of individuals the surcharge is effective for the period from April 1, 1968 through June 30, 1969, a period of 15 months. In the case of corporations the surcharge is effective from January 1 1968, through June 30, 1969, a period of 18 months. The surcharge in the case of individuals, does not apply in the case of the first two brackets, or up to the level of $1,000 of taxable income in the case of a single person and $2,000 of taxable income in the case of a married couple. The withholding, in the case of individuals, begins the 10th day after date of enactment. It is estimated that this provision will raise $9.8 billion of revenue in the fiscal year 1969 and $1.9 billion in the fiscal year 1968.

Provisions which appear in both the Williams-Smathers substitute and the bill to which the substitute is offered.

1. Excise Taxes: Both bills continue the existing 7 percent excise tax on passenger automobiles until December 31, 1969, and then provide for the gradual reduction and eventual elimination of the tax. They also continue the existing 10 percent tax on telephone services until December 31, 1969, and then provide for the gradual reduction and eventual elimination of the tax.

2. Payment of Estimated Tax by Corporations: Both bills provide for the reduction of the present $100,000 corporate exemption from the estimated tax payments requirement to $5,500. They also provide for increasing from 70 percent to 80 percent the liability which a corporate taxpayer must pay in estimated tax payments to avoid an addition to tax.

3. Quick Refund of Overpayment of Estimated Tax by a Corporation: Both bills provide for a quick refund of an overpayment of estimated tax by a corporation if the overpayment exceeds the corporation's expected tax by at least 10 percent and the excess amounts to at least $500.

4. Timely Mailing of Deposits: Both bills provide that where a taxpayer mails a deposit of tax two or more days before the prescribed due date, the mailing is to be considered a timely deposit even though the deposit is received after the due date.

5. Interest on industrial development bonds: Both bills provide that interest on so-called industrial development bonds is to be excluded from income tax under the code in accordance with regulations prescribed by the Treasury Department, as in effect on March 13, 1968, and in accordance with the principles set forth in certain prior revenue rulings.

6. Termination of exempt status of industrial revenue bonds: Both bills provide that interest on industrial development bonds is not to be considered tax exempt under the Internal Revenue Code. This applies only to bonds issued after December 31, 1968. Industrial development bonds do not include debt with respect to recreational facilities for the general public; debt with respect to facilities for holding a convention, trade show, etc.; debt with respect to an airport, flight training facility, dock, wharf, grain storage facility, parking facility, or similar transportation facility; debt for facilities for furnshing electric energy, gas, water, sewage or solid waste disposal, or air or water pollution abatement; or debt for facilities owned by a State or local government and used in an active trade or business.

7. Public Welfare Amendments: (a) Repeal of limitation on Federal participation in aid to families with dependent children. Both bills remove the limitation set by the Social Security Amendments of 1967 on Federal financial participation in the AFDC program based on the proportion of the child population under age 18 aided because of the absence of a parent from the home. Under the limitation, this proportion is calculated based on the child population in each State on January 1, 1968, and the average monthly number of children dependent because of the absence of a parent during the first calendar quarter of 1968. The limitation becomes effective July 1, 1968.

(b) Assistance to families with unemployed fathers. Both bills repeal the requirement established by the Social Security Amendments of 1967 that in order for a dependent child to qualify for assistance (in which the Federal Government participates) on the basis of the unemployment of his father, the father must meet certain tests of prior attachment to the labor force. The bills also remove the absolute prohibition on payment of assistance (with Federal participation) to a family when the father receives any amount of unemployment compensation during the same month. Under the bills, the choice as to whether unemployment compensation payments can be supplemented is left to the States.

(c) Medical Assistance (Medicaid). Both bills extend, from January 1, 1968, to January 1, 1970, the period in which the Federal Government is to continue to make matching payments, under Medicare Part B coverage, for medical services to welfare recipients of a State which has not elected such coverage.

8. Advertising Income of Exempt Organization Publishing Periodical Substantially Related to Exempt Purpose: As a result of a floor amendment, both bills provide that the advertising income which an exempt organization receives in publishing a periodical is to be exempt from tax if the publication of the periodical is substantially related to the exempt activities of the organization.

9. Advertising in a Political Convention Program: As a result of a floor amendment, both bills allow a deduction for expenses paid or incurred on or after January 1, 1968, for advertising in a program at a political convention held to nominate candidates for President and Vice President. To be deducti-

ble, the expenses must meet certain tests designed to insure that the expenses are reasonable advertising expenses, and the funds must be used only for convention expenses.

10. Tax Exemption for Certain Hospital Service Corporations: As a result of a floor amendment, both bills accord tax-exempt status to certain entities which provide joint services to hospitals which themselves are tax-exempt.

11. Proposals for Tax Reform: As a result of a floor amendment, both bills require the President to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code not later than December 31, 1968.

12. Foreign Nations Indebted to the United States: As a result of a floor amendment, both bills require the Secretary of the Treasury to demand payment of arrears from all countries that are more than 90 days in arrears in the payment of principal or interest on debts owed the United States. The amendment further provides that dollars presented to the Treasury by a country that is in arrears are not to be redeemed in gold but instead are to be credited against the debts owed by the country to this country.

13. Textile Import Quota System: As a result of a floor amendment, both bills impose certain quotas on imports of specified textiles effective 180 days after the date of enactment.

ORDER OF BUSINESS

Mr. McINTYRE. Mr. President, I ask unanimous consent that, notwithstanding rule VIII, I be permitted to speak for 25 minutes on a matter not germane to the pending business.

The PRESIDING OFFICER. Is there objection? The Chair hears none, and it is so ordered.

AIR TRAFFIC CONTROL SAFETY

Mr. McINTYRE. Mr. President, located at Nashua, N.H., is one in the network of air traffic control centers in America. Under the supervision of the Federal Aviation Agency the Nashua station plays an important role in all safety in the Boston area and all along the northeastern region. I have visited this installation on a number of occasions and have marveled at the job being performed here for our air traveling public. But, Mr. President, the growth of our travel of all sorts in America has begun to take its toll on the men—the controllers who operate this Nashua, N.H., installation.

Mr. President, the volume of aircraft traffic in the United States is truly exploding. In just one area—commercial airline traffic—in the first 10 weeks of this year there was an increase of 23 percent over the corresponding period of 1967. However, projected volumes of aircraft operations from 1965 to 1980—"Aviation Demand and Airport Facility Requirement Forecasts for Large Air Transportation Hubs Through 1980," published in August of 1967—dwarf this modest increase.

I ask unanimous consent that these forecasts of future air transportation be printed at this point in the RECORD.

There being no objection, the forecasts were ordered to be printed in the RECORD, as follows:

	1965	1980	Percent of increase
Aircraft operations (millions)	20.3	74.6	269
Air carrier (millions)	3.8	9.1	143
General aviation (millions)	15.9	65.1	309
Enplaned passengers (millions)	69.5	370.6	433
Scheduled aircargo (tons)	1.3	19.7	1,377

Mr. McINTYRE. Mr. President, a 1962 analysis of the density of registered aircraft per square mile for the large English-speaking nations shows that Canada had one aircraft per 1,000 square miles, the United Kingdom, one per 60, and the United States, one per 28. A current figure would no doubt alter these figures to show even more crowded conditions in this country. Obviously, unless such traffic were under control, the consequences would be tragic. Control does exist under the jurisdiction of the Federal Aviation Administration. But few air travelers know how complete and how complicated it is or how remarkable its record of accomplishments.

From the moment the door of a commercial aircraft is closed and the mobile stairway removed, the movements of the plane—on the ground, through takeoff, en route to destination, landing and taxiing to the airline terminal—are under the overall control, not of the pilot, navigator and crew, but of a group of dedicated Government employees known as air traffic controllers.

These men work in the glass enclosed towers one sees in 370 American airports, giving clearance to planes as they taxi to and from the landing and departure strips. They work in darkened rooms, deep within these same towers, staring hour after hour at the eerie light of radar screens, talking to pilots of incoming and outgoing aircraft, keeping them separated safely one from the other, holding some aloft in carefully prescribed areas and specified altitudes, while others are landed in coordination with those taking off. They work in similar rooms in the 21 air traffic control centers throughout the country, controlling the flights of planes after they leave the range of local control facilities.

It is the unique and tremendous responsibility of these men to safeguard the lives of the 100 million passengers and crews of aircraft soon to be traveling the air highways of America. It is a task which with the mushrooming volume of air traffic daily becomes more difficult for these men to perform, more demanding on their health and more dependent on their judgment.

Without being an alarmist, Mr. President, let me say that it is a well-known fact within the aviation industry that there are not enough of these trained men available in the air traffic control network. Those already available and working are dissatisfied. Their morale is sinking. Their job tenure is comparatively short. They are leaving Government service for positions in private industry that carry less awesome responsibilities and provide greater income. At the same time, the program to recruit additional air traffic controllers suffers from lack of financial incentive for students and outmoded civil service restrictions against rapid advancement.

An examination into the reasons for this situation reveals that something more than 2 years ago, cutbacks in appropriations within the FAA brought to a virtual halt the recruitment program for controllers. Mr. Archie League, former Director of Air Traffic for the FAA and now Assistant Administrator for appraisal, put it this way:

> Our pipeline of supply for new controllers was shut off.

In addition, research and development programs for new traffic control equipment were downgraded so that equipment now in use is below the quality and capability of newer equipment already available. What we have then in the high density traffic control facilities is a condition comparable to that of a military unit facing an enemy force, but doing it with insufficient manpower, low morale, and inadequate firepower.

It is not as though the rising volume of air traffic was unforeseen when the curtailment of funds took place. It was not as though this curtailment was in an area which might have been considered a luxury. Rather, it came in an area immediately concerned with the safety of millions of traveling Americans. Under the circumstances, I must conclude that the economy was false. And that it has resulted in a most serious and pressing necessity for correction.

Even with a "crash" program of recruiting under which an additional 1,200 traffic controllers have been authorized, the present shortage of qualified personnel cannot immediately be filled. This is due to the length of the training program and to "Whitten amendment restrictions" on advancement through the various grades of the Civil Service System.

An interview with Mr. Walt Buechler, chief of the air traffic branch, New York area, disclosed a typical schedule of progress for an air traffic control trainee. The applicant is selected from the civil service registers.

I ask unanimous consent that this typical schedule be printed at this point in the RECORD.

There being no objection, the schedule was ordered to be printed in the RECORD, as follows:

First 6 months, GS–6: Applicant is assigned to facility for which he has been recruited and in which a vacancy exists. His first 5 weeks are occupied with basic classroom training in the academic phases of Air Traffic Control. He learns the procedures and functions of the various types of facilities in the over-all system. The remaining portion of his first 6 months training period is spent in learning particularly about the installation in which he will work: its own geographical features, its own weather patterns, its operational procedures, etc.

From 7 to 18 months, GS–8: With fully qualified Radar Controller as his goal, the trainees now works on Flight Data, passing by telephone items of information regarding aircraft clearance, flight plans, departure times and other routine information between tower and center facilities. Assuming his progress has been satisfactory, he becomes eligible at the end of the 18-month period for advancement to GS–10.

From 18 to 30 months, GS–10: During this period he works on Clearance Delivery, he is allowed to contact planes on the ground by means of radio. He goes through "on the job" training for advancement to GS–11.

From 30 to 42 months, GS–11: Now he is qualified to speak to pilots by radio after their planes leave terminal positions. He controls them through the taxiing to runway phase of their flights before passing them on to local radar control. During the final 6 months of this period, he may, if qualified, serve as an associate Radar Controller, working as an assistant to fully qualified Radar Controllers but still not eligible for talking to pilots of planes in flight. At the end of this period, if found capable by supervisory personnel, he becomes a fully qualified GS–12 Radar Controller.

Mr. McINTYRE. It is noteworthy that a period of 3½ years expires from the time an applicant is accepted as a trainee until he becomes a qualified radar air traffic controller.

There has been a recent and intensive effort on the part of the FAA to augment the recruiting of traffic control trainees and to cut down the length of time required to provide fully qualified radar controllers. The effort is two-pronged. First, to create greater incentive in air traffic control as a profession, the Civil Service Commission has tentatively revised the job standards of controllers so as to bring about grade raises later this year for about 4,000 of the 17,000 controllers by July, and eventually for many others. At the present time, the controllers start at grade 6, and their career step-ups are grades 8, 9, 10, 11, and 12. The Civil Service Commission has proposed that they be started at grade 7 and follow the regular route up through grades 9, 11, 12, and 13.

To qualify as a trainee at grade 7, the applicant must have a college degree and at least a year of training. The top grade 13 jobs would be confined to towers and centers in high-density traffic areas, such as New York, Chicago, Boston, Washington, and Los Angeles.

In addition, a new effort, based on a cooperative agreement between the Civil Service Commission and the FAA proposes to accept men who have had previous air traffic control experience in the armed services into the Federal system at the grade 10 level. This would cut the time between entering the system and qualifying as radar controllers to a maximum of 24 months instead of the 42 now required.

The demand for these new men is now desperate. More than half of them accepted as trainees are, for one reason or another, not satisfactory. They quit because they do not like the job—because it is not attractive to them or they are not qualified and they are forced out. So the pressure mounts upon the men presently employed in the high-density traffic areas. It is pressure almost impossible to describe. But day in, day out, whenever an aircraft is in flight, there is a partnership between a group of men in its cockpit and a group of men on the ground. The failure of any of these men can result in disaster.

In a talk in New York before a group of air traffic controllers, F. Lee Bailey, the prominent attorney, said:

There is no rule or law directive from the FAA which directs how many planes may arrive at a given point at a given time. They arrive spontaneously because they chose to go there. At any time, the ground controller may be hit with thirty targets on his radar screen that he did not intend to have. It is his responsibility to get them all down, each of them safely.

This kind of a job requires more than intelligence and ability. It also requires vigor and resiliency which are by-products of youth.

In a report published in Aerospace Medicine, February 1968, is the following conclusion:

Based on training entry age, it was found that the older recruits—particularly those over 40—were more apt either to fail the initial 8 week training course or to pass with only marginal grades. More importantly, the analysis of posttraining data indicated that the older individuals were much more likely to: either leave or be separated from the FAA; transfer to another type of work; or be reported by their supervisors . . . as undesirable, potentially hazardous, or less than fully satisfactory in the performance of duties.

An earlier report, also published in Aerospace Medicine, of April 1964 says:

The only conclusion possible is that a strong inverse relationship exists between age at entry into training and subsequent training and job performance. If an individual were 33 years of age or older at the time he entered air traffic control specialist training, his chances of completing training and being considered satisfactory on the job were approximately 1 in 6. On the other hand, if he were younger than 33, his chances of completing training and being considered satisfactory on the job were approximately 1 in 2. Therefore, in the interests of air safety, fiscal responsibility, and for humanitarian reasons an upper age limit should be established.

From the above reports, one must conclude that the profession of radar air traffic controller is a young man's game. The controller's maximum effectiveness lasts over a 15 year span. The ideal age for enrollment of trainees is from the middle to upper twenties. Thus, the controller is past peak efficiency before he reaches his 45th birthday. Conversation with FAA officials disclosed the fact that with an anticipated 20,000 controllers in the near future, the attrition would eventually level off at approximately 1,200 per year. In an era when old age security is important to younger men seeking careers—and with the opportunity for administrative or executive jobs in air traffic control severely limited—there is no particular appeal to a profession for which the qualification standards are so high and the income levels so low.

Although the workload of the controller at La Guardia far exceeds that of the man in Denver, due to the rigidity of civil service regulations, they are paid at the same rate. At the same time, the cost of living in the New York area is higher than that in less congested regions. But when job opportunities open in more desirable locations, the New York controller is frozen in his present position because no replacement is available.

Many of the personnel problems were disclosed in a study of air traffic delays in the New York region by the Air Transport Association of America, a trade and service organization of the scheduled airlines. In a section devoted to "personnel" the report stated:

STAFFING

Since controller workload is directly related to factors such as volume and weather, which vary widely and may be unpredictable from day to day and shift to shift, the problem of staffing is complex; especially since the training of new controllers has been almost non-existent for the past four years. A program of hiring and training has recently been announced, but since the training of a qualified controller requires approximately two years, the problem of staffing will continue for some time.

It was the opinion of the observers that staffing in the New York Center was adequate during the periods of observation. However, much of the staffing during these periods was accomplished through the utilization of overtime and frequently through the use of "holdovers" from a previous shift for a period of four to six hours. It is obvious that the efficiency of a controller must be lessened after 12 or more hours of continuous duty and the use of "holdovers" should only be resorted to in emergencies.

TECHNIQUE

It was noted in the New York Center that while all controllers possessed the basic ability to handle traffic—whether light or heavy—and to handle emergencies which are unexpectedly presented, there is a wide variation in technique employed to accomplish the job. The controller is given wide latitude in determining the necessity for starting holds either at inner or outer fixes and the determination of aircraft separation (10 miles in-trail, for example). This is a difficult area in which to accomplish reform. However, the FAA should pursue a training program for technique standardization in order to increase the overall efficiency of air traffic control personnel.

GENERAL MORALE

The controllers do an excellent job with the facilities with which they have to work. For the most part, they are interested in doing the best possible job of keeping the traffic flowing and their "esprit" remains good. However, they are unhappy about basic working conditions, meal breaks, overtime, vacation policy, etc., when they compare their gains with those made by others with similar responsibilites. Overtime is a particular source of irritation as under present regulation, for example, a man called for involuntary Sunday overtime earns less per hour than if it were his scheduled workday.

Another common complaint is that it is next to impossible to transfer to another center when a job opportunity arises, inasmuch as a controller cannot obtain a release from New York because no trained replacements are available.

The suggestion plan is apparently ineffective and poorly administered. Controllers complain that there is no point in submitting suggestions for procedural change as management is unreceptive. If so, this is most undesirable. Any suggestion should be reviewed for merit and the sender should be apprised of the reasons for its acceptance or rejection.

Unfortunately, no good yardstick exists today for adequate comparison of facility workload. The New York Center controller feels that he works harder to control a given number of aircraft than, for example, a Denver Center controller, due to route complexity and flow patterns. An effective comparison of workload should not be based merely on the number of aircraft movements, but it should reflect a ratio of productivity to the capacity of the facility. An evaluation of this sort will not only serve to evaluate the workload of the employee for pay purposes, but will give an index to the efficiency of the center sectarization, route structure and flow patterns.

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued April 3, 1968
For actions of April 2, 1968
90th-2nd; No. 55

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HIGHLIGHTS: Senate passed tax and expenditure-control bill. Senate committee reported bill to liberalize loans and grants for disaster relief. House committee voted to report poultry inspection bill. House committee voted to report D. C. extension service bill. Sen. Talmadge introduced and discussed honey promotion bill.

SENATE

1. TAXATION; EXPENDITURES; PERSONNEL. Passed, 57-31, with amendments H. R. 15414, the tax and expenditure-control bill, after agreeing to, 53-35, the Williams-Smathers amendment (in the nature of a substitute), as amended (pp. S3749-75). Senate and House conferees were appointed (pp. S3774, H2465). As passed, the bill includes the following provisions: Provides that no vacancy in the executive branch may be filled, except as determined by the Budget Bureau, during

the period the aggregate number of employees in the executive branch exceeds the aggregate number employed on Sept. 20, 1966. Authorizes the Budget Bureau to permit the filling of not more than 50% of the vacancies. Excludes from this limitation certain casual employees, without-compensation employees, Presidential appointees confirmed by the Senate, employees transferred between positions in the same department or agency, and employees of Defense, postal field service, CIA, and FBI. Provides that expenditures are not to exceed $180 billion ($6 billion less than the budget calls for) except by (1) expenditures over $25 billion necessary for the military effort in Southeast Asia, (2) expenditures for interest in excess of the budget amount, (3) expenditures for veterans benefits in excess of the budget amount, and (4) expenditures from Social Security trust funds in excess of the budget amount. Directs the Budget Bureau to reexamine the budget and submit to Congress within 30 days after enactment a report setting forth proposed reductions in obligational authority of at least $10 billion and priorities for allocating the reductions among the agencies and activities. Imposes a 10% income-tax surcharge applicable to individuals and corporations. Provides that interest on certain previous industrial development bonds is to be excluded from income tax but that such interest for certain new bonds is subject to tax. Imposes quotas on textile imports. Denies gold sales to nations behind in debt repayments to the U. S. Requires the President to submit to Congress proposals for a comprehensive tax reform.

2. DISASTER RELIEF. The Public Works Committee reported with amendment S. 438, to liberalize provisions for loans and grants by the Farmers Home Administration and other agencies for areas suffering a major disaster (S. Rept. 1073). p. S3734

3. LAND TRANSFER. Passed as reported H. R. 11527, to release conditions in a deed conveying certain lands to the University of Maine and permit the university, subject to certain conditions, to dispose of such lands. p. S3728

4. FISH CONCENTRATE. Passed without amendment S. 3030, to increase the authorization for development, through the use of an experiment and demonstration plant, practicable and economic means for the production by the commercial fishing industry of fish protein concentrate, from $1 million to $1.9 million. p. S3775

5. FIRE CONTROL. Sen. Hollings inserted a S. C. Legislature resolution urging legislation for expanded rural fire control. p. S3733

6. FARM PROGRAM. Received from the Kans. Legislature a resolution urging that this Department "be requested to continue the present program of making advance payments under the federal agricultural program." p. S3732

7. TOBACCO. Sen. Talmadge inserted a Ga. Legislature resolution "opposing the Proposed Marketing Agreement and Order regulating the handling of Flue-cured tobacco." pp. S3733-4

8. FREIGHT RATES. Sen. Metcalf praised Secretary Freeman's request that the Interstate Commerce Commission "cancel the $300 million freight rate increase granted to railroads in February." He stated the Secretary's "petition pointed out the undue burden forced on agricultural producers by the ICC action," and inserted a press release on the subject. p. S3742

90TH CONGRESS
2D SESSION

H. R. 15414

IN THE SENATE OF THE UNITED STATES

APRIL 2, 1968

Ordered to be printed with the amendments of the Senate

[Strike out all after the enacting clause and insert the part printed in italic]

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

~~SECTION 1. SHORT TITLE, ETC.~~

~~(a) SHORT TITLE. This Act may be cited as the "Tax Adjustment Act of 1968".~~

~~(b) AMENDMENT OF EXISTING LAW. Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference~~

shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications)

is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 3. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relat-

ing to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its income tax imposed by section 11 or 1201(a), or such subchapter L, for such taxable year, reduced by the credits against tax provided by part IV of subchapter A of chapter 1, can reasonably be expected to exceed $40.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33½	33½	33½
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	The exclusion percentage is—
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment

(if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For pur-

poses of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201 (a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d) (3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (c) of section 6655 (relating to definition of tax) is amended to read as follows:

"(c) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1, and

"(ii) in the case of a taxable year beginning after December 31, 1967, and before Jan-

uary 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by the lesser of—

"(A) $100,000, or

"(B) the excess determined under paragraph (1) without regard to such clause (ii).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) AJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after

the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an

application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the

estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) The tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

~~(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:~~

~~"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—~~

~~"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.~~

~~"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—~~

~~"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds~~

~~"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."~~

~~(c) CONFORMING AMENDMENTS.—~~

~~(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".~~

~~(2) Section 243(b)(3)(C)(v) is amended by striking out "$100,000 exemption" and inserting in lieu thereof "$100,000 amount under section 6154(c)(2)(A) and section 6655(c)(2)(A)".~~

~~(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".~~

~~(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015".~~

~~(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".~~

~~(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu there "section 6154(c)".~~

~~(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.~~

~~(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.~~

~~(9) The table of sections for subchapter B of~~

chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 4. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(c) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SECTION 1. SHORT TITLE.

This Act may be cited as the "Balance of Payments and Domestic Economy Act of 1968".

SEC. 2. REDUCTION IN NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) During any period in which the aggregate number of full-time civilian officers and employees (including the *full-time equivalent of part-time employment) in the execu-*

tive branch of the Government exceeds the aggregate number employed on September 20, 1966, no vacancy in any office or position in any department or agency in the executive branch of the Government resulting from the resignation, retirement, transfer, removal, or death of the incumbent of such office or position shall be filled, except pursuant to a determination of the Director of the Bureau of the Budget (hereinafter referred to as the "Director") under subsection (b).

(b) The Director shall make continuing studies of the personnel needs of the various departments and agencies of the Government during any period referred to in subsection (a), and shall determine which of the vacancies occurring in such departments and agencies may be filled. Such determinations shall be so made that the aggregate number of vacancies filled during any calendar quarter, beginning with the quarter ending June 30, 1968, in the executive branch of the Government, shall not exceed 50 percent of the aggregate number of vacancies occurring during such quarter. The determinations of the Director under this subsection shall be made on the basis of the relative needs of the various departments and agencies for personnel, having in mind the importance to the national health, security, and welfare of

their respective functions and activities. Such determinations may be made by such appropriation units or organization units as the Director may deem appropriate.

(c) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(d) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(e) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending June 30, 1968, a report of his activities under this section.

(f) This section shall not apply to officers and employees in the Department of Defense, the Central Intelligence Agency, the postal field service, and the Federal Bureau of Investigation, to employees of the Tennessee Valley Authority engaged in its power program and paid exclusively from other than appropriated funds, to casual employees, as defined by the Director, employees employed without compensation, to offices filled by appointment by the Presi-

dent, by and with the advice and consent of the Senate, or to offices or positions filled by transfer from another position within the same or other department or agency, except that such employees, offices, and positions shall be taken into consideration in determining the aggregate number of officers and employees for the purposes of subsection (a).

(g) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

(h) This section shall take effect on April 1, 1968.

SEC. 3. LIMITATION ON EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures under the budget of the United States (referred to in the 1968 state of the Union address of the President as totaling $186,100,000,000 during the fiscal year ending June 30, 1969, shall not exceed $180,100,000,000, except by—

(1) those expenditures in excess of $25,000,000,000 that the President may determine are necessary in behalf of our military effort in Southeast Asia,

(2) those expenditures for interest in excess of the amounts shown for interest in the budget of the United States for such fiscal year,

(3) those expenditures for benefits administered by the Veterans' Administration under the provisions of title 38, United States Code, or any other veterans' benefit law, in excess of the amounts shown for such expenditures in the budget of the United States for such fiscal year,

(4) those expenditures from trust funds established by the Social Security Act, as amended, in excess of the amounts shown for such expenditures in the budget of the United States for such fiscal year, and

(5) those expenditures from power proceeds, including the proceeds of power revenue bonds and notes, of the Tennessee Valley Authority in excess of the amount shown for such expenditures in the Budget of the United States for such fiscal year.

For purposes of paragraphs (3) and (4), there shall be taken into account only those expenditures required to be made under laws enacted prior to March 1, 1968.

(b) To effectuate the provisions of subsection (a), the President shall reserve from expenditure such amounts from such appropriations or other obligational authority, heretofore or hereafter made available, as he may prescribe.

SEC. 4. REEXAMINATION OF THE BUDGET.

The Director of the Bureau of the Budget is directed to

make a full and complete reexamination of the budget of the United States Government for the fiscal year 1969, and to submit to the Congress, within 30 days after the date of the enactment of this Act, a report setting forth (1) proposed reductions aggregating at least $10,000,000,000 in obligational authority requested therein for such fiscal year, and (2) priorities for allocation of such reductions among the various agencies and activities of the Government in such manner as, in the judgment of the Director, will least impair the efficiency of the operation of the Government as a whole.

SEC. 5. AMENDMENT OF EXISTING LAW.

Except as otherwise expressly provided, whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 6. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B)

are taxable at whichever of the following rates is applicable:

"If the article is sold—	*The tax rate is—*
Before January 1, 1970	*7 percent*
During 1970	*5 percent*
During 1971	*3 percent*
During 1972	*1 percent.*

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412 (a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "April 1, 1968, or January 1, 1969" and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	*Percent—*
Before January 1, 1970	*10*
During 1970	*5*
During 1971	*3*
During 1972	*1."*

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect March 31, 1968.

SEC. 7. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be $40 or more.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated

tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	*The following percentages of the estimated tax shall be paid on the 15th day of the—*			
	4th month	*6th month*	*9th month*	*12th month*
Before the 1st day of the 4th month of the taxable year	*25*	*25*	*25*	*25*
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		*33⅓*	*33⅓*	*33⅓*
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			*50*	*50*
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				*100*

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) the amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for the taxable year, and

"(iii) in the case of a taxable year be-

ginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under paragraph (3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) EXCLUSION PERCENTAGE.—For purposes of paragraph (2) and section 6655(e), the term 'exclusion percentage' means—

"In the case of a taxable year beginning in—	*The exclusion percentage is—*
1968	*80 percent*
1969	*60 percent*
1970	*40 percent*
1971	*20 percent.*

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been pay-

able if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be), by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign

corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) the amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for the taxable year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)) multiplied by—

"(A) the lesser of (i) $100,000, or (ii) the excess determined under paragraph (1) without regard to classes (ii) and (iii) of paragraph (1)(B), reduced by

"(B) the amount determined under clause (ii) of paragraph (1)(B).

"(3) SPECIAL RULE FOR SUBSECTION (d) (1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the exclusion percentage shall be the percentage applicable to the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of

carry out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.— Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.— The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount esti-

mated by the corporation on its application as its income tax liability for the taxable year, and (B) $500.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated

income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE AJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during

the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"(v) surtax exemption, and one $100,000 amount under section 6154(c)(2)(A) and section 6655(e)(2)(A), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax."

(3) Section 6020(b)(1) is amended by striking out "section 6015, or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "section 6015 or section 6016" and inserting in lieu thereof "section 6015),".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015,".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—

(1) IN GENERAL.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

(2) SPECIAL RULE FOR PAYMENT OF ESTIMATED TAX BY CORPORATION DUE ON APRIL 15, 1968.—Notwithstanding any provision of the Internal Revenue Code of 1954, if and to the extent any payment of estimated tax required of any corporation on April 15, 1968 (without regard to the application of this provision), is attributable to the enactment of this Act, such payment shall be due, and for all purposes of such Internal Revenue Code shall be deemed to be due, at such time not later than 30 days after such date as the Secretary of the Treasury or his delegate shall prescribe.

SEC. 8. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, prop-

erly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 9. INTEREST ON INDUSTRIAL DEVELOPMENT BONDS.

(a) EXCLUSION FROM GROSS INCOME.—Until otherwise provided by law hereafter enacted, interest on obligations which are so-called industrial development bonds shall be excluded from gross income under section 103 of the Internal Revenue Code of 1954 in accordance with—

(1) the regulations prescribed under such section by the Secretary of the Treasury or his delegate, as in effect on March 13, 1968, and

(2) the principles set forth in Revenue Ruling 54–106 (CB 1954–1, 28), Revenue Ruling 57–187 (CB 1957–1, 65), and Revenue Ruling 63–20 (CB 1963–1, 24).

(b) RULINGS.—The Secretary of the Treasury or his

delegate is authorized and directed to issue ruling letters with respect to so-called industrial development bonds in conformity with the provisions of subsection (a).

SEC. 10. INDUSTRIAL DEVELOPMENT BONDS.

(a) Section 103 (relating to interest on certain governmental obligations) is amended by relettering subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) INDUSTRIAL DEVELOPMENT BONDS.—

"(1) SUBSECTION (a)(1) NOT TO APPLY.—Any industrial development bond (as defined in paragraph (2)) issued after January 1, 1969, shall not be considered an obligation described in subsection (a)(1).

"(2) INDUSTRIAL DEVELOPMENT BOND DEFINED.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'industrial development bond' means an obligation the payment of the principal or interest on which is—

"(i) secured in whole or in part by a lien, mortgage, pledge, or other security interest in property of a character subject to the allowance for depreciation, or

"(ii) secured in whole or in part by an interest in (or to be derived primarily from) payments to be made in respect of money or

property of a character subject to the allowance for depreciation

which is or will be used, under a lease, sale or loan arrangement, for industrial or commercial purposes.

"(B) EXCEPTIONS.—For purposes of subparagraph (A), property shall not be treated as used for industrial or commercial purposes if it is used—

"(i) to provide entertainment (including sporting events) or recreational facilities for the general public;

"(ii) to provide facilities for the holding of a convention, trade show, or similar event;

"(iii) as an airport, flight training facility, dock, wharf, grain storage facility, parking facility, or similar transportation facility;

"(iv) in the furnishing or sale of electric energy, gas, water, sewage or solid waste disposal services or air or water pollution abatement facilities; or

"(v) in an active trade or business owned and operated by any organization described in subsection (a)(1)."

(b) The amendment made by subsection (a) shall apply with respect to taxable years ending after January 1, 1969.

SEC. 11. INCOME FROM ADVERTISING IN PERIODICALS OF TAX EXEMPT ORGANIZATIONS.

(a) Section 513(a) (defining unrelated trade or business) is amended by striking out the period at the end of paragraph (3) and inserting in lieu thereof "; or", and by adding after paragraph (3) the following new paragraph:

"(4) which consists of activities of soliciting, selling, and publishing commercial advertising in a periodical published by the organization, if the publishing of such periodical (except for such advertising) is substantially related to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting the basis for its exemption under section 501 (or, in the case of an organization described in section 511(a)(2)(B), to the exercise or performance of any purpose or function described in section 501(c)(3))."

(b) The amendment made by subsection (a) shall apply to taxable years to which the Internal Revenue Code of 1954 applies.

SEC. 12. TAX EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS.

(a) Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes, if—

"(1) such organization is organized and operated exclusively to perform services—

"(A) of a type which, if performed on its own behalf by a hospital which is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), would constitute an integral part of its exempt activities; and

"(B) solely for hospitals each of which is—

"(i) an organization described in subsection (c)(3) which is exempt from taxation under subsection (a),

"(ii) a constituent part of an organization described in subsection (c)(3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c)(3), or

"(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

"(2) such organization is organized and operated on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5)."

(b) The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 13. ADVERTISING IN A POLITICAL CONVENTION PROGRAM.

(a) Section 276 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

"(c) ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in con-

nection with a convention held for the purpose of nominating candidates for the office of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive directly as a result of such advertising or is reasonable in light of the business expected to be brought by such convention to the area in which the taxpayer has a principal place of business."

(b) This section shall be effective with respect to amounts paid or incurred on or after January 1, 1968.

SEC. 14. AMENDMENTS TO TITLE IV OF THE SOCIAL SECURITY ACT.

(a)(1) Section 403(a) of the Social Security Act is amended by striking out "(subject to subsection (d))" in the matter preceding paragraph (1) thereof.

(2) Section 403(d) of such Act is repealed.

(b)(1) Section 407(b)(1)(A) of the Social Security Act is amended by adding "and" at the end thereof.

(2) Section 407(b)(1)(B) of such Act is amended by striking out ", and" at the end thereof and inserting in lieu thereof "; and".

(3) Section 407(b)(1)(C) of such Act is repealed.

(c) Section 407(b)(2)(C) of the Social Security Act

is amended by striking out "such child's father" and all that follows and inserting in lieu thereof "such child's father is not currently registered with the public employment office in the State."

(d)(1) Subsection (c) of section 407 of the Social Security Act is amended to read as follows:

"(c) Notwithstanding any other provisions of this section—

"(1) a State plan may, at the option of the State, provide for denial of all (or any part) of the aid under the plan with respect to a dependent child as defined in subsection (a) to which any child or relative might otherwise be entitled for any month if the father of such child received unemployment compensation under an unemployment compensation law of a State or of the United States for any week any part of which is included in such month, and

"(2) expenditures pursuant to this section shall be excluded from aid to families with dependent children (A) where such expenditures are made under the plan with respect to any dependent child as defined in subsection (a), (i) for any part of the 30-day period referred to in subparagraph (A) of subsection (b)(1), or (ii) for any period prior to the time when the father satisfies subparagraph (B) of such subsection, and (B)

if, and for as long as, no action is taken (after the 30-day period referred to in subparagraph (A) of subsection (b)(2)), under the program therein specified, to refer such father to the Secretary of Labor pursuant to section 402(a)(19)".

(2) Subsection (d) of section 407 of such Act is repealed.

(3) Section 203(b) of the Social Security Amendments of 1967 is repealed.

SEC. 15. EFFECTIVE DATE OF FAMILY PLANNING SERVICES REQUIREMENT.

Section 201(g) of the Social Security Amendments of 1967 is amended by adding at the end thereof the following new paragraph:

"(3) If a statute of a State prevents it from complying with the requirements of clause (i) of section 402(a)(15)(B) of the Social Security Act, insofar as such clause (i) relates to family planning services for purposes of implementing clause (ii) of section 402(a)(15)(A) of such Act, on July 1, 1968, such clause (i) relating to such services for such purposes shall with respect to such State be effective on the first day of the fourth month beginning after the adjournment of such State's first regular legislative session which begins after April 1, 1968."

SEC. 16. AMENDMENT TO TITLE XIX OF THE SOCIAL SECURITY ACT.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.

SEC. 17. IMPOSITION OF TAX SURCHARGE.

(a) Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), there is hereby imposed on the income of every person whose taxable year is the calendar year, a tax equal to the percent of the adjusted

tax (as defined in subsection (c)) for the taxable year specified in the following table:

"Calendar year	Percent	
	Individuals	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL YEAR TAXPAYERS.—In addition to the other taxes imposed by this chapter and except as provided in subsection (b), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(A) 10 percent of the adjusted tax for the taxable year, multipled by

"(B) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(3) EFFECTIVE DATE DEFINED.—For purposes of paragraph (2), the 'effective date of the surcharge' means—

"(A) January 1, 1968, in the case of a corporation, and

"(B) April 1, 1968, in the case of an individual.

"(b) EXEMPTIONS AND LIMITATIONS.—

"(1) EXEMPTIONS.—Subsection (a) shall not apply if the adjusted tax for the taxable year does not exceed—

"(A) $290, in the case of a joint return of a husband and wife under section 6013,

"(B) $220, in the case of an individual who is a head of household to whom section 1(b) applies, or

"(C) $145, in the case of any other individual (other than an estate or trust).

"(2) LIMITATIONS.—The tax imposed by subsection (a) shall not be greater than—

"(A) in the case of a joint return of a husband and wife under section 6013, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $290,

"(B) in the case of an individual who is a head of a household to whom section (1)(b) applies, an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on

the amount of the adjusted tax in excess of $220, and

"(C) in the case of any other individual (other than an estate or trust), an amount equal to twice the tax which would be imposed by subsection (a) if the tax were imposed on the amount of the adjusted tax in excess of $145.

"(c) ADJUSTED TAX DEFINED.—For purposes of this section, the adjusted tax for a taxable year means the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871 (a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation),

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(d) AUTHORITY TO PRESCRIBE NEW OPTIONAL TAX TABLES.—The Secretary or his delegate may prescribe reg-

ulations setting forth modified optional tax tables for calendar years 1968 and 1969 computed upon the basis of composite rates incorporating the rate at which tax is imposed by this section. The composite rates so determined may be rounded to the nearest whole percentage point and the tax tables so determined may be rounded to the nearest whole dollar. If the Secretary or his delegate prescribes regulations pursuant to this subsection, then notwithstanding section 144(a), in the case of a taxpayer (whose taxable year is the calendar year) to whom a credit is allowable for 1968 or 1969 under section 37, the standard deduction may be elected for such year regardless of whether the taxpayer elects to pay the tax imposed by section 3.

"(e) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations and payments of estimated income tax by an individual due more than 45 days after the enactment of the Balance of Payments and Domestic Economy Act of 1968, or by a corporation on or after April 15, 1968—

"(1) in the case of a corporation, so much of any tax imposed by this section as is attributable to the tax imposed by section 11 or 1201(a) or subchapter L shall be treated as tax imposed by such section 11 or 1201(a) or subchapter L;

"(2) the term 'tax shown on the return of the

individual for the preceding taxable year', as used in section 6654(d)(1), and the term 'tax shown on the return of the corporation for the preceding taxable year', as used in section 6655(d)(1), shall mean the tax which would have been shown on such return if tax had been imposed by this section for such preceding taxable year at the rate applicable to the current taxable year.

"(f) WITHHOLDING ON WAGES.—In the case of wages paid after the 10th day following the date of the enactment of the Balance of Payments and Domestic Economy Act of 1968, and before July 1, 1969, the amount required to be deducted and withheld under section 3402 shall be determined in accordance with the tables prescribed by the Secretary or his delegate in lieu of the tables set forth in section 3402(a) or (c)(1).

"(g) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS OF CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(h) SPECIAL RULE.—For purposes of this title, except as otherwise expressly provided in this section, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.

"(i) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a).

(b) Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", *and*

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", *and*

(3) by adding after the table in paragraph (3) the following: "In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the close of the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of para-

graph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

As used in this subsection, the term 'surcharge period' means the period beginning on January 1, 1968, and ending at the close of June 30, 1969."

(c) The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax surcharge."

(d) The amendments made by this section shall apply—

(1) Insofar as they relate to individuals, with respect to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, with respect to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

SEC. 18. IMPORT QUOTAS ON TEXTILE ARTICLES.

The total quantity of textile articles (whether made of natural or manmade fibers, or any combination or blends thereof, but not including natural fiber in its unprocessed states such as raw cotton, raw wool, raw silk, or raw jute and not including any article now entitled or hereafter made entitled to entry free of duty), including manmade staple fiber, filaments, and filament yarn, wool tops, and

spun yarn, fabric, apparel, household furnishings, and other finished textile articles of natural or manmade fibers or combinations or blends thereof, which may be entered, or withdrawn from warehouse, for consumption during any calendar year shall not exceed the average annual quantity of such articles entered, or withdrawn from warehouse, for consumption during the six calendar years 1961–1966: Provided, That commencing with the calendar year beginning January 1, 1969, the total quantity of textile articles which may be entered or withdrawn from warehouse, for consumption for each ensuing calendar year shall be increased or decreased by an amount proportionate to the increase or decrease (if more than 5 per centum) in the total United States consumption of such textile articles during the preceding calendar year in comparison with the average annual consumption for the six-year period 1961–1966 as determined by the Secretary of Commerce: Provided further, That the portion of any increase in the quantity of any such textile article which may be entered, or withdrawn from warehouse, for consumption during any quarter of the calendar year shall not exceed the proportionate per centum share which the total quantity of imports of textile articles accounted for during the like period of the calendar year ended December 31, 1966. The quantities of any textile

article which may be entered, or withdrawn from warehouse, for consumption during the balance of the calendar year in which this Act becomes effective shall be equal to that proportionate per centum share of the average annual imports of such article for the years 1961–1966 which the number of days remaining in the calendar year bears to the full year. The Secretary of Commerce shall determine and allocate the allowable quantities of textile articles which may be entered, or withdrawn from warehouse, for consumption among supplying countries by category of product on the basis of the shares such countries supplied by category of product to the United States market during a representative period, except that due account may be given to special factors which have affected or may affect the trade in any category of such articles. The Secretary of Commerce shall certify such allocations to the Secretary of the Treasury. Notwithstanding the foregoing, in the case of textile articles originating in any country which has entered, or hereafter enters, into an agreement with the United States governing the amount of textile articles which may be imported into the United States from such country, the President by proclamation may increase, decrease, or otherwise limit the quantity of textile articles from such country which may be

entered, or withdrawn from warehouse, for consumption in conformance with such agreement. All determination by the President and the Secretary of Commerce under this section shall be final. This section shall become effective one hundred and eighty days after enactment of this Act.

SEC. 19. FOREIGN NATIONS INDEBTED TO THE UNITED STATES.

(a) The Secretary of the Treasury shall promptly after the date of enactment of this Act make demand on all countries which are more than ninety days in arrears in the payment of principal or interest on obligations owing to the United States (including obligations incurred during World War I or World War II) for the amount of any such arrearages.

(b) During any period in which any foreign nation is in arrears, as determined by the Secretary of the Treasury, in the payment of principal or interest on obligations owing to the United States (including obligations incurred during World War I or World War II), dollars held by such nation, or any instrumentality thereof, which are presented for redemption in gold to the United States, or any officer or agency thereof, shall, in lieu of such redemption, be credited against the amount by which such nation is in arrears in the payment of principal or interest on such obligations.

SEC. 20. SUBMISSION OF PROPOSALS FOR TAX REFORM.

Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

Amend the title so as to read: "An Act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, to amend the Social Security Act, to impose import quotas on certain items, to increase income taxes, to limit expenditures, and for other purposes."

Passed the House of Representatives February 29, 1968.

Attest: W. PAT JENNINGS,
Clerk.

Passed the Senate with Amendments April 2, 1968.

Attest: FRANCIS R. VALEO,
Secretary.

By DARRELL ST. CLAIRE,
Chief Clerk.

90TH CONGRESS
2D SESSION

H. R. 15414

AN ACT

To continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

IN THE SENATE OF THE UNITED STATES

APRIL 2, 1968

Ordered to be printed with the amendments of the Senate

jor television networks can provide time for meaningful debate by the major candidates on the important issues.

This I feel will do a great deal to keep personalities out of the campaign, both within political parties and between political parties.

I would also hope that convention delegates in nonprimary States would maintain an open mind and wait for some of this debate before choosing sides on the basis of the personality contests which have so far marked the campaign. I have no doubt that other candidates will now be entering both party races, and they should be heard.

The American voter deserves to hear this debate on the issues. He deserves the right to know where a man stands and what he is for, not merely what he is against. The voter has the right to compare the positions of the candidates and then make a meaningful choice based on the candidate's position on the issues before him.

I strongly believe that every candidate would welcome such a move so as to be able to tell the American voters why he feels he deserves their support.

CONCLUSION OF MORNING BUSINESS

The PRESIDING OFFICER. Is there further morning business? If not, morning business is concluded.

TAX ADJUSTMENT ACT OF 1968

Mr. LONG of Louisiana. Mr. President, I move that the unfinished business be laid before the Senate.

The PRESIDING OFFICER. The bill will be stated by title.

The ASSISTANT LEGISLATIVE CLERK. Calendar No. 995, H.R. 15414, an act to continue the existing excise tax rates on communication services and on automobiles and to apply more generally the provisions relating to payments of estimated tax by corporation.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Louisiana.

The motion was agreed to, and the Senate resumed the consideration of the bill.

Mr. LONG of Louisiana. Mr. President, I send to the desk an amendment to the proposed amendment in the nature of a substitute.

The PRESIDING OFFICER. The amendment will be stated.

The ASSISTANT LEGISLATIVE CLERK. The Senator from Louisiana [Mr. LONG] proposes an amendment as follows:

At the appropriate place in the substitute insert the following new section:

"SEC. —. Section 201(g) of the Social Security Amendments of 1967 is amended by adding at the end thereof the following new paragraph:

"'(3) If a statute of a State prevents it from complying with the requirements of clause (i) of section 402(a)(15)(B) of the Social Security Act, insofar as such clause (i) relates to family planning services for purposes of implementing clause (ii) of section 402(a)(15)(A) of such Act, on July 1, 1968, such clause (i) relating to such services for such purposes shall with respect to such State be effective on the first day of the fourth month beginning after the adjournment of such State's first regular legislative session which begins after April 1, 1968.'"

Mr. LONG of Louisiana. I yield myself 5 minutes.

Mr. President, when the Congress enacted the Social Security Amendments of 1967, we included a requirement that "in all appropriate cases family planning services are offered" to recipients of aid to families with dependent children. This requirement was one element in the attack on increasing illegitemacy which was central to last year's welfare amendments.

We did not realize at the time, Mr. President, that State laws in at least two States prevent these States from offering family planning services to assistance recipients. The amendment I am offering now would allow these States one additional legislative session to revise their laws so that they could meet the family planning requirements of the Social Security Amendments of 1967.

This amendment is requested by the Department of Health, Education, and Welfare to help meet this problem. I know of no objection to it. Inasmuch as we have amendments seeking to modify the social security and welfare laws in this bill already, I see no reason why there should be any objection to this amendment. It has been discussed with the Senator from Delaware [Mr. WILLIAMS], and as I understand, he has no objection, and I know of no one else who has any objection.

Mr. CARLSON. Mr. President, will the Senator yield?

Mr. LONG of Louisiana. I yield.

Mr. CARLSON. Mr. President, reserving the right to object, I do not know that I shall object, but I should like to know whether this amendment applies to only two States.

Mr. LONG of Louisiana. That is correct.

Mr. CARLSON. And is it correct that this is to correct a fault of our own in writing the legislation last year, in that we did not give those States enough time?

Mr. LONG of Louisiana. Neither the Senator from Kansas, the Senator from Delaware, nor the Senator from Louisiana is an expert on the laws of Massachusetts and Wisconsin. That being the case, we did the best we could with the information available to us. Now we are advised that those two States need more time in order to comply with the law we passed.

As far as I am concerned, there would be no objection, and I do not think the Senator from Kansas will have any objection to it.

The PRESIDING OFFICER. Is all time yielded back?

Mr. LONG of Louisiana. I yield back the remainder of my time.

Mr. WILLIAMS of Delaware. I yield back my time.

The PRESIDING OFFICER. All time having been yielded back, the question is on agreeing to the amendment of the Senator from Louisiana.

The amendment was agreed to.

Mr. LONG of Louisiana. Mr. President, I move that the amendment be added to the bill, as an amendment to the bill itself.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Louisiana.

The motion was agreed to.

Mr. WILLIAMS of Delaware. Mr. President, I send to the desk an amendment to the proposed amendment in the nature of a substitute, and ask that it be stated.

The PRESIDING OFFICER. The amendment will be stated.

The assistant legislative clerk proceeded to state the amendment.

Mr. WILLIAMS of Delaware. Mr. President, I ask unanimous consent that further reading of the amendment be dispensed with.

The PRESIDING OFFICER. Without objection, it is so ordered; and the amendment will be printed in the RECORD.

The amendment, ordered to be printed in the RECORD, reads as follows:

On page 22, line 12, strike out all through line 14 and insert in lieu thereof the following:

"(f) EFFECTIVE DATE.—

"(1) The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

"(2) Special rule for payment of estimated tax by corporation due on April 15, 1968.—Notwithstanding any provision of the Internal Revenue Code of 1954, if and to the extent any payment of estimated tax required of any corporation on April 15, 1968 (without regard to the application of this provision), is attributable to the enactment of this Act, such payment shall be due, and for all purposes of such Internal Revenue Code shall be deemed to be due, at such time not later than 30 days after such date as the Secretary of the Treasury or his delegate shall prescribe."

Mr. WILLIAMS of Delaware. Mr. President, my amendment is offered to the package bill at the request of the Treasury Department.

Under the bill corporations are to be required to take into account, in making their April 15 estimated income-tax payment, the increase in the amount of the payment due as a result of the enactment of this bill. The amendment provides that, to the extent of any increase in the amount of the estimated tax payment required of corporations, the Secretary of the Treasury may prescribe a date not later than 30 days after April 15, for the corporation to make the payment. This additional time period gives the Treasury Department time to send out deposit forms and instruction booklets advising corporations how to compute the increase in the estimated tax payment required by enactment of provisions in the pending bill.

The Treasury Department requested this provision because it did not think it would have quite enough time, since April 15 is so close.

I understand that there is no objection to the amendment.

Mr. LONG of Louisiana. Mr. President, I have no objection to the amendment at all. It would seem to me that at some particular point we ought to make some effort to obtain the presence of more Senators on the floor.

With the understanding that I will support the amendment of the Senator

from Delaware, I would like to use my time to suggest the absence of a quorum.

Mr. WILLIAMS of Delaware. I have no objection.

The PRESIDING OFFICER. The clerk will call the roll.

The assistant legislative clerk called the roll and the following Senators answered to their names:

[No. 95 Leg.]

Aiken	Griffin	Morse
Allott	Hansen	Morton
Anderson	Harris	Moss
Bartlett	Hatfield	Muskie
Boggs	Hickenlooper	Nelson
Brewster	Inouye	Pearson
Burdick	Javits	Percy
Byrd, Va.	Jordan, Idaho	Prouty
Byrd, W. Va.	Kuchel	Proxmire
Carlson	Long, La.	Ribicoff
Church	Magnuson	Scott
Cooper	Mansfield	Spong
Cotton	McGee	Talmadge
Dirksen	Mondale	Williams, Del.
Ellender	Monroney	Young, Ohio
Gore	Montoya	

Mr. BYRD of West Virginia. I announce that the Senator from Pennsylvania [Mr. CLARK], the Senator from Alaska [Mr. GRUENING], the Senator from Missouri [Mr. LONG], and the Senator from Texas [Mr. YARBOROUGH] are absent on official business.

I also announce that the Senator from North Carolina [Mr. JORDAN], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], and the Senator from Alabama [Mr. SPARKMAN] are necessarily absent.

Mr. KUCHEL. I announce that the Senator from Tennessee [Mr. BAKER] and the Senator from Utah [Mr. BENNETT] are necessarily absent.

The PRESIDING OFFICER (Mr. BREWSTER in the chair). A quorum is not present.

Mr. LONG of Louisiana. Mr. President, I move that the Sergeant at Arms be directed to request the attendance of absent Senators.

The PRESIDING OFFICER. The question is on agreeing to the motion of the Senator from Louisiana.

The motion was agreed to.

The PRESIDING OFFICER. The Sergeant at Arms will execute the order of the Senate.

After a little delay, the following Senators entered the Chamber and answered to their names:

Bayh	Hartke	Murphy
Bible	Hayden	Pell
Brooke	Hill	Randolph
Cannon	Holland	Russell
Case	Hollings	Smathers
Curtis	Hruska	Smith
Dodd	Jackson	Stennis
Dominick	Kennedy, Mass.	Symington
Eastland	McClellan	Thurmond
Ervin	McGovern	Tower
Fannin	McIntyre	Tydings
Fong	Metcalf	Williams, N.J.
Fulbright	Miller	Young, N. Dak.
Hart	Mundt	

The PRESIDING OFFICER. A quorum is present.

Mr. LONG of Louisiana. Mr. President, will the Senator from Delaware yield me 1 minute? My time has expired.

Mr. WILLIAMS of Delaware. I yield 1 minute to the Senator from Louisiana.

The PRESIDING OFFICER. The Senator from Louisiana is recognized for 1 minute.

Mr. LONG of Louisiana. Mr. President, at the moment we are talking about a perfecting amendment offered by the Senator from Delaware.

There is no opposition to the amendment, and I would urge its adoption.

I yield back the remainder of my time.

Mr. WILLIAMS of Delaware. Mr. President, I yield back the remainder of my time.

The PRESIDING OFFICER. All time has now been yielded back on the amendment.

The question is on agreeing to the amendment of the Senator from Delaware.

The amendment was agreed to.

Mr. LONG of Louisiana. Mr. President, it was agreed that there would be one-half hour available to the Senator from Wisconsin [Mr. PROXMIRE]. I therefore ask unanimous consent that the Senator from Wisconsin be recognized for one-half hour, with the time to be charged equally to both sides.

The ACTING PRESIDENT pro tempore. Is there objection? The Chair hears none, and it is so ordered.

THE SMATHERS-WILLIAMS SUBSTITUTE SHOULD BE DEFEATED

Mr. PROXMIRE. Mr. President, we are about to vote on the most significant and far-reaching economic legislation of 1968.

This is the Smathers-Williams amendment.

This proposal can and I am convinced will throw hundreds of thousands of Americans out of work.

It can and will slow this Nation's economic growth to a slow motion crawl.

It can and will worsen our balance of payments and increase our gold outflow.

It could lead to a recession.

It could start a worldwide economic slow down that would enfeeble all the countries of the free world.

And it will accomplish none of its aims.

It will not significantly slow inflation.

The principal cause of the present inflation is excessive cost, especially a rise in wage costs that greatly exceeds productivity.

This proposal will aggravate that increase in cost pressure against prices, because taxes are a cost.

Advocates of the amendment contend that the proposal will slow inflation by reducing demand, and indeed it will. But demand for most products in this Nation is deficient right now. The further reduction in demand accomplished by this bill will not reduce food prices or rents or automobile prices. Demand is not pulling prices up. Costs are pushing them up and this bill will increase those cost pressures.

But advocates say—well you have to be responsible. They say—you have to increase taxes to increase revenues so we can reduce the deficit.

But this proposal will not reduce the deficit significantly, for the very reason the 1964 tax cut, I repeat tax cut, that is tax reduction, did in fact increase revenues. That tax cut increased revenues by stimulating the economy, increasing the number of persons working, so that even with lower rates, revenues increased.

But this amendment will do just exactly the reverse, it will reduce jobs—and that is not simply my assertion, it is agreed to by the former chairman of the Council of Economic Advisers Don Ackley who has indicated that it would eliminate 300,000 jobs and, if combined with spending reductions, would eliminate over half a million jobs according to the estimates, which estimates I think are very conservative.

It will diminish income—as I will show. And in doing so the tax will raise little or no revenue. It may in fact actually lose revenue. So it is not the responsible amendment that those who argue for it assert.

Now, Mr. President, whether or not these sad predictions come true depends of course on our analysis of the economy.

In a booming, bursting, zooming economy a tax increase is the right medicine to stop inflationary pressures.

If supporters of this amendment can show that we have a booming, zooming economy, they should have their amendment.

In a sagging economy that finds its resources idle and unused, that same tax increase will slow it down further, and very possibly diminish revenues.

Now, I do not argue that this economy is sagging or lagging, not now it is not. But pass this amendment. And it will be.

What kind of economy do we face for the rest of this year?

It is mixed. Prices are rising. But our factories are 15 percent idle.

DEFENSE EXPENDITURES OF MANAGEABLE PROPORTION WITHOUT SURCHARGE

We cannot undo by a surtax the inflationary pressures that were initiated by a bulge in defense spending begun almost 3 years ago. On the other hand, we can foresee no let up in defense expenditures and indeed some further moderate buildup is projected. The tremendous buildup in defense expenditures which began in mid-1965 and lasted until mid-1967 generated inflationary pressures which are still reverberating throughout the economy. However, the recent pace of the buildup is far more moderate and can be accommodated by a careful reordering of our priorities in Government spending, and a reduction in the total level of Government expenditures.

The March issue of the Defense Department's "Selected Economic Indicators" shows February military prime contracts to be lower than in December of 1967 and more than 10 percent below the level of February 1967. Manpower resources used by the Defense Department have been relatively stable during the last year, at approximately 3.4 million men in the military, and 1.3 million civilians. This contrasts sharply with the period from the first quarter of 1966 to the first quarter of 1967 when military strength increased by 400,000 men or roughly 10 percent.

The Federal budget shows that expenditures on national defense increased 15 percent from fiscal 1965 to fiscal 1966; 23 percent from 1966 to 1967; but then decelerated to a rise of 9 percent for 1968 and to an estimated 4.3 percent in fiscal 1969.

The inflationary consequences of the rapid expansion in defense spending from mid-1965 to mid-1967 are still very evident. The consumer price index for February was 0.3 percent above Janu-

ary, and 3.7 percent above the level in February 1967. The wholesale price index also advanced in February to a level 0.7 percent above January and 1.9 percent above February 1967. Preliminary data for March point to a further advance of 0.3 percent in wholesale prices.

On the other hand, the economy is operating with substantial excess capacity. Capacity utilization in manufacturing is less than 85 percent, and the average weekly hours of work in manufacturing is substantially less than in 1965 and 1966. The latest survey of anticipated expenditures for plant and equipment indicates that businessmen are scheduling only moderate increases in outlays in both halves of 1968. If these anticipations materialize, current dollar outlays for the full year will be 6 percent higher than in 1967 and constant dollar outlays will be up only slightly.

The recent inflation, then, stems from the bulge in defense spending which has leveled off, from a reasonable but not excessive level of aggregate demand and from anticipatory expectations about the future. Thus, it seems clear first that there is no overall excessive demand at the present time, and second, that the deficit in the Federal budget is too high, and is generating inflationary expectations and creating difficulties in financial markets. I believe that a sufficient reduction in Government expenditures can be attained through the elimination of nonessential Government spending and the postponement of certain types of Government expenditures. These reductions in expenditures will necessitate a careful assessment of our national priorities. It seems apparent to me that expenditures for the development of human resources, particularly in the present context, should have a higher priority than expenditures in such areas as space, the supersonic transport, and public works projects.

I ask unanimous consent that the March "Selected Economic Indicators," issued by the Department of Defense and a Wall Street Journal article be printed at this point in the RECORD.

There being no objection, the items were ordered to be printed in the RECORD, as follows:

Listed below are some comparatively recent developments in major leading economic indicators from *Business Cycle Developments*. The numbered items match the numbered series on pages 33–37 of that document:

1. Average workweek: up half an hour in February to 40.7 hours—the same as in December 1967 and below the 1965–66 levels.

6. Value of manufacturers' new orders, durable goods industries: up slightly in February compared to January, but below the December level.

10. Contracts and orders for plant and equipment: down slightly from January to February and the lowest since May 1967.

29. Index of new private housing units authorized by local building permits: very large rise of more than 20 percent from January to February, after faltering in January.

31. Change in book value of manufacturing and trade inventories, total: accumulation at an annual rate of $10.4 billion in January—a somewhat lower rate than for November and December, but far above the February-October period in 1967.

23. Index of industrial materials prices (sensitive commodity prices): up 0.6 percent from February to March. This index declined during the early and middle part of 1967 until October, and then increased by 2.5 percent from October to March.

19. Index of stock prices, 500 common stocks: declined in March to the lowest level since February 1967.

16. Corporate profits after taxes, fourth quarter: up sharply from the 3rd quarter and slightly higher than the previous peak achieved in the 3rd quarter of 1966.

17. Ratio, price to unit labor cost index, manufacturing: down more than 1 percent from January to February and the lowest level in recent years.

113. Net changes in consumer installment debt: the increases from November through January were higher than those occurring throughout the earlier part of 1967.

FEBRUARY FACTORY ORDERS ROSE 0.2 PERCENT FROM JANUARY'S—FAILURE TO OFFSET 4.1 PERCENT PLUNGE IN PRIOR MONTH'S BOOKINGS DISAPPOINTS U.S. OFFICIALS—LAG IN DURABLE GOODS NOTED

WASHINGTON.—New factory orders in February recovered only fractionally from the sharp drop of the previous month, the Commerce Department said, causing further worry among Government officials who earlier had forecast strong first half output.

At a seasonally adjusted $7,714,000,000, new orders in February edged up 0.2% from an upward-revised $47,628,000,000 in January, when the orders inflow had plummeted 4.1%. "There's nothing very exciting" about the latest report, a Government analyst gloomily observed.

To a large extent February new orders were held down by a less-than-expected rise in durable goods orders. A mid-March Government estimate put the rise in February durables orders at 1.5%, but yesterday's report showed only a 0.2% increase, to an adjusted $24,817,000,000 from January's $24,771,000,000. "Significant increases in bookings for steel-mill products and electrical machinery more than offset a substantial decrease in nonelectrical machinery and the moderate decreases in other durable goods industries," the department said.

Orders for steel-mill products advanced $262,000,000 in February to an adjusted $2,584,000,000 as users prepared for a feared steel strike. Electrical-machinery ordering rose $195,000,000 to $3,530,000,000. Orders for nonelectrical machinery skidded $233,000,000 to $3,574,000,000 in February.

Bookings of the "defense-oriented" group, which dropped $642,000,000 in January, rose $406,000,000 in February to $3,737,000,000. This category includes both civilian and military business of aerospace, communications and ordnance companies, but omits military work by other businesses.

New orders for nondurable goods also edged up 0.2% in February to an adjusted $22,897,000,000.

The backlog of orders rose $234,000,000 to an adjusted $82,602,000,000. Inventories also advanced, and manufacturers' shipments fell sharply. As a result, stocks equaled a seasonally adjusted 1.75 months' sales in February, up from January's 1.72 months but trailing the 1.81 months of February 1967.

"Moderate declines" in deliveries of most major industry groups contributed substantially to the 2.2% decrease in durable goods shipments to an adjusted $24,667,000,000, the department said. Deliveries of nondurable goods slipped 0.4% to $22,812,000,000.

The total backlog at all factories on Feb. 28 rose to $82,862,000,000 from $82,571,000,000 a month earlier, reflecting gains in most durable-goods industries.

Here is the Census Bureau's monthly tabulation of manufacturers' shipments, inventories, new orders and unfilled orders (in millions of dollars):

SHIPMENTS

	Unadjusted		Seasonally adjusted		
	February 1968 [1]	January 1968 [2]	February 1968 [1]	January 1968 [2]	February 1967
All manufacturing	44,598	44,977	48,283	48,133	47,479
Durable goods	23,062	23,335	25,068	25,227	24,667
Nondurable goods	21,536	21,642	23,197	22,906	22,812

NEW ORDERS

	Unadjusted		Seasonally adjusted		
	February 1968 [1]	January 1968 [2]	February 1968 [1]	January 1968 [2]	February 1967
All manufacturing	44,595	45,757	48,902	47,628	47,714
Durable goods	23,317	24,107	25,583	24,771	24,817
Nondurable goods	21,278	21,650	23,319	22,857	22,897

INVENTORIES

All manufacturing	79,523	82,543	83,302	82,571	82,862
Durable goods	51,274	53,527	54,280	53,742	54,070
Nondurable goods	28,249	29,016	29,022	28,829	28,792

UNFILLED ORDERS

All manufacturing	78,600	82,405	83,026	82,368	82,602
Durable goods	75,536	79,265	79,763	79,141	79,291
Nondurable goods	3,064	3,140	3,263	3,227	3,311

[1] Preliminary. [2] Revised.

Mr. PROXMIRE. Mr. President, I call attention to the latest economic indicators from Business Cycle Developments. These statistics have been found most reliable in forecasting economic conditions. I shall read several of them.

The average workweek: up half an hour in February to 40.7 hours—the same as in December 1967, and below the 1965–66 levels. It indicates that we are heading for less economic activity in the immediate future.

Value of manufacturers' new orders were up very slightly in February compared to January, and were a serious disappointment for Government officials.

The Wall Street Journal reported that the failure to offset 4.1 percent plungs in prior months' bookings in factory orders disappoints Government officials. This, of course, indicates lessened economic activity.

Contracts and orders for plant and equipment: down slightly from January

to February and the lowest since May 1967. This, too, is depressing.

Index of new private housing starts has gone up.

Change in book value of manufacturing and trade inventories, far below a year ago, which is depressing.

The index of industrial materials prices was up.

The index of stock prices. Yesterday was a big day for the market, but in spite of that, the overall index measured over the past few months is depressing.

The ratio of price to unit labor cost index is discouraging, because prices are down significantly in relation to labor costs. This is depressing.

Net changes in consumer installment debt is expansionary.

My point is that the signals are mixed. Prospects are very hard to predict, but on the basis of everything we heard in our committee, based on weeks of hearings, the last half of this year is likely to indicate a significant economic slowdown.

We know that the gross national product grew rapidly in the first 3 months of this year, but we also know there is every indication that it is going to slow down from now on, especially starting July 1, when the tax increase hits.

Mr. President, I cannot vote for this amendment because after studying the President's Economic Report, after listening for weeks to the administration's expert witnesses on the economy, after hearing the outstanding academic and business and labor economists in the Nation, I am convinced that a vote for this amendment is not a vote for responsibility, it is a vote for unemployment. It is a vote to stop America moving. It is a vote to aggravate the problem in our cities. It is a vote to worsen our balance of payments and our gold crisis.

Now all of this may startle Senators who are so used to hearing and reading the exact opposite. The administration has been telling themselves and telling the Congress and telling the international financial leaders and telling the press and telling the business leaders that what we need is a tax increase to solve all of our problems. It has been telling that story so long and so steadily that they have indeed created a climate—an atmosphere in which this measure is viewed as responsible, moral, a matter of courage and rectitude.

Republican as well as Democratic Senators have come to me and said "BILL, your statistics are impressive, your arguments are sound, but the business community is now convinced that the Nation's only responsible action is to increase taxes. They may be wrong but they have bought that notion and that belief has become a hard, tough piece of reality. There comes a time," they say, "when you have to pay more attention to psychology, to attitude, to human belief than to the statistics."

This is the informal argument and, frankly, if you analyze the formal economic arguments on this floor, such as they are for this measure, they come to the same things: "Forget the facts, take it on faith."

Well, Mr. President, as chairman of the Congressional Joint Economic Committee—if I have no other function—I have the responsibility of telling my colleagues in this body what I think are the actual not the fanciful, not the psychological but the actual consequences of voting for this Smathers-Williams proposal.

Mr. President, here they are:.

The purpose of the Smathers-Williams substitute amendment is to slow inflation, bring the budget closer to balance, improve our balance of payments and restore confidence in the dollar. It will not do a single one of these things. Not one.

I have made it clear to the Senate that I very strongly approve of the part of the Smathers-Williams amendment which would reduce the President's proposed spending for the coming year. I think that is sound economically and it makes sense in terms of improving the efficiency of Federal operations.

At the same time, Mr. President, if we add, on top of the reduction in spending included in the Smathers-Williams amendment, the 10-percent surtax on individuals and corporations, the entire package will be too much.

The risk that it might slow down the economy to the point of recession and the certainty that it will sharply increase unemployment makes this package unsound economically.

Furthermore, Mr. President, I have established in my previous argument on the floor that the surtax will directly and clearly worsen our balance of payments and aggravate the gold outflow. It will do so by sharply diminishing the profitability of American investment. The increase in taxes on American corporations will dissuade investors from investing in American corporations and persuade them to invest their money in European, Japanese, and other corporations throughout the world.

This is not speculation. It is sure and definite. This is a 10-percent decrease in the profitability of American corporations, and it is sure to have that effect.

Mr. President, I understand why Senators are extremely hesitant to accept a generalized economic analysis that contends that this Smathers-Williams package of sharp spending reduction and increased taxes may depress the economy.

Senators, as well as other Americans, have read little in the papers in recent months about our economy except that it is so buoyant, growing so rapidly, that the principal danger is that we may break into very serious inflation.

And the recent gold crisis aggravated these fears so sharply that papers as prominent and thoughtful as the New York Times and the Milwaukee Journal withdrew their past opposition to the surtax and came out in recent days in favor of imposing the surtax.

I am sure that many Senators reacted similarly and that this is the reason for the strong vote in favor of the surtax earlier this week when I introduced my amendment to eliminate the surtax proposal from the Smathers-Williams package.

Now, Mr. President, I hope that before Senators decide to cast their vote for this package they will consider thoughtfully the very serious adverse consequences that might very well develop if this package is put into effect.

I am convinced that the effect of this combination of spending reduction and sharply increased taxes on the economy may sharply increase unemployment and significantly slow down economic growth.

I do not ask my colleagues to accept my judgment on this. I ask them to consider the words of what is an outstanding spokesman for business, Fortune magazine, in the Business Roundup section of the April 1968 issue just published.

Here is what Fortune has written in advance of the recent Senate action to reduce spending and increase taxes:

> The economy, which has been headed for some weakness in the second half anyway, will be weaker still. That will be true if the U.S. puts up a vigorous new defense of the dollar; it will also be true if the post-war exchange system breaks down. The economic consequences of these outcomes would differ in important respects. But it is clear that the new clouds over the domestic business outlook will not be lifted soon by changes in international financial arrangements.

Mr. President, Fortune has pinpointed the specific reasons why they expect the economy to slow down in the second half of the year. These reasons should be carefully considered when the Congress is about to vote on measures that will slow down the economy even more rapidly.

In the first place, Fortune recognizes that because of the balance of payments situation it will be necessary—oh, how we wish it were not—for the Federal Reserve Board to tighten credit in this country so that interest rates will rise here and keep American capital invested here at home, indeed, if possible, attract foreign capital to invest in this country.

Here is the way Fortune puts it:

> A tightening of credit would presumably accompany fiscal restraint. The tightening would of course work to attract some foreign funds to the U.S. Indeed, a monetary program potentially could do more good than taxes toward bringing our international payments into balance, at least on the official settlements accounting (which is what counts for the gold problem). Any such course might plausibly involve another rise of half a percentage point or more in the discount rate, on top of the one that was voted by the Federal Reserve on March 14. This would mean acceptance of unprecedented new highs in the entire spectrum of interest rates, which were already almost back to their past 1966–67 highs.
>
> Any such heavy doses of monetary restraint would have quite serious implications for the housing industry, which has still not recovered from the 1966 credit crunch, and which faced trouble getting mortgage financing even before the gold crisis. Whether any such strong medicine, combined with higher taxes for a controversial war, can be administered in a presidential election year is a question of fearful complexity.

A part of the answer to that, of course, was given on Sunday night when the President announced he would not run. The fact is, however, Mr. President, that this increase in interest rates, which is a logical and understandable though very regrettable response to the international gold outflow and to restoring confidence in the dollar, is going to depress the economy further. We not only have a $16 billion fiscal package, with a lot of drive and potency; we also have a monetary

policy designed to slow the economy down.

Mr. President, I am sure a prime reason why many Senators will vote for this Smathers-Williams package is because they are convinced that it is the only way to stop inflation.

All of us are aware of the fact that just Thursday the Bureau of Labor Statistics announced that consumer prices rose once again three-tenths of 1 percent, or at an annual rate of 3.6 percent.

There is not a Senator here who does not realize that this rate of inflation is unacceptable and we must do whatever we can to slow it down.

Now let us consider what is likely to happen to prices even without the Smathers-Williams package. Here is Fortune's observation on the prospects of inflation:

In a grim month, a small hope is perhaps worth mentioning. If the U.S. can somehow get past the present gold crisis, then before long there may be grounds for returning world confidence in regard to U.S. prices. The rate of price increases has probably just passed its peak, for several reasons.

Frankly, Mr. President, the principal reason why I intend to vote against this Smathers-Williams package, although I enthusiastically favor the reduction in spending, is because it will increase unemployment by literally hundreds of thousands. The loss in production is something that this country can never recover. The waste in men and idleness will be a real tragedy for the Nation and for the hundreds of thousands of people involved.

Once again, Mr. President, I do not ask Senators to accept the word of one Democratic Senator. I ask them to consider the cold, clear judgment of the Nation's great spokesman for American business, Fortune magazine. Here is what Fortune magazine says about the employment outlook:

The labor market is not as tight as it looks, and it should become looser in the months ahead.

This, as I say, is without any notion that a surtax will be passed, and that we will adopt the kind of spending reduction we are on our way to adopting.

Even a decision to increase the forces in Viet Nam in a year by 206,000—

Which decision most of us are now convinced will not take place—

the highest number discussed recently, would still leave the U.S. labor market no tighter than it is now. The more appropriate concern for the coming year might be unemployment.

Again, this is Fortune speaking.

There are several reasons for viewing the recent unemployment rates as deceptive. The number of unfilled jobs has been pretty steady for a year now, at a level one-fifth below that of the September 1966 peak. The average work week in the private nonfarm economy has been falling for over a year. In 1967 it was down nearly 2 percent in manufacturing; for the entire private economy it was down approximately 1 percent.

More important, the recent rates of productivity growth have been unduly low. Productivity is now turning up, and there is reason to expect that it will continue to ease labor-market pressures.

Of course, when productivity turns up, it means that each man is producing more, and therefore you need fewer employees.

The productivity gains should help to slow down the extraordinary growth of employment. The number of nonfarm jobs, which was two million higher in 1967 than 1966, was up 1,600,000 just between last summer and this February; in February alone, it was up 550,000. Some of the employment gains seem unsustainable. The number of government employees has been growing furiously, and rose by 750,000 to 11,600,000 in 1967.

And here is the important point:

But over half of that increase was accounted for by teachers, and demand for them will slow down abruptly for two reasons. The recent rapid growth of federal aid to education will end in the next year. So will the rapid rise of the college-age population; the babies born in 1946, the first year of the great baby boom, are old enough to be graduating from college this June.

Demand for several other kinds of employees will also be falling off. There are now 14 million service workers of various kinds, and they have been increasing by 600,000 a year. But those required by the medicare and medicaid programs, for example, have been pretty much recruited by now. The federal minimum wage increase (from $1.40 to $1.60 an hour), which went into effect February 1, will inevitably depress the growth of demand for workers in services generally and also in trade. Finally, demand for industrial workers, which hit a new high recently, will ease in coming months when inventories taper off.

Adjusting for all these depressants on demand, how many additional employees will be required in the 1968 economy? Real G.N.P. has been rising at a rate of at least 4 percent a year lately. With productivity now rising, 4 percent growth should create demand for not more than 1,300,000 nonfarm jobs in the next year. Roundup anticipates that real G.N.P. growth will slow down to 2 percent or less, and new demand will be limited to some 700,000, most in government.

Supplying even the higher number of employees in 1968 should represent no problem. In the past three years the labor force has grown by an annual average of 1,400,000; it is expected to do so again this year. Most of the gains will be in the prime age group, i.e., men and women in their twenties who tend to be full-time employees vs. the rapid labor-force growth a few years back of teenagers, often part-timers.

Aside from these prospective additions to labor-force supply, it now seems clear that we have been unaware of the size of what might be called "Hidden unemployment reserves"—the group, mostly women, teenagers, and elderly people, who move in and out of the labor force. A recent study by two close students of the subject, N. J. Simler and Alfred Tella, suggests that there were two million such people earlier in the 1960's, representing on the average some 2.5 percent of the total labor force. At the turn of the year, with unemployment much lower, this reserve was 0.7 percent but still had over 500,000 people in it.

There are several reasons for this massive shift in the labor force. Government programs, involving one million trainees now, are in effect turning out "extra workers." The sharp decline in the birth rate has left more women free to work. And some students have been drafted, technically moving them into the total labor force.

The armed forces grew by over 500,000 in 1966, but not much in the past year. A major buildup now, from the present 3,500,000 total, would obviously cause some disruptions, with many of the jobs being vacated by young men, some of them highly skilled.

I think all of us recognize that in the light of the most recent developments, such a major growth is most unlikely.

But on balance—

Fortune says—

it is hard to foresee any circumstances in which labor shortages will be a problem this year.

Even on the Administration's economic forecast, which looks for real G.N.P. growth of over 4 percent for 1968, the unemployment rate is likely to be higher by the end of the year. On Roundup's January projection of 2 percent, the rate could be higher in the next year by over 0.5 percent. And it could rise by over 1 percent should really drastic measures be taken in defense of the dollar.

There is no question but that, if we pass this package, and the Federal Reserve Board follows the policy it must follow, in view of the international financial crisis, we will not grow anything like 4 percent, and that unemployment is sure to increase.

Mr. President, there are many other arguments given by Fortune magazine as to why they believe the economy will slow down in the second half of 1968, and I ask unanimous consent that the entire "Business Roundup" section of the April 1968 issue of Fortune magazine be printed in the RECORD at this point.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

BUSINESS ROUNDUP

BUGGED BY GOLD

The gold problem finally caught up with the U.S. last month, in a historic sequence of events that will be haunting the economic outlook for many months to come. U.S. economic activity is going to be adversely affected in one way or another. Only the extent of the difficulties is unclear. The economy, which had been headed for some weakness in the second half anyway, will be weaker still. That will be true if the U.S. puts up a vigorous new defense of the dollar; it will also be true if the postwar exchange system breaks down. The economic consequences of these outcomes would differ in important respects. But it is clear that the new clouds over the domestic business outlook will not be lifted soon by changes in international financial arrangements.

Last month's decision by the gold-pool nations to stop supplying gold to the free markets was essentially an interim measure. The world gold fever would not wait for a real solution; the fever became critical in the week of March 11, when the $12-billion U.S. gold reserve began declining at two and then three times last December's rate of $1 billion a month. The new system itself may give way under the pressure of increasing dollar claims on gold by foreign central banks. The pressure could be relieved by devaluing and diminishing the role of the dollar—i.e., by raising the price of gold. An eventual increase is certainly possible, but the U.S. and other nations wish to avoid that. To avoid it would require a full solution to the nagging U.S. balance-of-payment problem. Even to reduce the dimensions of the problem will require some new and painful programs.

Last year the deficit ran to about $3.5 billion on both the liquidity and official-settlement bases. The program the President announced at year-end was designed to reduce this year's deficit by $3 billion—actually, somewhat less after qualifications and exemptions (e.g., allowing capital to flow to Canada). But even the remaining benefit of the program was being heavily offset, around the time of the announcement, by a sharp narrowing of the U.S. balance-of-trade sur-

plus, from over $4 billion a year ago to less than $2 billion currently (see the February Roundup). The deterioration was highlighted by a shocking 20 percent rise in three months in merchandise imports, from the $26.5-billion rate (seasonally adjusted) that prevailed over the first ten months of 1967 to $31.8 billion in January. By then it was clear that on commercial account, after deducting exports financed by government grants and loans (e.g. wheat for India), the U.S. was running a deficit in its foreign trade. Thus the dollar was in immediate new trouble, which was evident everywhere but for which no redress has even yet been announced.

Despite the balance-of-payments program, then, we confront the prospect of another large U.S. deficit for 1968; this year's deficit, in fact, is less amenable to government edict—e.g., direct controls on overseas bank loans—because it is deeply rooted in our trade balance. We may hope that the balance will improve once business and demand in Europe recover and Kennedy Round tariff cuts take effect there (on July 1). We cannot, however, repair our trade by taking refuge in the protectionism now widely advocated; other nations could and would retaliate. Nor would we gain enough from the 10 percent income-tax surcharge; by itself it might benefit the trade balance to the extent of only $1 billion or so per year. Secretary Fowler testified last month that he "would welcome it" if Congress decided to go further, even to double the increase implied in the surcharge. Besides its direct effect on the balance itself, a tax rise is widely viewed as the "magic" necessary to restore world confidence in the dollar; higher taxes would be an earnest of the willingness of the U.S. to take whatever unpleasant medicine it has to in order to restore the health of the dollar and the exchange system.

Thus prospects for passage of some form of the President's tax increase seem improved. To get it from Congress, he will evidently agree to deep cuts in non-Vietnam appropriations. A figure of $9 billion has been reported, which might mean $4 billion for spending i.e., in fiscal 1969 (bringing spending estimates back to Roundup's January projections). Meanwhile, more troops for Vietnam means the war's costs will be revised upward, perhaps by comparable amounts. The upshot of all these revised expectations is that the basic deficit in the federal budget, which had been and was expected to continue running this year at a rate of some $14 billion (in the national income accounting), will theoretically be wiped out by the spring of 1969.

A tightening of credit would presumably accompany fiscal restraint. The tightening would of course work to attract some foreign funds to the U.S. Indeed, a monetary program potentially could do more good than taxes toward bringing our international payments into balance, at least on the official settlements accounting (which is what counts for the gold problem). Any such course might plausibly involve another rise of half a percentage point or more in the discount rate, on top of the one that was voted by the Federal Reserve on March 14. This would mean acceptance of unprecedented new highs in the entire spectrum of interest rates, which were already almost back to their past 1966–67 highs.

The Fed's program might involve a major credit crunch, a juggling of various interest rates on savings, and acceptance of selective credit controls—for example, on consumer installment buying. Of course, the Fed has already moved sharply this year toward a slowdown of credit expansion, working the commercial banks into a position where they had $309 million of borrowed reserves, the largest since the autumn of 1966, vs. $250 million of free reserves as recently as last November, just before the British devaluation of the pound. Growth of the money supply has also been sharply slowed.

Any such heavy doses of monetary restraint would have quite serious implications for the housing industry, which has still not recovered from the 1966 credit crunch, and which faced trouble getting mortgage financing even before the gold crisis (see page 40). Whether any such strong medicine, combined with higher taxes for a controversial war, can be administered in a presidential election year is a question of fearful complexity. The odds on deflationary action to defend the dollar after the elections were surely good enough; but, before the gold crisis, the chances of a 1968 program were remote. Now policy on the dollar—as on Vietnam and managing the urban crisis—has entered that peculiarly cloudy area in which the interplay of logic and sentiment makes the techniques of ordinary prophecy seem futile.

It is clear, however, that if new tax and credit curbs are somehow placed upon the economy, they will considerably reinforce the tendencies toward softness that Roundup has already noted—tendencies suggesting a slowdown in G.N.P. growth and an actual decline in industrial production during the second half of the year. The FRB index for February held about even with the January level, both figures being down about half a percent from the index high of 162 in December.

Retail sales of general merchandise strengthened notably in February, after some months of lag, but new-car sales have slowed down. Business plans suggest a 6 percent rise in spending during 1968 (and for all 1968 over 1967), according to SEC-Commerce data. This is, however, higher than Roundup's expectation, which is for level spending; some recent data, notably the leveling in machinery shipments, orders, output, and the actual decline in manufacturers' capital appropriations, have confirmed this expectation. The data certainly contradict the SEC-Commerce finding that there was a $2-billion rise last quarter in the rate of manufacturers' outlays.

In a grim month, a small hope is perhaps worth mentioning. If the U.S. can somehow get past the present gold crisis, then before long there may be grounds for returning world confidence in regard to U.S. prices. The rate of price increases has probably just passed its peak, for several reasons.

PLENTY OF WORKERS

The labor market is not as tight as it looks, and it should become looser in the months ahead. Fears of a labor shortage have been widespread among businessmen, mainly because of the vagaries of the unemployment rate. It fell sharply from 4.3 percent last October to 3.5 percent in January, the lowest level in fourteen years. In February it was still 3.7 percent, which happens also to have been the level in the fall of 1966—when many businessmen were in fact having trouble filling jobs. Labor-shortage worries have been reinforced by the prospect of a sizable new buildup of U.S. forces in Vietnam. But the worries are misplaced: even a decision to increase the forces in Vietnam in a year by 206,000, the highest number discussed recently, would still leave the U.S. labor market no tighter than it is now. The more appropriate concern for the coming year might be unemployment.

There are several reasons for viewing the recent unemployment rates as deceptive. The number of unfilled jobs has been pretty steady for a year now, at a level one-fifth below that of the September, 1966, peak. The average work week in the private nonfarm economy has been falling for over a year. In 1967 it was down nearly 2 percent in manufacturing; for the entire private economy it was down approximately 1 percent.

More important, the recent rates of productivity growth have been unduly low. Productivity is now turning up, and there is reason to expect that it will continue to ease labor-market pressures. Private nonfarm productivity rose rapidly in 1961–64, by 3.6 percent a year on the average; then the gains fell to an average of 2.6 percent in 1965–66; and fell further, to less than 1 percent, in 1967. The 1961–64 gains were related mainly to rapidly rising utilization rates in industry. The 1965–66 fall-off was related to the staffing and start-up problems associated with all the new plant and equipment coming on stream in those years. In 1967 businessmen had to deal with both lower utilization rates and continuing rapid installation of new facilities—the worst of all possible worlds for productivity. Roundup's analysis has shown that changes in utilization rates and installations provide good clues to productivity performance; the changes due in 1968 suggest that the worst is now over, and productivity is turning up. It should grow in 1968 by almost 2.7 percent—the figure that happens to be the average for the last twenty years Productivity growth in the first quarter was lower—by about half a percentage point—than Roundup's new econometric calculations would suggest; but the "loss" should be made up during the rest of the year.

WHY DEMAND WILL FALL

The productivity gains should help to slow down the extraordinary growth of employment. The number of nonfarm jobs, which was two million higher in 1967 than 1966, was up 1,600,000 just between last summer and this February; in February alone, it was up 550,000. Some of the employment gains seem unsustainable. The number of government employees has been growing furiously, and rose by 750,000, to 11,600,000, in 1967. But over half of that increasce was accounted for by teachers, and demand for them will slow down abruptly for two reasons. The recent rapid growth of federal aid to education will end in the next year. So will the rapid rise of the college-age population; the babies born in 1946, the first year of the great baby boom, are old enough to be graduating from college this June.

Demand for several other kinds of employees will also be falling off. There are now 14 million service workers of various kinds, and they have been increasing by 600,000 a year. But those required by the medicare and medicaid programs, for example, have been pretty much recruited by now. The federal minimum wage increase (from $1.40 to $1.60 an hour), which went into effect February 1, will inevitably depress the growth of demand for workers in services generally and also in trade. Finally, demand for industrial workers, which hit a new high recently, will ease in coming months when inventories taper off.

Adjusting for all these depressants on demand, how many additional employees will be required in the 1968 economy? Real G.N.P. has been rising at a rate of at least 4 percent a year lately. With productivity now rising, 4 percent growth should create demand for not more than 1,300,000 nonfarm jobs in the next year. Roundup anticipates that real G.N.P. growth will slow down to 2 percent or less, and new demand will be limited to some 700,000, most in government.

Supplying even the higher number of employees in 1968 should represent no problem. In the past three years the labor force has grown by an annual average of 1,400,000; it is expected to do so again this year. Most of the gains will be in the prime age group, i.e., men and women in their twenties who tend to be full-time employees vs. the rapid labor-force growth a few years back of teenagers, often part-timers.

Aside from these prospective additions to labor-force supply, it now seems clear that we have been unaware of the size of what might be called "hidden unemployment reserves"—the group, mostly women, teenagers, and elderly people, who move in and out of the labor force. A recent study by two close stu-

dents of the subject, N. J. Simler and Alfred Tella, suggests that there were two million such pepole earlier in the 1960's, representing on the average some 2.5 percent of the total labor force. At the turn of the year, with unemployment much lower, this reserve was 0.7 percent but still had over 500,000 people in it.

There are several reasons for this massive shift in the labor force. Government programs, involving one million trainees now, are in effect turning out "extra workers." The sharp decline in the birth rate has left more women free to work. And some students have been drafted, technically moving them into the total labor force.

The armed forces grew by over 500,000 in 1966, but not much in the past year. A major buildup now, from the present 3,500,000 total, would obviously cause some disruptions, with many of the jobs being vacated by young men, some of them highly skilled. But on balance, it is hard to foresee any circumstances in which labor shortages will be a problem this year.

Even on the Administration's economic forecast, which looks for real G.N.P. growth of over 4 percent for 1968, the unemployment rate is likely to be higher by the end of the year. On Roundup's January projection of 2 percent, the rate could be higher in the next year by over 0.5 percent. And it could rise by over 1 percent should really drastic measures be taken in defense of the dollar.

HOUSING AT RISK

The question about housing this year is to what extent, and how soon, last year's gains will be undone. Private nonfarm housing starts last year recovered sharply from the effects of the money crunch of 1966, rising from a rate of only 900,000 at the end of the year to one more than 500,000 higher at the end of 1967. But starts have fluctuated wildly in recent months: they were up to 1,567,000 in November, down to 1,235,000 in December, and back up to 1,528,000 in February. On the average the rate has recently been close to the 1,467,000 level of 1965.

After two years of subnormal building activity and falling vacancy rates, it is clear that lack of demand for housing is not a problem but that the availability of mortgage financing is becoming one. Funds available for mortgages have been declining; this fact in itself would ensure a fall in starts around midyear or even sooner.

Before the gold crisis last month, the lowest projections for late 1968 had starts at a rate of around 1,200,000 then. Roundup in January expected the rate would level out around 1,400,000—and then begin to rise in 1969—on the assumption that funds for housing would loosen up after a downturn in inventory buying. But the new world crises since January—in Vietnam and the gold markets of Europe—will probably reduce the funds available for building later in the year, and so reduce the rate of starts.

The main immediate problem is the renewed squeeze at the thrift institutions. S. and L. savings growth last year hit $11 billion. The rate of inflow since last summer has dropped to about half that much. It had been expected to stay there, but now the gold crisis has made it likely that inflows will diminish.

S. and L.'s, however, used some of their 1967 inflows to build up their liquidity, putting some $4 billion into government securities or repayments of advances from the Federal Home Loan Banks. This year, however, they will do some reborrowing and selling to supplement the funds available for mortgage lending: any funds that *are* available can be lent. Indeed, the S. and L.'s will probably borrow very heavily from the home-loan banks if their own savings inflows come to a halt. For the time being, they may not have to cut mortgage lending very far. The mutual savings banks, similarly, could sell off some of the corporate bonds they accumulated last year, and so maintain their mortgage lending.

Other traditional mortgage lenders, meanwhile, are beginning to find that alternative investments are more attractive. With credit tightening and long-term interest rates higher than they have been in a century, a further diminution may be expected in mortgage investments by individuals, commercial banks, and insurance companies.

Government help for the mortgage market, which was rushed to the rescue in the 1966 credit crunch, may be called upon again in 1968. Although the Federal National Mortgage Association has about used up some special assistance funds appropriated for it by Congress in 1966, it still is conducting its larger secondary-market operations. The President has proposed to make these completely private—which would facilitate Fanny May's own borrowing in order to buy mortgages. The President also proposes to provide flexible interest-rate ceilings on FHA- and VA-guaranteed mortgages, making them more attractive to lenders; and with the same general idea in mind, several eastern states are reconsidering old usury laws that limit rates on mortgages and have, accordingly, made them unsalable recently.

One-third of the builders reporting to Fortune's semi-annual survey of the industry expected money to get still tighter, and an even larger proportion (though not a majority) said that availability of funds is already affecting their ability to construct new units this year. A good many acknowledge that they did better in 1967 than they had expected to, partly because mortgage availabilities exceeded expectations. But the builders now seem to be too optimistic, for their present plans would indicate a total of nearly 1,500,000 starts for this year—i.e., slightly higher than recently, both for apartments and for single-family homes.

ADDING TO THE MARKET

One possible casualty of world events will be the President's new housing program, parts of which will be delayed. The program called for 175,000 private and 75,000 public housing starts in fiscal 1969 (and for rehabilitation of 50,000 units). Almost half these new units are already planned for under existing legislation. However, there are apt to be delays in the rest, partly because of the new fiscal pressures. Actually, even aside from these, the proposed legislation is so complicated, and it will take so long for Congress to consider and for the programs involving private builders to be implemented, that some delays beyond original expectations were likely anyway. But if Congress goes along with the President, all this could conceivably add as much as a quarter million starts to the building rate by, say, 1970. Most of these units might be viewed as housing that would be unbuilt under today's market conditions. The additions are in low- and middle-income groups barely able to afford new housing when interest rates are low—and kept out of the market when rates are at their present high levels.

The rising costs of money, land, and construction are now all limiting the demand for housing; so is the call-up of men by the armed forces, which inhibits household formation. Actual demand exceeded new units built in 1967, i.e., the stock of unoccupied rental units and unsold homes was reduced, by some 100,000. In 1968, even with the expected decline later in the year, total construction will top last year's figure by about 100,000 units and may be close to meeting the kind of demand that will be encountered under this year's conditions. Under normal conditions, Fortune estimates, population pressures would be pushing the market demand toward a level of two million units.

Mr. PROXMIRE. Now, Mr. President, as chairman of the Joint Economic Committee, I feel I have a duty to warn Senators about what I believe to be the consequences of their vote on what is likely to be the most far-reaching and significant economic legislation before the Congress this year.

I fully understand the desire of all Members of the Senate to balance the budget, to stop inflation, to restore confidence in the dollar and I share their determination enthusiastically.

Mr. President, it is not enough simply to have an emotional feeling about matters that have such a deep and profound impact on so many millions of Americans and have such a vast effect on the growth of this economy.

Certainly the vote of this body to reduce expenditures indicates its preponderant determination to do exactly that this year, regardless of how we act on the Smathers-Williams amendment today. As I say, I wholeheartedly approve of reducing expenses, and that determination will go into effect regardless of how we act on the Williams-Smathers amendment today.

But for the Senate to impose a fiscal policy on this Nation that is sure to increase unemployment by as much as 1 million persons within the coming year is an economic blunder that would be most foolish and it would be based very largely, not on a careful calculation of what our economy needs, but on the emotional reaction to a crisis which can be met far more effectively if we are prudent and careful about our fiscal policy.

I am convinced that the Smathers-Williams package will increase unemployment without reducing the deficit. I say this because if the economy is depressed, if income is reduced, if jobs are eliminated, revenue will drop even though tax rates are higher.

I say this because, as Fortune magazine expresses it so well, it is very possible that the inflationary forces at work in the economy are already beginning to diminish and that with both manpower and factory capacity already exceeding demand, there is no reason why we cannot produce all that our economy needs and more without inflation, provided we have appropriate wage-price policies that are entirely aside and apart from the Smathers-Williams package.

Mr. President, I ask unanimous consent to have printed at this point in the RECORD an analysis of the most recent statistics we have received from the Defense Department.

There being no objection, the statistics were ordered to be printed in the RECORD, as follows:

SELECTED ECONOMIC INDICATORS FROM THE DEPARTMENT OF DEFENSE

(NOTE.—The attached table shows selected financial and employment data related to the impact of Defense programs on the economy. The data reflected in the table cover seven major subject areas, beginning with the first quarter of calendar year 1966 and continuing through the latest month for which information is available. The chart covers three areas—obligations, expenditures and contracts—by quarter year. Explanations of the terms used are also attached.)

EXPLANATIONS OF THE TERMS USED

I. *Military Prime Contract Award.* A legally binding instrument executed by a military department or Department of Defense Agency (DOD component) to obtain equipment, supplies, research and development, services or construction. Both new instruments and modifications or cancellations of instruments are included; however, modifications of less than $10,000 each are not included.

The series includes awards made by DOD components on behalf of other Federal agencies (e.g., National Aeronautics and Space Administration), and on behalf of foreign governments under both military assistance grant aid and sales arrangements. It also includes orders written by DOD components requesting a non-Defense Federal agency to furnish supplies or services from its stocks (e.g., General Services Administration stores depots), from in-house manufacturing facilities (e.g., Atomic Energy Commission), or from contracts executed by that federal agency.

The series does not include awards paid from post exchange or similar non-appropriated funds, nor does it include contracts for civil functions, such as flood control or river and harbors work performed by the Army Corps of Engineers. Project orders issued to Defense owned-and-operated establishments, such as shipyards and arsenals, are not included, but contracts executed by such establishments are.

The distribution by broad commodity group includes only contracts which are to be performed within the United States or its possessions. Each commodity group includes not only the indicated end item, but also associated components and spare parts, research and development, and maintenance or rebuild work. Electronics and Communications includes only such equipment and supplies as are separately procured by DOD components. Electronics procured by an aircraft prime contractor is reported as Aircraft. Other Hard Goods contains tank-automotive, transportation, production, medical and dental, photographic, materials handling, and miscellaneous equipment and supplies. Soft Goods includes fuels, subsistence, textiles and clothing. All Other contains services (e.g., transportation) and all new contracts or purchase orders of less than $10,000 each. Commodity identification is not available for these small purchases.

Work done outside the United States refers to the location where the work will be physically performed. About 55–60% of this work is awarded to U.S. business firms, but a lesser percentage of the contract dollars in this category directly impacts on the U.S. economy.

II. *Gross Obligations Incurred.* Total amounts recorded in official accounting records of the military departments and Defense Agencies from source documents such as signed contracts or any instrument which legally binds the government to payment of funds. Present coverage extends only to general fund accounts; obligations incurred in revolving funds are excluded. Included, and double-counted, are obligations which are recorded first when an order is placed by one appropriation upon another appropriation, and second when the latter appropriation executes an obligation for material or services with a private supplier. This duplication averages about 8% of gross obligations.

a. *Operations.* The Military Personnel appropriation and Operation and Maintenance appropriation of the Department of Defense.

b. *Procurement.* The Procurement appropriation.

c. *Other.* The RDT&E, Military Construction, Family Housing, Civil Defense, and Military Assistance appropriations.

III. *Gross Unpaid Obligations Outstanding.* Obligations incurred by the Department of Defense for which it has not yet expended funds. Present coverage extends only to general fund accounts; obligations in revolving funds are excluded.

IV. *Net Expenditures.* Gross payments less collections by the military departments and Defense Agencies, including revolving funds and Military Assistance. Payments represent checks issued.

V. *DOD Personal Compensation.* Wages and salaries earned by personnel employed by the Department of Defense. Military compensation represents pay and allowances to active duty personnel; reserve pay and retired pay are excluded. Civilian compensation represents gross pay and includes lump sum payments for final annual leave. Both figures are inclusive of individual contributions to retirement and social insurance funds, but are exclusive of any employer contributions to these funds.

VI. *Outstanding Payments.* Payments to contractors by the military departments and Defense Agencies made before the goods or services contracted for are completed and delivered.

a. *Advanced Payments.* Payments to contractors in advance of performance of a contract.

b. *Progress Payments.* Payments to contractors as work progresses on a contract. These payments serve to reimburse the contractor for a major portion of the costs incurred to date.

VII. *Strength.* The number of persons on active duty with the Department of Defense at the end of the period.

a. *Military.* Men and women on continuous or extended active duty. Excludes reserves on temporary active duty for reserve training.

b. *Civilian.* Direct hire personnel.

SELECTED DEFENSE DEPARTMENT ECONOMIC INDICATORS

[Dollars in millions. Manpower in thousands. Quarters by calendar year]

	1966				1967							1968	
	I	II	III	IV	I	II	III	October	November	December	IV	January	February
I. Military prime contract awards:													
Aircraft	$1,945	$2,989	$2,696	$2,262	$2,102	$3,049	$2,513	$1,249	$578	$805	$2,632	$442	[1] $478
Missile and space systems	1,040	987	1,314	861	1,230	1,166	1,580	323	429	316	1,068	348	[1] 475
Ships	355	491	876	239	679	407	417	153	147	110	410	109	[1] 122
Weapons and ammunition	555	1,486	692	940	818	1,769	1,104	454	451	439	1,344	226	[1] 373
Electronic and communications equipment	918	1,574	666	915	971	1,848	816	272	247	305	824	359	[1] 220
Other hard goods	843	1,842	660	1,029	915	1,564	785	252	153	248	653	246	[1] 351
Soft goods	709	922	1,078	989	638	652	1,056	175	118	198	491	437	[1] 137
Construction	207	392	198	150	232	626	232	56	44	113	213	61	[1] 63
All other	1,406	1,963	2,356	1,639	1,605	1,987	2,335	522	486	649	1,657	457	[1] 551
Total (excluding work outside the United States)	7,978	12,646	10,536	9,024	9,190	13,068	10,838	3,456	2,653	3,183	9,292	2,685	[1] 2,770
Total, seasonally adjusted	8,703	10,144	10,716	10,149	10,171	10,667	10,961	[2] 3,626	[2] 3,308	[2] 3,479	[2] 10,413	[2] 2,887	[1] 3,445
Work outside the United States	521	1,195	856	672	453	834	891	193	117	145	455	288	[1] 139
II. Gross obligations incurred:													
Operations	8,326	9,604	10,426	9,702	10,229	11,435	11,224	3,776	3,374	3,663	10,812	3,798	(*)
Procurement	4,374	8,539	5,368	5,276	5,113	8,948	6,154	2,699	1,717	1,876	6,292	1,784	(*)
Other	2,429	3,470	3,453	2,230	2,519	3,510	3,420	860	665	669	2,194	863	(*)
Total	15,129	21,613	19,247	17,208	17,861	23,893	20,798	7,335	5,755	6,208	19,298	6,445	(*)
III. Gross unpaid obligations outstanding:													
Operations	3,828	3,777	4,792	5,024	4,644	4,513	5,267	5,270	5,050	5,150	5,150	5,127	(*)
Procurement	18,023	22,119	22,736	23,173	22,780	25,248	24,925	25,423	24,982	24,856	24,856	24,197	(*)
Other [3]	5,625	5,942	8,026	7,253	6,996	7,506	7,978	7,854	7,609	7,360	7,360	7,329	(*)
Total [3]	27,476	31,838	35,554	35,450	34,420	37,267	38,170	38,547	37,641	37,366	37,366	36,653	(*)
IV. Net expenditures:													
Operations	7,689	9,076	8,968	9,087	10,002	10,731	10,001	3,641	3,456	3,397	10,494	3,550	(*)
Procurement	3,651	3,886	4,392	4,264	5,074	5,282	6,060	2,005	1,890	1,704	5,598	2,274	(*)
Other	2,757	2,647	2,484	3,092	3,160	2,001	3,047	790	847	724	2,363	1,153	(*)
Total	14,097	15,609	15,844	16,443	18,236	18,014	19,108	6,436	6,194	5,825	18,455	6,977	(*)
V. DOD personal compensation:													
Military	3,181	3,249	3,551	3,606	3,624	3,646	3,842	1,264	1,297	1,411	3,972	1,338	(*)
Civilian	1,937	2,015	2,105	2,135	1,270	2,248	2,271	773	772	787	2,332	828	[1] 770
Total	5,118	5,264	5,656	5,741	5,794	5,894	6,113	2,037	2,069	2,198	6,304	2,166	(*)
VI. Outstanding payments:													
Advance payments	66	79	90	83	92	80	110	(*)	(*)	(*)	134	(*)	(*)
Progress payments	4,402	4,346	4,750	5,461	5,981	6,765	7,179	(*)	(*)	(*)	7,491	(*)	(*)
Total	4,468	4,425	4,840	5,544	6,073	6,845	7,289	(*)	(*)	(*)	7,625	(*)	(*)
VII. Strength (manpower):													
Military	2,969	3,094	3,229	3,334	3,371	3,377	3,412	3,416	3,412	3,398	3,398	[1] 3,427	(*)
Civilian	1,088	1,138	1,184	1,230	1,268	1,303	1,274	1,277	1,277	1,271	1,271	1,267	[1] 1,265

[1] Preliminary.
[2] Revised.
[3] Entire series adjusted to exclude revolving funds.

Note: Asterisks for indicators other than No. VI indicate information not available at time of publication. Indicator No. VI information available only on a quarterly basis. Totals may not add due to rounding.

Mr. PROXMIRE. Mr. President, when I became chairman of the Joint Economic Committee, I recognized that we had not gotten the kind of information from the Defense Department that we needed if we were to judge the impact of military spending on the economy. We had not received information that is crucial to a reasonable understanding of what is going to happen to our economy in the future.

We have gotten those crucial military spending statistics since last July. We now know how the actions of the Defense Department in procurement and personnel policies are going to affect the economy.

To summarize very briefly what the statistics show, they indicate that the big buildup that we have had in the past has leveled off. They show that the stimulation experienced from the Vietnam war has ended and that unless there is a vast escalation in Vietnam, it will not have a significant effect on expanding the economy.

That is one more argument, and a most convincing argument, that we must not pass the Smathers-Williams package which includes not only a spending cut—which is so wise and necessary—but also a surtax which combination will result in my view in a heavy increase in unemployment.

Mr. President, I yield the floor.

Mr. SMATHERS. Mr. President, I yield myself 10 minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 10 minutes.

Mr. SMATHERS. Mr. President, first, congratulate the distinguished Senator from Wisconsin for his remarks outlining how he believes we should approach the problem that confronts us with respect to our economy.

Everyone should recognize that we can hunt through the business magazines and come across some article that agree with the theories that appeal particularly to us.

As I listened to my distinguished colleague, the Senator from Wisconsin, I could not help noting the part of his speech in which he said that our problems are such that we would not need the kind of medicine proposed in the Williams-Smathers package if we have appropriate wage-price policies. We apparently do not have appropriate wage-price policies, and this is one of the reasons we find ourselves in a period of inflation—which is evident from the economic indicators that we have before us today.

Moreover, one of the reasons for the package which the distinguished Senator from Delaware and I offer is to prevent the need for wage and price controls. It is evident that if we do nothing about our problem, have no self-discipline, take no action to increase taxes, and take no action to cut expenses, we will have to have wage-price controls.

It is evident that if we escalate the war further—which we hope will not be necessary, but cannot rule out because we do not know what the response of Hanoi will be to the offer of the President—we will have to have ways and means to finance that effort, and we may have to have wage and price controls.

Mr. PROXMIRE. Mr. President, will the Senator yield?

Mr. SMATHERS. I yield.

Mr. PROXMIRE. Mr. President, I do not advocate wage and price controls. I never have, and I do not now.

I referred to the wage and price guidelines policy in effect from 1951 to 1955. They worked very well. A figure was specified—which was modest and acceptable—to which wages could rise, and then a moderate raise in prices was recommended by a board of experts appearing before our committee.

Mr. SMATHERS. I thank the Senator. The wage and price guidelines we had then have long been inoperative. We now have no meaningful wage and price policy, in my opinion.

What interests me most about the argument of the distinguished Senator from Wisconsin and other Senators who adhere to his views—and I have respect for those views—is that they believe we should do something. They do believe that we should exercise expenditure control. In other words, they want to cut the amount of money which the Government is spending, but they are fearful that a tax increase will lead to unemployment. A number of economists would argue, however, that if the budget cuts were large enough, we could also have unemployment. This is the sort of economic argument on which we can find so-called experts going both ways.

I think we ought to acknowledge the fact that we do have a rather serious condition of inflation. All we have to do is to ask any housewife how much she can get for a $20 bill in a grocery store compared to what she could get for that same bill just 2 years ago. The prices of articles on shelves everywhere in America are going up and nothing is going down. So, to argue that we do not have a rather serious type of inflation in this country is to ignore the facts that exist before our eyes everywhere we go.

To give some figures from the Department of Commerce and the Bureau of Labor Statistics, let us look at the total personal income of the United States of America. It has gone from $650.9 billion in January to $658.4 billion in February of this year. That is a very substantial increase in personal income for a single month.

The unemployment rate has gone down from September of last year, when it was 4.1 percent, to 3.7 percent in February. This reduction in unemployment means that there has been an increase in production. It is a fact that we now need greater production, but how and where will we get it if we do not have enough people to fill the jobs?

I have looked recently in my State at advertisements in the papers, and I read advertisements for all kinds of people. It is my impression that employers are asking whether people are willing to come to work for much higher rates of pay than were paid before. The same situation is true all over the United States.

I will not read all of the statistics, but I would like to point out just a few more. With relation to private housing starts, there were 1,445,000 in September, at seasonally adjusted annual rates. There were 1,566,000 in February.

The President said in his speech the other night that defense spending will have to be increased by about $2.5 billion over the amount which we had previously anticipated in both fiscal 1968 and 1969. That much more money will be spent for defense goods and less goods will be available to the civilian side of our economy, which is a classic inflationary condition.

Also, consumer spending in January and February was such that the experts expect the increase in the first quarter of 1968 over the last quarter of 1967 to be $13 billion at annual rates, more than twice the increase in the previous quarter. This is the estimate of the Federal Reserve Board staff.

Mr. President, I ask unanimous consent that a table of selected economic indicators be printed at this point in the RECORD.

There being no objection, the chart was ordered to be printed in the RECORD, as follows:

IMPORTANT MEASURES OF ECONOMIC ACTIVITY

Monthly series	February	January	December	November	October	September
Personal income (billions)	$658.4	$650.9	$649.3	$642.4	$635.9	$634.4
Unemployment rate (percent)	3.7	3.5	3.7	3.9	4.3	4.1
Weekly hours of work (average hours per week)	40.7	40.2	40.7	40.8	40.7	40.8
Industrial production (percent)	161.3	161.2	162.0	159.5	156.9	156.8
Retail sales (billions)	$27.4	$27.0	$26.5	$26.4	$26.1	$26.7
Housing starts (thousands)	$1,566	$1,453	$1,250	$1,590	$1,496	$1,445
New construction (billions)		$80.0	$77.9	$77.8	$76.9	$76.3
Inventories (billions)		$141.6	$140.7	$139.3	$138.6	$138.1
Durable goods (billions):						
New orders	$25.0	$24.6	$26.5	$23.8	$23.4	$23.4
Shipments	$24.5	$25.2	$25.3	$23.6	$22.3	$22.9
Unfilled orders	$79.5	$79.0	$79.6	$78.5	$78.3	$77.3
Prices (percent):						
Consumer		118.6	118.2	117.8	117.5	117.1
Wholesale	107.8	107.2	106.8	106.2	106.1	106.2

Quarterly series	1967 (billions)				1966–IV (billions)
	IV	III	II	I	
Gross national product	$807.3	$791.2	$775.1	$766.3	$807.6
Personal consumption	501.8	495.3	489.7	480.2	501.4
Corporate profits	83.0	79.2	78.3	78.1	84.6

Mr. SMATHERS. Mr. President, we are experiencing inflation which is eroding the value of the dollar and reducing the real income of everyone who lives on a pension, a wage or other type of fixed income. The value of their fixed incomes is depreciating, and we want to stop the slide.

This situation also affects the Federal Government, which paid $12½ billion of interest on the debt in the fiscal year 1967 and is expected to have to pay $14.4 billion in fiscal 1969.

We seek to bring the balance-of-payments deficit under control. We have taken some significant steps to reduce the flow of funds overseas. But we need to do something at home.

In my opinion, the President of the United States made a particularly appealing speech the other night on television and radio. Of course, we were all stunned and shocked by the announcement he made with respect to his personal plans for the future, and it may have caused us to overlook what he said about our domestic economy. I should like to quote from his speech. He said:

The tentative estimate of those additional expenditures is $2.5 billion in this fiscal year and $2.6 billion in the next fiscal year.

These projected increases in expenditures for our national security will bring into sharper focus the Nation's need for immediate action, action to protect the prosperity of the American people and to protect the strength and the stability of our American dollar.

The President continued:

On many occasions I have pointed out that without a tax bill or decreased expenditures, next year's deficit would again be around $20-billion. I have emphasized the need to set strict priorities in our spending. I have stressed that failure to act—and to act promptly and decisively—would raise very strong doubts throughout the world about America's willingness to keep its financial house in order.

Yet Congress has not acted. And tonight we face the sharpest financial threat in the postwar era—a threat to the dollar's role as the keystone of international trade and finance in the world.

I skip a portion and continue:

But to make this system work, the United States just must bring its balance of payments to—or very close to—equilibrium. We must have a responsible fiscal policy in this country.

The passage of a tax bill now, together with expenditure control—

That is exactly what we have in the Williams-Smathers package—

that the Congress may desire and dictate, is absolutely necessary to protect this nation's security and to continue our prosperity, and to meet the needs of our people.

Many times people have said to me, "Is the President supporting your proposal?"

I replied, "I don't know if he supports this exact package, but I think he supports the principle behind the proposal."

If anyone is in doubt about whether or not the President supports the proposal, all they need do is remember what he said last Sunday evening.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. SMATHERS. I yield myself 5 additional minutes.

The President continued:

We must therefore now do everything we can to move from debate to action, from talking to voting, and there is, I believe—I hope there is—in both Houses of the Congress a growing sense of urgency that this situation just must be acted upon and must be corrected.

I skip a portion and continue:

But in these budgetary matters, the President does not decide alone. The Congress has the power, and the duty, to determine appropriations and taxes.

And that is what we are trying to do in the package which is before the Senate at this time.

The Congress is now considering our proposals, and they are considering reductions in the budget that we submitted.

As part of a program of fiscal restraint that includes the tax surcharge, I shall approve appropriate reductions in the January budget when and if Congress so decides that that should be done.

It seems to me, Mr. President, that he put the matter squarely where it belongs. He called on Congress to act. We—the distinguished Senator from Delaware and I—have put these two items into a package, in an effort to impose greater fiscal and financial order on our Government.

Mr. President, if we do not do what has been proposed by the distinguished Senator from Delaware and myself, we will then have a deficit of some $20 to $22 billion. The Federal Government, in order to finance its operations, will have to go out into the private market and borrow enough money to meet its debts. When it does that, it will take money out of some sectors of the civilian economy and there will be less money available for private business. Then what will happen? Interest rates will begin to rise. Activity in the construction industry will slow down, even stop. There will not be money available for some small businesses to expand. We may eventually experience the very deflation and the depression which the distinguished Senator from Wisconsin has said he wants to avoid.

If we do not act, we know that the Chairman of the Federal Reserve Board and the members of the Federal Reserve Board have said that they will have no alternatives but to tighten up. In order to keep this country from completely destroying the value of its dollar, they will have to push the prime interest rate up; and when they do that, it will mean higher interest rates for all loans, and that will mean a decidedly less exhuberant economy.

So we must do what the Senator from Delaware and I recommend. We must have expenditure control to cut $6 billion from proposed expenditures in fiscal 1969, and at the same time we must have a tax increase, a 10-percent surcharge of the type which has been recommended by the administration. Not only would that save the $6 billion on the one hand, but also it would result in an increase in receipts of almost $10 billion, which would help us more adequately meet the necessities of our time.

In this morning's issue of the Wall Street Journal, I read with great interest the various comments that members of the financial community have made with respect to what we in Congress should do.

In the first column on the left of the front page, the first man asks:

Is he a lame duck President or isn't he? Will Congress cooperate with him out of patriotism, or will it not because of politics? Who will be the candidates? None of the major problems have been obviated by all this. If Congress mulls a tax increase too long, I am afraid we'll have gold speculation abroad again before very long.

Then Fred Lange, research chief at Blair & Co., agrees that worries about the balance-of-payments deficit and the international standing of the dollar will reemerge before long and pose problems for the market.

"Tight money will stay relatively tight" because of the payments problem, he says, and "any change there depends on fiscal (tax and spending) action by Congress."

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. SMATHERS. I yield myself 3 additional minutes.

John Lazar, research director at Thomson & McKinnon, says flatly:

I think a tax increase will be voted. That would mean no tight money, and that would be good for the market.

Robert S. Waill, research chief of Van Strum & Towne, an investment counseling firm, says that he fears that if Congress does stall a tax boost further, the Federal Reserve Board may impose tight credit restraints that would hurt stock prices. Meanwhile, however, he looks for an important rally.

All these people came to the same conclusion, which is that if we are to maintain our financial standing, we must show people throughout the world—and prove to ourselves—that we have enough gumption and enough courage to impose a tax increase on ourselves and at the same time reduce the expenditures of the Government.

Mr. President, I close by reminding Senators that between the fiscal year 1961 and 1968, the U.S. Government will spend almost $55 billion more than it will collect in taxes.

We have spent abroad $16 billion more than we have received from overseas. The average pay per hour has risen by one-third. The cost of living has gone up almost one-fifth since 1960. Interest rates, as we know, have risen to a level which is the highest in over 100 years; and we cannot permit them to go higher. At the same time, our U.S. gold reserves have dropped by $7.3 billion; and the claims of foreigners have risen by about $11.5 billion. However, there are actually $34 billion overseas ready to be presented against our gold if we do not demonstrate that we at home are willing to make that dollar as sound as it should be so that the central bankers will not be so nervous that they will rush to us and say, "We want gold in exchange for those dollars." The time has come for us to act.

Mr. President, I ask unanimous consent to have printed in the RECORD a statement by the Secretary of the Treasury when he was at Stockholm, and a communique issued by him.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

STATEMENT BY THE HONORABLE HENRY H. FOWLER, SECRETARY OF THE TREASURY OF THE UNITED STATES AND CHIEF OF U.S. DELEGATION TO THE GROUP OF 10 MEETINGS, STOCKHOLM, MARCH, 30, 1968

I wish to make a reaffirmation, on the part of the United States, of our own internal responsibilities in connection with our re-

sponsibilities to the governments which have taken this action today and to other governments of the Free World which are not represented at this meeting:

The ability of the United States to sustain strong, stable and non-inflationary growth is now being severely challenged and tested by events at home and abroad—and the outcome is watched closely by the rest of the world.

And for good reason.

The manner in which we respond to this test will determine not only our own economic future but that of the entire Free World as well. The strength of the world economy and the continuance of a viable international monetary system depend to a large extent on the level of economic activity in the United States and the maintenance of a stable dollar—stable in terms of prices and exchange rates.

The United States has now entered the eighth year of economic expansion—the longest and strongest period of economic growth in our history. Over the past 20 years, fueled by a strong U.S. economy and a strong dollar as the principal reserve and transaction currency, the Free World has made the greatest strides in trade and development in recorded history.

But a continuation of this progress is menaced by twin deficits—in our international Federal budget and in our international balance of payments. And there is an overwhelming conviction that this year—now—the United States should direct its economic and financial policy toward reversing decisively the trend toward sharp increases in these deficits in 1968.

That is not just the view of the Secretary of the Treasury. It is shared by the President, the Federal Reserve Board, the Council of Economic Advisors, and the vast preponderance of economic and financial authorities, private and public.

But, as yet, that sentiment has not been translated into the legislative action that is necessary.

To meet the challenge before us President Johnson has called on the nation to act firmly, promptly, and with the highest degree of responsibility. He has urged "a program of national austerity to insure that our economy will prosper and that our fiscal position will be sound."

In his New Year's Day Message on the Balance of Payments, in his State of the Union Message, and in his Budget Message, the President stressed that failure to take decisive fiscal action—to enact the tax increase—would raise strong doubts throughout the world about America's willingness to keep its financial house in order.

In their recent communique on March 17, the Central Bank Governors noted that an underlying premise for the measures taken was their belief that it was "the determined policy of the United States Government to defend the value of the dollar through appropriate fiscal and monetary measures and that substantial improvement of the United States balance of payments is a high priority objective."

This was but a realistic recognition of the fact that, without the restoration of stability to the dollar as a reserve currency, all efforts to preserve, maintain and improve the international monetary system are endangered.

Fortunately, I am able to report to you that there is a rising tide of feeling in the Congress that the time for decisive action on the fiscal front is approaching. There is a growing sense of urgency that our financial situation must be corrected if representative Government is to perform its function in meeting the necessities of the people rather than satisfying wishful thinking.

The direct measures announced by the President to achieve a $3 billion reduction in our balance of payments deficit this year—the restrictions upon outflows of funds for direct investments abroad by business, a reduction in foreign lending by our banks and other financial institutions, actions to reduce our foreign travel expenditure deficit, to reduce or neutralize the foreign exchange costs of our government expenditures abroad, and to increase foreign tourism and investment in the United States—are all necessary and important. Yet by themselves they cannot do what must be done. We also must have the tax increase and other internal measures that will keep our economy on an even keel.

The compelling fact is that all our efforts—direct and indirect, short- and long-term—to improve our balance of payments position, run the risk of failure unless we reduce a highly stimulative budget deficit and prevent the kind of excessive growth and inflationary pressures that reduce our trade surplus and destroy confidence in the dollar. In short, unless we take the course of financial responsibility, all other efforts may be in vain.

While the success of the Action Program to deal with our balance of payments deficit will depend largely on the support of the American people, it will also rest, to a considerable degree, on the cooperation we seek from other nations.

We are asking the United States' trading partners, and principally the countries of Western Europe whose large balance of payments surpluses are the counterpart of our deficits, to accept much of the burden of adjustment resulting from the U.S. program.

The recent, historic growth in international cooperation is evidenced also by the progress that has been made in creating Special Drawing Rights in the International Monetary Fund to serve as a supplement to gold and the reserve currencies.

I am hopeful that the amendment to be submitted shortly to the 107 member governments of the IMF will be ratified promptly by the requisite majorities.

As a result of the decision taken in Stockholm today, the new IMF facility will supply additional liquidity to the world in amounts needed to accommodate an increasing volume of trade and capital movements.

The adjustments we are asking other nations to make under our balance of payments program—and their continued cooperation in strengthening the international monetary system—will be more easily obtained if they know that the United States is acting in a fiscally responsible manner at home.

We must demonstrate to them—through deeds rather than words—the sincerity of our expressions of determination to hold our economy to steady, stable non-inflationary growth, and in this way maintain and increase the strength of the dollar.

COMMUNIQUE OF THE MINISTERIAL MEETING OF THE GROUP OF 10 ON MARCH 29–30, 1968, IN STOCKHOLM

1. The Ministers and central bank Governors of the ten countries participating in the General Arrangements to Borrow met in Stockholm on 29-30th March, 1968, under the chairmanship of Mr. Krister Wickman, Minister for Economic Affairs of Sweden. Mr. Pierre-Paul Schweitzer, Managing Director of the International Monetary Fund, took part in the meeting, which was also attended by the President of the Swiss National Bank, the Secretary-General of the O.E.C.D. and the General Manager of the B.I.S.

2. Ministers and Governors first discussed the international monetary situation and, second, they considered a report by the Chairman of their Deputies on a Proposed Amendment to the Articles of Agreement of the I.M.F. which has been drawn up in accordance with the Resolution of the Board of Governors of the I.M.F. adopted at the annual meeting of the Fund in Rio de Janeiro last September. This Amendment relates to the scheme for special drawing rights in the Fund, the Outline of which was approved at that meeting, and to improvements in the present rules and practices of the Fund.

3. The Ministers and Governors expressed great satisfaction with the action taken by the United Kingdom which is designed to achieve a substantial overall surplus in the United Kingdom's balance of payments by 1969. They also took note with equal satisfaction of the declaration made by the Secretary of the Treasury of the United States stressing how much the United States is conscious that early action is necessary, through appropriate fiscal and monetary measures, to improve substantially its balance of payments and that this objective is given the highest priority by the President of the United States in the interests not only of the United States economy but also of the general stability of the international monetary system.

4. The Ministers and Governors reaffirmed their determination to co-operate in the maintenance of exchange stability and orderly exchange arrangements in the world, based on the present official price of gold.

They consider that, while the scheme to establish special drawing rights in the I.M.F. referred to in paragraph 7 on which they have now agreed will not provide a solution to all international monetary problems, it will make a very substantial contribution to strengthening the monetary system.

6. Moreover, they intend to strengthen the close co-operation between governments as well as between central banks to stabilise world monetary conditions.

7. As regards the Amendment to the Articles of the I.M.F., the Ministers and Governors noted with appreciation the performance of the Executive Directors of the I.M.F. in carrying out the task entrusted to them and agreed to give the necessary authority to the Executive Directors of their countries so that, in co-operation with those of other countries, they will be able to complete the final draft of the proposed Amendment.

In approving the changes in the rules and practices of the existing structure of the I.M.F., the Ministers and Governors agreed to co-operate with each other and the other members of the Fund to avoid their application in any unduly restrictive manner.

They took not that this proposed Amendment will be attached to a Resolution which will be transmitted to the Board of Governors of the I.M.F. with an explanatory Report and that Governors will be requested to vote by correspondence as is the usual practice of the Fund.

The Ministers and Governors noted that the Managing Director of the Fund was confident that the Executive Directors would be able to transmit these documents to the Board of Governors within a brief period.

8. One delegation did not associate itself with paragraphs 2, 4, 5 and 7 above, in view of the differences which it has found between the Outline adopted at the meetings in London and Rio de Janeiro and the draft text now submitted by the Fund and because the problems which it considers fundamental have not been examined.

Consequently, this delegation fully reserves its position and will wait until it is in possession of the final texts before reporting to its government.

Mr. SMATHERS. Mr. President, I ask unanimous consent to have printed in the RECORD an excerpt from remarks by the Secretary of the Treasury, Mr. Fowler, before the Philadelphia Industrial Payroll Savings Committee, in Philadelphia, Pa., on March 26, 1968.

There being no objection, the excerpt was ordered to be printed in the RECORD, as follows:

EXCERPT OF REMARKS BY SECRETARY OF THE TREASURY ON MARCH 26, 1968

The United States has now entered the eighth year of economic expansion—the longest and strongest period of economic growth in our history. Over the past 20 years, fueled by a strong U.S. economy and a strong dollar

as the principal reserve and transaction currency, the Free World has made the greatest strides in trade and development in recorded history.

But a continuation of this progress is menaced by twin deficits—in our Federal budget and in our international balance of payments. And there is an overwhelming conviction that this year—now—the United States should direct its economic and financial policy toward reversing decisively the trend toward sharp increases in these deficits in 1968.

To continue to accept these deficits under current circumstances is to forsake prudence, take intolerable risks, and refuse to exercise the fiscal and monetary discipline required for the preservation of a balanced prosperity—without which we cannot hope to achieve our goals of peace and progress abroad and domestic tranquility at home born of shared opportunities and benefits.

That is not just the view of the Secretary of the Treasury. It is shared by the President, the Federal Reserve Board, the Council of Economic Advisers, and the vast preponderance of economic and financial authorities, private and public, here and in other lands.

Indeed it is a view shared by many members of Congress of both parties.

But, as yet, that sentiment has not been translated into the legislative action that is necessary to protect the economic security of the American people and the strength of the dollar, to preserve the international monetary system for which the United States, because of the role of the dollar as a reserve currency, has a special responsibility and trust.

To meet the challenge before us, President Johnson has called on the nation to act firmly, promptly, and with the highest degree of responsibility. He has urged "a program of national austerity to insure that our economy will prosper and that our fiscal position will be sound."

Mr. PROXMIRE. Mr. President, I understand I have 2 minutes remaining from the 30 minutes which was yielded to me by the Senator from Louisiana.

The PRESIDING OFFICER (Mr. BURDICK in the chair). Who yields time?

Mr. WILLIAMS of Delaware. I yield 2 minutes to the Senator.

Mr. PROXMIRE. I thank the Senator. I wish to reply briefly to the Senator from Florida and point out that he has emphasized over and over again that the tax increase means no tight money; and that if we have a tax increase, the Federal Reserve Board will reduce interest.

Mr. President, the fact is that the Federal Reserve Board is in the position where it has to maintain high interest rates because of the international situation, the balance of payments, and the outflow of gold.

Under these circumstances, as Fortune magazine pointed out, a monetary policy is more effective than the much slower working higher tax policy. No matter how we act on this bill, we will have to have high interest rates.

The Senator from Florida argued that without a tax increase we would have a deficit of $20 to $22 billion. But this would depend entirely on the economic analysis. If the tax increase, together with spending cuts and high interest rates, reduces employment we will have a higher deficit with this amendment and not a lower deficit.

The Senator from Florida said that we could not have 3.2 percent wage-price guidelines. No one has asked for 3.2 percent guidelines. I am asking for 4.5 to 5 percent wage guidelines, which would be practical if the administration called for them and used them.

The Senator from Florida said we are suffering from inflation, but he said when the housewife goes to the grocery store she knows that prices are going up. This tax increase would not decrease the grocery bill. It could not possibly reduce the price for food because it cannot reduce the demand for food. Government programs will be, as they have been, primarily responsible for the price of food.

Mr. President, I conclude by pointing out that the Senator from Florida said that we do not have enough people to fill jobs. Unemployment has been at about the same level for the last 2 years. The only analysis of the effort of this surtax on employment that we have had in debate in this body is the ones I just provided from Fortune magazine which shows that unemployment is going to increase in the coming months even without the surtax, and that with the surtax we could seriously worsen the situation.

OIL DEPLETION ALLOWANCE SHOULD BE SHARPLY SLASHED

Mr. President, the most unfair and inequitable deficiency in our income tax program is the oil depletion allowance privilege. As we know, the oil industry is permitted to set aside the enormous percentage of 27½ percent of gross income tax free each year in determining its taxes.

The concept of percentage depletion based on income rather than cost was first devised 40 years ago, when tax rates were a fraction of today's levels. But the tax loss today has zoomed to billions of dollars a year. This allowance, moreover, is permitted in perpetuity so long as there is any flow of oil or gas from the well. There are wells in existence for which depletion allowances have been granted every year since 1926. As corporation income taxes have risen from 14 percent to the present 52 percent, it is obvious that the depletion privilege has expanded enormously in profitability. Moreover, it has given rise to a whole train of similar deductions on virtually everything we extract from the earth.

I want to place the Senate on notice that I intend to introduce an amendment to tax legislation on this floor in the near future which would moderately reduce this loophole. The amendment, which is the same as that offered in the past by our former colleague, Paul Douglas, would reduce the allowance on oil and gas from the present 27½ percent to 15 percent in every case where gross income from oil and gas in any 1 year exceeds $5 million. This would include income from at home and abroad.

In cases where the taxpayer's income from oil and gas was less than $5 million but more than $1 million, the allowance would be reduced to 21 percent. The existing 27½ percent allowance would remain for all those whose gross income from oil and gas amounts to less than $1 million a year. Thus, the small independents and wildcatters would be exempt from the deduction.

I am sure that many of my colleagues join me in opposing any surtax such as that recommended by the administration so long as our tax system remains full of loopholes. It is grossly unfair to increase the burdens on the wage and salary earners of this country while the "fat cats" are untouched. To the administration, I would say that the time for reform is not in the remote future. The time for reform is now. My amendment in itself would increase revenues by perhaps as much as $1 billion. But there are many other reforms which we should also consider. In the aggregate, these would amount to far more than the take of the proposed surtax, and they would do so, not at the expense of the already overburdened wage and salary earners, but at the expense of the privileged and wealthy groups who are now the beneficiaries of our loopholes.

Mr. President, I yield back whatever time I have remaining; and I yield the floor.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Hackney, one of its reading clerks, informed the Senate that pursuant to the provisions of section 1002, Public Law 90–226, the Speaker had appointed Mr. WHITENER, of North Carolina, and Mr. HARSHA, of Ohio, as members of the Commission on Revision of the Criminal Laws of the District of Columbia, on the part of the House.

The message also announced that the House had passed the following bills in which it requested the concurrence of the Senate:

H.R. 203. An act to amend section 2734a of title 10, United States Code, to provide for settlement, under international agreements, of certain claims incident to the noncombat activities of Armed Forces, and for other purposes;

H.R. 2792. An act to amend sections 281 and 344 of the Immigration and Nationality Act to eliminate the statutory prescription of fees, and for other purposes;

H.R. 6347. An act to amend the act of June 28, 1948, as amended, relating to the acquisition of property for the Independence National Historical Park;

H.R. 13176. An act to amend the acts of February 1, 1826, and February 20, 1833, to authorize the State of Ohio to use the proceeds from the sale of certain lands for educational purposes;

H.R. 13781. An act to amend title II of the Marine Resources and Engineering Development Act of 1966;

H.R. 15216. An act to authorize the Bureau of Prisons to assist State and local governments in the improvement of their correctional systems; and

H.R. 15972. An act to permit black and white or color reproductions of United States and foreign postage stamps under certain circumstances, and for other purposes.

HOUSE BILLS REFERRED

The following bills were severally read twice by their titles and referred, as indicated:

H.R. 203. An act to amend section 2734a of title 10, United States Code, to provide for settlement, under international agreements, of certain claims incident to the noncombat activities of Armed Forces, and for other purposes;

H.R. 2792. An act to amend sections 281 and 344 of the Immigration and Nationality Act to eliminate the statutory prescription of fees, and for other purposes;

H.R. 15216. An act to authorize the Bureau of Prisons to assist State and local governments in the improvement of their correctional systems; and

H.R. 15972. An act to permit black and white or color reproductions of United States and foreign postage stamps under certain circumstances, and for other purposes; to the Committee on the Judiciary.

H.R. 6347. An act to amend the act of June 28, 1948, as amended, relating to the acquisition of property for the Independence National Historical Park; to the Committee on Interior and Insular Affairs.

H.R. 13176. An act to amend the acts of February 1, 1826, and February 20, 1833, to authorized the State of Ohio to use the proceeds from the sale of certain lands for educational purposes; to the Committee on Labor and Public Welfare.

H.R. 13781. An act to amend title II of the Marine Resources and Engineering Development Act of 1966; to the Committee on Commerce.

TAX ADJUSTMENT ACT OF 1968

The Senate resumed the consideration of the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

THE SURTAX

Mr. NELSON. Mr. President, I am voting against the pending bill to increase individual income taxes through a surtax.

If passed, it will pile a tax on top of a tax on those who are least able to pay.

It will make increasing demands on their cost of living, and necessitate renewed pressure for added wages to maintain even their present standard of living.

I did vote for and continue to support a move to impose an excess profits tax or war tax on corporations now profiting substantially by the demands on industry because of the Vietnam war.

This is the best solution to the fiscal problems we face; the problems of increasing demands leading to inflation and to the raising of money needed to reduce the deficit.

There should be no profit in war for anybody.

If we insist that we must deprive our young men of their lives and their liberty, then surely we can deny the financial profits of war to the makers of armaments and war supplies.

A corporation war profits tax such as we had in World War II would bring in substantially more money than a surtax on individual income taxes, and it is more equitable. It will represent less sacrifice than that which we ask of our young men.

Corporations are earning and retaining $10 billion to $12 billion in extra profits because of the war.

At the same time other segments of the economy are earning less than before—especially farmers and small businessmen.

One contract alone for the manufacture of M–16 rifles earned a 1,400 percent net profit for a single company.

During World War II we had such a tax, netting $10 billion in 1944 alone. A new excess profits tax on war profits is in order again.

Mr. WILLIAMS of Delaware. Mr. President, the Senator from New York [Mr. JAVITS] desires to make a few remarks.

I suggest the absence of a quorum and I ask unanimous consent that the time not be charged to either side.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. SMATHERS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Who yields time?

Mr. HARTKE. Mr. President, I ask unanimous consent that the Senator from Florida yield to me.

Mr. SMATHERS. How much time does the Senator need? I would have to yield time on behalf of the Senator from Louisiana.

Mr. HARTKE. I would like to proceed for 15 minutes.

Mr. SMATHERS. I am happy to yield to the Senator from Indiana on behalf of the chairman of the committee for 15 minutes.

Mr. HARTKE. I thank the Senator. My remarks will be in opposition to the bill and to the substitute.

Mr. SMATHERS. I understand.

FALLACIES IN CURRENT TAX POLICY

Mr. HARTKE. Mr. President, I wish to speak on the fallacies in the current tax policy.

I am opposed to the continuation of automobile and telephone excise taxes as set forth in the bill before us. They should instead lapse according to the present law rather than being extended further.

I am opposed not just to this change—which is the 12th extension in the decades-long history of this "temporary" wartime tax, whose life is even greater than the wartime "temporary" office structures which until so recently blighted the views of the Mall toward the Lincoln Memorial. Rather, I am opposed to the entire fallacious theory of taxation upon which it is grounded. This proposal is part and parcel of the effort to impose on the American people a remedy for the enormous deficits caused by Vietnam. It is economically the opposite of what is needed. The theory of the tax increase approach assumes that our economy is now expanding at an excessive rate. This is plain not the truth. Our economy is stagnated and barely holding its own.

Together with the surtax proposal, the proposed travel restrictions, the cutback in existing programs for the good of Americans in a host of needy situations, the speedup of tax collections included in this bill and previously, and the other ingenious devices such as participation sales which are continually offered us, this is only one more move toward an increasingly austere regimen whose sterility and ineffectualness the experience of Britain only proves.

In short, viewed both in its narrower confines as dealing only with telephone and auto excises, and in the broader perspective of total economic policy, the bill before us would be far better should the Senate, and the Congress, strike from it section 2 in its entirety. But in order to deal with the bill in its larger setting, I turn first to the analysis of the economic picture which dictates against the excise tax and the surtax, and second, to the reasons for concluding that tax increases at this time tend more toward killing than curing the patient.

THE ECONOMY IS NOT "ROARING DOWN THE ROAD" OF RAMPANT INFLATION

The U.S. economy, Secretary Fowler told us on March 12 at the opening of the Finance Committee hearings on this bill:

> Is a mighty engine of production and distribution—is roaring down the road. It is entering the eighth year of a record-breaking advance . . . But the ride is neither smooth nor safe.

That is the same tone and theme used by the President and amplified in his statement on Sunday night when he announced that he would not be a candidate for President in 1968.

At least according to most of the press comment, and in a variety of statements made by the President and other officials, the need for tax increases, for the surtax, and for the other belt-tightening proposals, the great impelling rationale for more taxes, is as a means to fight inflation. President Johnson put it this way in the state of the Union address on January 17:

> I warn the Congress and the nation tonight that failure to act on the tax bill will sweep us into an accelerating spiral of price increases; a slump in home building; and a continued erosion of the American dollar . . .

In the January 1 message on balance of payments, President Johnson likewise had referred, and in even stronger terms, to inflation as the prime reason for the tax proposals he has made:

> No business before the returning Congress will be more urgent than this: To enact the anti-inflation tax which I have sought for almost a year . . . (which) will help to stem the inflationary pressures which now threaten our economy prosperity and our trade surplus.

VIETNAM IS THE CULPRIT

Secretary Fowler quoted these words, but his reference to inflation was much subordinated to reasoning we have not too often had candidly admitted by the administration. Rather, he repeatedly stressed that our need for these measures develops from the prospect that otherwise "we would have a deficit of about $22.8 billion in fiscal year 1968 and $20.9 billion in fiscal year 1969."

Indeed, he made it clear that the real culprit is these enormous prospective deficits which, "back to back," in his words, "would incur intolerable risks." But he went further and repeatedly acknowledged:

> It is not the rise in regular budget outlays which requires a tax increase but the cost of Vietnam . . . We cannot mistake the connection between the tax increase proposals and the costs of our efforts in Vietnam . . . (the "holddown" budget assures) that the tax increase . . . can and will be removed when hostilities in Vietnam come to an end.

That is exactly what I have been saying for more than 3 years.

Our problems do not arise from traditional demand-supply inflation, but from Vietnam—the problems of our faltering domestic programs, of our balance of payments, of our gold crisis, of a stock market at its lowest ebb in many months—all come from the situation which is 9,000 miles away from home.

Therefore the cure that we, and an increasing number of Americans, believe is the appropriate one is not a tax increase to finance the deficits of Vietnam, but cutting off the bleeding of our tax structure at its source: So I say, cut off, as soon as possible, by every effort at meaningful negotiations, that tragic and inordinately costly conflict.

Recently I came across a word of valuable advice in this circumstance. The writer was not a contemporary, although his timeless words make them completely appropriate today. He was, in fact, one of our foremost Founding Fathers, the author of the Declaration of Independence and third President of the United States. Thomas Jefferson wrote:

> I consider the fortunes of our republic as depending on the extinguishment of the public debt before we engage in any war. If the debt should once more be swelled to a formidable size, its entire discharge will be despaired of, and we shall be committed to a career of debt, corruption, and rottenness, closing with revolution.

"Before we engage in any war," he said. We have not counted the cost in advance, and while our tax policy is being pushed around by Vietnam that war is controlling us and we are not controlling our own destinies. It is a hard taskmaster, a top sergeant telling the Commander in Chief how he must run his business, the tail wagging our fiscal dog. The real "extinguishment of the public debt," not the nostrums and pallitives of austere tax measures whose side effects go with the dangerous drugs, is perforce waiting upon the conclusion of that sorry misadventure in Asia.

THE STATE OF THE ECONOMY

What is, in fact, the state of the economy? Is it indeed, as the President has said, "the most urgent business" of Congress to enact "the anti-inflation tax"—the surtax which I have from the start opposed—and all its little brothers, including the excise tax adjustment here proposed?

For an answer, let us take a look at some of the judgments of the Joint Economic Committee on the January 1968 Economic Report of the President. That document is dated only last week, March 19, and was issued under the distinguished chairmanship of our colleague, the senior Senator from Wisconsin [Mr. PROXMIRE], whose words should be listened to by this body.

The joint committee finds several expansionary elements: a growth rate up to 4½ percent in the last half of 1967; the same back-to-back budget deficits noted by Secretary Fowler—$22.8 billion for fiscal 1968, $20.9 billion for 1969, without taking account of a tax increase; a "stepped up" level of prices and wages; the danger of a new "credit crunch"; worsening balance-of-payments difficulties since British devaluation.

But then it goes on to say:

> But there are impressive negative factors that raise serious questions about the boom that is predicted by the administration. Neither the President's report nor that of the Council of Economic Advisers gives adequate heed to these points:

There follows then a list of factors to which Senator PROXMIRE and others, including myself, have time and again reverted in public statements and in the CONGRESSIONAL RECORD. I think they are important.

They include these facts:

First. Manufacturing production is utilizing only 85 percent of capacity;

Second. The 1968 capital spending intentions hardly exceed last year's levels;

Third. Consumer savings continue high, consumer expenditures moderate;

Fourth. The 3.3 million unemployed are looking for jobs, 2.1 million are under-employed on part time, many others are not seeking work because they feel there are no jobs for them;

Fifth. Agriculture had 1967 setbacks and is able to fulfill a substantial rise in demand—that is, it is underutilized;

Sixth. The growth rate may well decline in the second half of 1968.

For a substantiating view, there is the consensus of 12 leading economists, in a National Industrial Conference Board forum reported in the New York Times on January 2. Among them were such notables as Walter E. Hoadley, senior vice president and chief economist of the Bank of America; Louis J. Paradise, Associate Director of the Commerce Department's Office of Business Economics; and James W. Knowles, Research Director for the Joint Economic Committee.

Their conclusions for the calendar year of 1968, now just ending its first quarter, include belief that—

First. Industrial production, at 159.5 on the index—1959 equals 100—in November—their latest checkpoint at the time—"would spurt six points during the first half of 1968 and then add only two more points in the second half." Latest figures, in the current issue of Economic Indicators—prepared by the Council of Economic Advisers—show that the index went up to 161.8 in December, then dropped to 161.2 in January. The November 1967 figure of 159.5, incidentaly, was the highest to that point since the same index figure was reached almost a year earlier, in December, 1966.

Second. They predicted that the wholesale price index, up 3 percent in 1967, would rise only three-quarters as much in 1968, by 2.3 percent. With the wholesale price index considered a more reliable barometer than the Consumer Price Index, this is hardly galloping inflation requiring drastic measures. Nor is the predicted Consumer Price Index rise for 1968 of only six-tenths of 1 percent, from a 2.8 percent increase in 1967 to a 3.4-percent increase this year.

Third. These distinguished economists held that the unemployment rate would go up. The rate in 1967 was 3.9 percent late in the year; the predicted 4.1 percent unemployment in the second quarter, rising to 4.3 percent by the end of 1968. And this is in spite of the demands of the war, with so many hundreds of thousands of normal-time workers serving in the Armed Forces.

Again, what are the latest facts?

The March issue of the Labor Department's publication, Labor Trends, shows the latest reclassifications of the 150 major labor areas as to unemployment in six classifications—A, B, C, D, E, and F—from extremely low unemployment in A to a rate above 12.5 percent in F. Not one category shifted any of its unemployed to an earlier letter; that is, to lessened unemployment—no C areas moved up to B, no D to C, and so on. Quite the contrary. In every category except one, the shift was to a lower letter; that is, to higher unemployment; the one exception was no movement from D to E—but the one area previously labeled E, somewhere below 12.5 percent, moved down to F, which is more unemployment.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. HARTKE. Mr. President, I ask unanimous consent to have 5 additional minutes.

Mr. SMATHERS. Mr. President, we yield the Senator 5 minutes.

Mr. HARTKE. According to the Wall Street Journal of March 13, Commissioner of Labor Statistics Arthur Ross reported that the Nation's unemployment rate, which after a previous 3 consecutive months of decline, rose from 3.5 to 3.7 percent in mid-February, making a rate identical to February 1967. In the same 1-month change, the unemployment rate among teenagers jumped from 11.3 percent to 12.6 percent—and this at a time when the administration is beginning to mount a major effort to find jobs for 200,000 youths next summer. Then, it is predicted, there will be 1,400,000 more of them looking for employment than found it last summer. The rise, said Mr. Ross, was "more than seasonally expected" in the overall unemployment rate.

Does this sound like a booming economy, whose mighty engine of production and distribution is roaring down the road? Or does it sound like an economy giving us warning signals that we need no foot on the brake pedal, but rather a touch to the accelerator? I contend that it is the latter, that the medicine we need is not more taxes.

Fourth. The Industrial Conference Board group listed additionally "at least half a dozen economic trouble spots" which its chief economist, Martin R. Gainsbrugh, summed up as "worrisome, uneasy prosperity." These included a widespread shortage of skilled manpower; acute unemployment among young people, especially among minorities—a worry I have just noted is becoming a reality; a possible worsening of balance-of-payments troubles; costlier money and tighter credit; and growing pressure on corporate profit margins.

On the latter point, the economic indicators of the CEA shows a steady decline, quarter by quarter, in the manufacturing sector. Corporate profits before taxes, together with inventory valuation adjustment, stood at $43.1 billion for calendar 1966. Then came a steady decline in the first three quarters of 1967, when the same figure stood successively at annual rates of $39.6 billion, down from $44.4. billion in the fourth quarter of 1966; then

on down to $38.9 billion, and in the third quarter of 1967 to $38.2 billion. Figures are not yet out for the fourth quarter.

There are other items which should be noted as further confirmation of the uneasy health of the economy, as contrasted with the claim that we are headed for an inflationary period which must be fought with tax increases. The following are additional facts revealed in the economic indicators which are not mentioned by either the joint committee report or the judgments of the NICB economists:

First. Imports are increasing. The annual rates, by the latest figures for recent months, show successive rises from $2,202,000,000 in October to $2,376,000,000 in November to $2,525,000,000 in December, all on a seasonally adjusted basis. Our gross merchandise trade surplus, also seasonally adjusted, dropped from $434,000,000 in September, 1967 to $316,000,000 in November and $79 million in December, latest available month.

Second. The seasonally adjusted total value of construction contracts shows a drop in the index from 171 in October to 168 in November and 166 in December. By contrast, in 1966—a year earlier—the same figure rose by three points between November and December; the table does not show the October index in that year.

Third. As confirmation of the unemployment trend, insured unemployment payments have gone to more and more recipients each month from October through January. In October there were 953,000 unemployed drawing compensation; in November there were 1,068,000; in December, 1,338,000; and in January the weekly average receiving unemployment benefits went on up to 1,719,000.

Fourth. Consumers have been slowing down in the percentage of income they spend, and are saving more. In the last three quarters of 1967 the per capita disposable personal income rose from $2,716 to $2,749 to $2,789. But they spent a small proportion of those totals—savings went up in those same quarters from 6.7 percent to 7 percent to 7.5 percent.

Fifth. The stock price index, as every informed person knows, has been on a recent nosedive. The Dow-Jones industrials have gone from well over 900 in early January to 826.05 at the close of business last Friday.

In all of the above, I have enumerated no less than 16 areas of apparent recent economic weakness and decline. Admittedly, I have been selective, and there are some items on the other side of the coin. But, unless you accept the opposite approach and look only at the optimistic side as it is used by the administration to provide an economic scare justifying a claim that more taxes are needed because of prospective inflation, the conclusion is inescapable: The economy is not at present an unqualified booming success story. With the most pro-tax viewpoint, the facts make it inescapable that such medicine—surtax, travel tax, excise alterations—is not needed as an economic brake. There is rather too much economic slowdown right now, the prospects for any massive upturn are extremely dim, and the additional slowing of economic activity by added taxation may well push us over the brink into a recession which will halt these past unparalleled years of a steady economic growth.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. HARTKE. Mr. President, I ask unanimous consent to have 4 additional minutes.

Mr. LONG of Louisiana. Mr. President, I yield the Senator 4 additional minutes.

THE DANGERS OF AUSTERITY

Mr. HARTKE. So far I have mainly been appraising the state of the economy to show that the budget is the real reason we must—so we are told—raise taxes and at the same time cut back by many billions on our already suffering domestic programs; not to mention foregoing the funds to combat the plight of the cities and heed the recommendations of the 250,000-word report of the National Advisory Commission on Civil Disorders. But behind the budget-caused deficit problems, of an enormity beyond anything we have ever experienced except, I suspect, for World War II, lies the suppurating abscess of Vietnam. This, rather than what is proposed, ought to be the focus of our efforts as the utmost primary claim for fiscal and economic reasons as well as for all those others of a political and moral nature.

But suppose we grant, for the moment, that we must absolutely do something to whittle down those deficits as severely as we possibly can. Where will the policies proposed by the administration lead us in that case? They are policies which, we are told, will deal with the balance-of-payments problem helpfully; which will restore confidence in the dollar; which will bring in more billions to the Treasury, which will stem a cost-push inflation. In short, we are asked to use the same austerity programs we have seen so painfully and fruitlessly take place in Britain.

Let me quote to you verbatim from the official text of Prime Minister Harold Wilson's statement in the House of Commons on July 20, 1966, in which he set forth some remedies which have a familiar ring. But first, let me go back more than a year earlier, to Mr. Wilson's address at the New York Economic Club on April 15, 1965, following the budget slashing and initial austerity measures to forestall devaluation.

Mr. Wilson said then that they were about to undertake "the fight against inflation" in part by cutting expansion of Government expenditures from an 8.9-percent increase in the fiscal year just then beginning—their fiscal year 1966—to a 1969–70 rate which would be only a 4¼-percent annual rise. He said, and I note that we are asked to do much the same thing:

> A whole series of tax changes . . . will help to redress this balance (i.e., with other countries) and have an increasingly beneficial effect on the balance of payments.

Later he noted, and again the parallel is obvious:

> The culminating point in the battle against inflation was last week's Budget, . . . a determined attempt to keep our expanding economy in a state of balance. . . . And the net increase in taxation and associated charges . . . adds up to practically £600 million a year.

What followed is history. I believed at the time that British retrenchment of the budget and increased taxation could only result, as I say now it will do for this Nation, in greater unemployment, a dangerous slowing of the economy, only a temporary improvement in the balance of payments, and no permanent relief from pressures on the pound. Incidentally, it might be worthy of note in passing that our balance-of-payments restraints, when seen from the viewpoint of one of our foremost world trading partners, takes on a different aspect:

> Action taken by the United States' authorities to strengthen the American balance of payments has led to an acute shortage of dollars and Euro-dollars in world trade and this has led to a progressive rise in interest rates in most financial centers and to the selling of sterling to replenish dollar balances.

In other words, just as in physics for every action there is an equal and opposite reaction, so in international finance one nation's balance-of-payments benefit is another's drain—at least if the international medium of exchange is the dollar.

Now, let me read you some of the efforts made in July 1966 by Mr. Wilson's government to cope with a situation for which our own is not without parallel. Does it sound familiar? I quote from the official text of the statement to Commons:

> Action is needed for the purpose of making a direct impact on our payments balance . . . (and) needed equally to deal with the problem of internal demand, public and private, and to redeploy resources . . . and check inflation. . . . This redeployment can be achieved only by cuts in the present inflated level of demand, both in the private and public sectors.

Our own proposed redeployment likewise will cut back in the public sector.

Further in that speech Mr. Wilson said:

> The Treasury has today made an order the effect of which is to put a surcharge of 10 percent on (certain duties) and on Purchase Tax. . . . Thus for goods now chargeable at 10 per cent the new effective charge will be 11 per cent. . . .

We are asked for a 10-percent surcharge on income tax, since we do not have a national sales tax; but the effect is the same, except for the less regressive nature of an income tax. Again, Mr. Wilson:

> The investment programs in the public sector have been reviewed and the Government are introducing a number of deferment measures which will reduce demands on resources . . . While this will involve foregoing for the present a number of desirable projects they will be concentrated on those activities which are not vital . . .

Does this sound familiar? We are continually, nowadays, cutting back "desirable projects." Some Members may recall that one of these in last year's appropriations which greatly concerned me was mental health facilities construction funds. We voted in the Senate to accept my amendment adding $10 million of the additional $15 million already

authorized, but in conference committee it was slashed to $3 million.

Another proposal of Prime Minister Wilson was this:

Private overseas expenditures must also make its contribution. Expenditure on holiday travel outside the Sterling Area has been rising rapidly. . . . From today up to October 31, the amount of foreign exchange which may be bought for journeys . . . will normally be limited to £50 per person.

We have a parallel in the regulations which limit dollar values of purchases to be made abroad—and for the same balance-of-payments purposes. Now there is also before the Congress a "travel tax" proposal, considered only yesterday by the Ways and Means Committee. Listen once more to Mr. Wilson:

It is not our intention to introduce elaborate statutory controls over incomes and prices. This is a situation in which the Government look with confidence to everyone concerned with these matters to act in accordance with the public interest.

Here, too, is familiar ground—the system of voluntary restraints promoted by the administration to avoid the necessity for coming to the Congress for legislation, a system which has had rather indifferent success after the initial compliance of the more responsible members of the business community.

Now I continue. The time and the conditions have changed. Britain has, two months earlier on November 18, 1967, devalued the pound. The austerity measures failed of their objective. Now, in January 16, 1968, Prime Minister Wilson is telling Commons about the next step:

Now I turn to civil public expenditure. . . . In almost every major area of expenditure economies have been made in the rising programmes which we had before us. Within each major area we have of course been highly selective in the cuts we have made . . .

These are words which might almost have crept into the President's budget message to the Congress without change. Mr. Wilson continues to detail some of the explicit areas of cutback. Do any of them sound familiar?

Next education, one of the biggest and most rapidly expanding expenditure programmes. . . . Here again it is a question of priorities. We have decided (to defer) the raising of the school leaving age, a postponement of two years. This decision will mean a saving of about £33 million in 1968–69 . . .

We propose to cease to provide milk free in secondary schools from September of this year . . . [Previous budget]

The capitation grants to direct grant schools will be reduced.

Some new capital projects in the Universities, Colleges of Further Education and elsewhere will be held back during 1968–69. [We are doing the same.]

I turn next to health and welfare. . . . The Government (will) re-introduce a system of charges for prescriptions. . . . The maximum charge for dental treatment which has not been changed since 1952 will be increased. . . . (There will be) some reductions in the planned growth of local health and welfare capital expenditures . . .

The Government has decided to reduce planned approvals of new houses by 15,000 . . . saving in terms of public expenditure £27 million in 1968–69 . . . [Our housing program inadequate but suffering.]

Next, Roads . . . Overall, expenditures on roads will be reduced so as to produce savings of £53 million . . . Assistance to public passenger transport, provided for in the Transport Bill, is being limited to £10 million . . . [Federal highway funds have been slashed as to allocations.]

Special measures must be taken to arrest the growth of the number of people employed in Public Service. Government Departments will plan their staffing so that . . . there is no further net increase in the number of civil servants as a whole . . . [Parallel here also.]

In addition there are other reductions totalling £28 million . . . mainly from environmental services . . .

Britain's experience is a sad one. I do not say that the United States, by following similar policies, will necessarily achieve similar disastrous results. But I believe it is incontrovertible that the remedy applied; namely, the contraction of the economy by design through tightened budget and increased taxation, is a medicine which may well be worse than the disease. What we need in a faltering economy is stimulation, not contraction.

LOWER TAXES, NOT RAISE THEM

There is a strange paradox in the action of taxes. One would think, and this is the traditional economic view, that the best way to increase revenue is to lay on more taxes. But today the wisdom of experience has shown that the more recent view, shared by a majority of modern economists, questions the tradition. In fact, the new economics has now been successfully tested in our own economy. It was not until President Kennedy heeded the advice of the new economic theories that he undertook espousal of a tax cut as a means of both increasing prosperity and increasing Federal revenues. There lies the paradox—that it is possible to increase Federal revenues by decreasing the tax rate.

Perhaps for anyone who follows economics at all, the reasons are well known. But many have not received an education on this point. The process, of course, depends heavily on the multiplier effect of money spent by the consumer.

Suppose I pay $500 for a color television set. My payment goes beyond the retail dealer—part to the wholesaler, and a part to the retail dealer's taxes on his new profit by the sale. The wholesaler's portion also winds up with some of it in the tax till. Back of him is the manufacturer, who pays taxes also. The manufacturer's suppliers of parts, like the others, puts some of his portion into taxes, other portions into payments to employees, and so on. The result in the end is something like a 20-times rollover of the original $500, and each time it is redistributed two things happen: an increasingly growing chunk gets back to the Federal Government, but even more importantly, the process of manufacturing and distributing color television sets—the health of the color TV industry—is improved. One more sale of a set, multiplied by thousands, improves prosperity.

Now, what happens if the consumer is hit by more taxes? The answer, of course, is that he has less to spend. He may then find it impossible to buy his color TV and the multiplication of that effect slows down sales, competition cuts profit margins, and all along the line there is an adverse effect. By the same token, more money in the consumer's pocket through a tax cut results in its getting for the most part into the economic bloodstream. The medicine works, and the listless economy feels better.

I have referred to the proof of the theories in our tax cuts of 1964. In questioning before the Senate Finance Committee in March 1967, on restoration of investment credit, Chairman William McChesney Martin of the Federal Reserve Board confirmed my contentions, and those of many who believe likewise, that a tax cut does in fact result in a greater increase in Federal revenues even as it gives more money to the consumer—a paradox which the economically unsophisticated find most difficult to accept. I fear that the managers of our tax policy, operating on opposing false premises, are showing some lack of economic sophistication. Here is the pertinent portion of the colloquy between myself and Chairman Martin. The full record, including more than this highly selective portion, may be found in last year's hearings on H.R. 6950 before the Finance Committee:

Mr. MARTIN. Well, the basis for my supporting this bill today (i.e., restoration of investment credits, which is equivalent to a tax cut in its action) is that the economy is slowing down and the medicine which was applied by suspending the tax credit is no longer necessary to help the patient. . . . I supported the proposals in 1962 for a tax reduction.

Senator HARTKE. Did you support the reduction of rates as enacted in 1964?

Mr. MARTIN. I did.

Senator HARTKE. Did you support the reduction of the excise taxes as enacted in 1965?

Mr. MARTIN. I did. . . . There was an upswing in the first quarter of 1965 that a good many of us thought was unsustainable. We had an increase in gross national product for the quarter that was . . . $16 or $17 billion. It was enormous.

Senator HARTKE. That is right. Wasn't this partly a result of fiscal measures taken by Congress in 1962, and particularly an $11 billion tax cut in 1964, and an additional tax cut in 1965 of excise taxes of about $2 billion?

Mr. MARTIN. It most certainly was . . .

Then on the next page, page 79, there is this:

Senator HARTKE. Do you disagree with me completely that by reducing tax rates you increase tax revenue?

Mr. MARTIN. No; no. . . . At certain points, as we did in 1962, a decrease in taxes did stimulate the economy.

Senator HARTKE. In 1962 it did, correct?

Mr. MARTIN. And in 1964. . . .

Senator HARTKE. And in 1965 it did.

Mr. MARTIN. To some extent, yes.

Senator HARTKE. Didn't it in 1955, too?

Mr. MARTIN. It did also.

Senator HARTKE. Yes. All we have in the history of the last 15 years is that by decreasing taxes you increase the revenue in the Treasury. Isn't that true?

Mr. MARTIN. Generally——

Senator HARTKE. Is that true or isn't it true?

Mr. MARTIN. Yes . . .

Senator HARTKE. Will you tell me a time within the recent period of this country when a reduction in taxes has not resulted in an increase in revenue? . . . there is none, is there?

Mr. MARTIN. I don't know that there is any.

Senator HARTKE. Now we are faced with a situation in which there is another slowdown in the economy, is that correct?

Mr. MARTIN. The economy is slowing down at the moment, right.

Here, then, Mr. President, is admission by a member of the quadriad that history in our own economy shows that tax reduction has consistently resulted in increased tax revenue when we are in a period of slowdown. Of course, the picture alters when we are in a period of full employment and high economic activity. But, as I have demonstrated by the economic indicators at some length, this is not the case today.

The conclusion is inescapable: This is not the time for tax increase. The results will be the converse of a tax reduction, which means that instead of stimulation of the economy there will be slowdown—perhaps fit medicine for inflationary attack, but not when the inflation is as illusionary as it is today.

It is out of these convictions that I have offered earlier in this Congress a bill to increase the individual income tax exemption from $600 to $1,000. That extra money, pumped into the spending stream, would undoubtedly move us a long step upward from the present 85 percent of plant utilization in our factories, and from the developing unemployment I have noted. At the same time—as the previous cuts have done, and we have Mr. Martin's testimony for that—a tax cut would achieve the goal which the present bill seeks but cannot truly achieve except in part, a significant upswing in GNP and tax revenue. The depressant effect of the surtax proposal I have previously discussed—CONGRESSIONAL RECORD, August 4, 1967. On the basis of estimates by well-informed economists, I stated there that the 10 percent surtax, if enacted, would result in its first year in a decrease of GNP of "no less than $23.3 billion." Such a decrease in turn, by the Treasury rule of thumb that 20 percent of Gross National Product increase winds up in the Federal coffers, would result in a revenue loss of at least $4 billion, perhaps closer to $5 billion. The result, if nothing else, is to take that enormous amount out of the tax receipts expected from the tax increase.

EXCISE TAX CONTINUATION SHOULD BE CUT FROM THE BILL

Now, what about the excise tax on automobiles and telephones? I believe that all the economic evidence points to the desirability of leaving it alone rather than once more indulging in the persistent habit of promising cuts and then failing to fulfill the promises.

The administration is fond of saying that we "honor our commitments," even if it means the killing of American servicemen 10,000 miles from home. We made a commitment to the American people on these taxes, and on January 1, 1966, we kept it—we reduced the auto excises from 7 to 6 percent, and the telephone excise from 10 to 3 percent. But then, at the urgent request of the administration, we restored those taxes in early 1966, and set up a new schedule which promised that reductions would be restored on April 1 of this year. Now we are reneging on that promised schedule for the American people. By failing to keep our word, we fail the American people.

In hearings before the House Ways and Means Committee in June 1964, a presentation on criteria for evaluating the excise tax system was given by Prof. John F. Due, of the University of Illinois.

Taxes—

He said—

should not induce the cost-push type of inflationary pressure, causing price increases in excess of the amount of the tax, or leading to wage increases.

He further said that excises provide an incentive to spend less and save more, which is a disadvantage in periods when economic growth lags behind its possible levels because of aggregate demand. Consequently:

Reduction in excise taxes may have greater effect in stimulating economic growth than reduction in income taxes.

Professor Due also noted:

Excises imposed at the manufacturing level tend to pyramid on the way to the final consumer, thus raising prices by more than the amount of the tax.

This, he said, is particularly true of business expense, which can so readily be passed on to the consumer in the end. In the case of autos, it is estimated that a fifth of all production of passenger cars is for business use. Hence, the auto excise is a good example of the kind of adverse action through stimulating cost-push inflation.

COST-PUSH INFLATION

Mr. President, one of the fundamental bases for my contentions on tax policy lies in the fact that we do not have in the economy today, insofar as inflation is a factor—and I do not deny that there is inflation—we do not have, I say, the classic demand-pull inflation. There is a vital difference between them and the difference is relevant to tax policy.

As I have said repeatedly, and several times in yesterday's debate, we do not have today the classic case of prices rising rapidly because there are too few goods sought by too many buyers who consequently bid the price up. Today every show window is full. You name it, and it is available in the market price—and available at competitive prices.

As an example, look at the major big-ticket item in the economy today so far as consumers are concerned, that bane and blessing of modern life no one can seem to do without, the motor car. Anyone who hears the radio and television commercials in Washington—and the rest of the country is in the same situation—knows that new car dealers are advertising hundreds of dollars off list prices in order to make sales. Their inventory of new cars is very high; they can give you right off the showroom floor or the storage lot almost anything you want in model, style, and color, whether sports convertible, hardtop, station wagon, four-door sedan, or anything else.

Then what is it that is pushing up the prices? What is causing the other type of inflation, which is the kind we have, cost-push inflation?

It is precisely the kind of policies for tax increase that we are talking about, whether excise, travel tax, surtax, or others. These policies and programs are fallaciously based on a diagnosis of the wrong kind of virus. We know the disease is there, and the disease is inflation. But its cause is not too much demand, but too little. The remedy is no to add more taxes, thus cutting ability to pay and further lessening demand. It is not to stem this lagging economy—and I have demonstrated the lag earlier by no less than 16 indicators. It is to help the economy live up to its true potential, not operate at 84 percent of capacity. That 84 percent, which appears in the current Business Week as the latest ratio of manufacturing output to capacity, is a full percentage point down from the 85 percent referred to in the joint committee report on the report of the Council of Economic Advisers. Does this sound like a demand-pull inflationary situation?

No, the inflationary pressure is coming from additions in the cost of doing business: higher wages, increased overhead, higher prices in materials purchased for the business, and now the suggested cure is to add also higher taxes. All of these things are costs which are passed along to the consumer in order to maintain an adequate profit for the business. As Profesor Due said in the passage I quoted:

Taxes—

And note that increased taxes are an increased cost of business—

should not induce the cost-push type of inflationary pressure, causing price increases in excess of the amount of the tax, or leading to wage increased.

Mr. President, this is my case against higher taxes as being a medicine fashioned for the wrong kind of disease. They assume what the statistics will not sustain, that we need to cut back on demand. The result will be to make the patient sicker rather than increasing his health, and it is the health of the economy of this Nation which concerns me in our tax policies.

Without this kind of reverse help—a medicine which makes the economy sicker—we stand a better chance of improvement than with it. If we really want the right medicine, however, let us gear it to the proper diagnosis, which is a degree of weakness that will only be aggravated by stimulating the very inflation—that is, the cost-push inflation—which it is intended to cure, since the diagnosis of demand-pull inflation is faulty.

I have been challenged in this body, Mr. President, to explain my economic rationale for the position I take on tax increases. I have been told by a respected colleague in this body and on the Finance Committee with me, that were I his student in economics my grades would stand at F and I would flunk the course.

But the world does change. There were those who in their traditional wisdom long denied the truth of Galileo's assertion that the earth moves around the sun rather than the opposite. I am with the growing number of modern economists who see in the theories of such as my hypothetical professor the diametrical opposite of economic truth as discovered in the past 30 years or so. Adam Smith is no longer good anough, if he ever was, as an economist. And the proof of the views I espouse is the action

of the economy in response to tax measures, a proof which I have shown is accepted by no less an authority than Chairman William McChesney Martin of the Federal Reserve Board.

To summarize, Mr. President, very simply, it is hard for me to see why anyone cannot understand that if you add additional taxes, what you are going to do, with an economy which has already an excessive supply for the available demand, is cut back on demand, cut back on corporate profit, and cut back on employment.

In addition to that, you are going to add to the cost. When you add to the cost, the people involved in setting the price will have to pass the cost along. When they pass the cost along, that means we will have still further price increases. Thus we are proposing this for America: more unemployment, higher taxes, less profits, and an increase in the prices in the marketplace.

I am not in favor of that result; and therefore I shall vote against the Smathers-Williams amendment, and I shall also vote against the surtax in any form in which it is presented, and against the extension of the excise tax.

Mr. WILLIAMS of Delaware. Mr. President, I yield 15 minutes to the Senator from New York [Mr. JAVITS].

Mr. JAVITS. Mr. President, I have risen to speak upon this measure precisely because I am considered to be a strong advocate of affirmative measures to deal with the crisis of the cities. I am considered to be a friend of manpower programs and welfare programs, and I have fought here many battles for labor, and a generally identified with that thinking which identifies the national interest with the fate and future of the rank and file of our people.

Mr. President, it is understandable that men who have their hearts deeply in that direction would also believe that to raise taxes or to cut expenditures represents a detriment to these elements in the community which need the help of the U.S. Government the most. It is because, Mr. President, this is an hour in which exactly the contrary is true, that I have risen to speak upon it in the close of this critically important debate.

The debate is critically important, Mr. President, for this reason: We are all adult men. We are men of great experience, or we would not be here. We know that the House of Representatives considers it an article of faith to originate revenue measures and tax measures, and we know that in conference, it may very well be that as these excise taxes have already gone by the board as of yesterday, this bill may be stripped of everything that is in it.

But, Mr. President, if we pass, as I believe we should, the Williams-Smathers package, we will not be acting in vain. Not at all, Mr. President. I confidently predict that within 30 days after the Senate acts affirmatively today, in substance, both the tax and the expenditure packages will become law, or be in operative effect. The reason is, Mr. President, that the Senate, which is a very representative body, will have manifested its will and committed its political fate—those of us who vote "yea"—to the people on this subject.

Mr. President, that will signal the state of mind of the Nation. In my judgment the other body, no matter how we love and respect any individual in it who may have stood against what many of us think needed to be done all these weeks and months, will, in my judgment, yield to what is the manifest national will as expressed in the Senate.

And so, Mr. President, while understanding that it may not be on this particular bill number, but in some other place, that this will become effective, let us remember that we cast a critically important vote today that will take effect, in my opinion, without question.

So much for the procedure and for the seriousness of the decision. Now for my reason for saying, Mr. President, why it is critically important to the millions of Americans of relatively moderate means to do what we must do today.

Nothing in legislation, Mr. President, as we all know, is black and white. I should have preferred, and I tried to develop in this legislation, a set of priorities which the administration has not developed. I think it is a great demerit against it—much as I appreciate the attitude of respect and even of awe in which we stand today, in view of the President's spirit of sacrifice—not to have wrestled with and not to have grasped the nettle of priorities in the country. I would much prefer that this $6 billion in expenditure cuts, or whatever figure we may decide upon, should be based upon basic priorities. In acting as we are, we are compelled to do so by the Vietnam war, with its expenditure, direct, of almost $26 billion in fiscal year 1969, and with its enormous indirect effect upon the fiscal and monetary situation in the United States.

On March 20 I proposed an amendment to this bill which would have, along with setting certain priorities, would have provided for a 10 percent surcharge and a $4 billion cut in spending. This was based on the approach suggested on March 6 by a group of House Republicans under the leadership of Representative CHARLES GOODELL. This approach is also carried out, interestingly enough, by the Smathers-Williams substitute although in a different way. The Goodell group called for specified cuts of $6.5 billion in the budget and reallocation of $2.5 billion of this amount for essential domestic urban oriented programs through a human renewal fund. Should the Smathers-Williams substitute pass the Senate, I assure the Senate that as a member of the Appropriations Committee I will do all I can to reallocate the necessary funds for programs which are so essential to deal with the problems of our poorer citizens in our urban centers and in rural areas.

But, Mr. President, we cannot have it all our way, and so I must take this substitute or leave it, on a yea-and-nay vote as to whether it does or does not have the priority.

Mr. President, I am confident, on the negative side, that we simply cannot, in facing the present crisis that we do in the cities, cut with a cutlass rather than a scalpel with respect to that crisis. So the priorities, much as they should be imposed, will have to be self-imposed, because there is no other way. And we have already demonstrated, Mr. President, in the argument, that there is plenty of room to amend the $6 billion in cuts out of matters which can be cut. Let me emphasize upon that, Mr. President, our action with respect to public works. It is supposed in some quarters, superficially, that by striking out what we did on public works, we insured public works against cuts. Nothing could be farther from the truth. What we did with respect to public works was to put it with everything else, and to say that there shall not be automatic cuts. But public works can be cut, like space, or the supersonic plane, or any other subject upon which there seems to be general agreement that there ought to be some kind of a cut.

Mr. President, the person of modest means is facing not only an erosion of the purchasing power of his dollar in an undue inflation, but he is facing inordinately high interest rates, which are reflected in every penny he borrows, including installment credit, which is an enormous factor to the people of modest income in the United States.

He faces the grave danger of an erosion of the value of the dollar abroad through further deterioration in our balance-of-payments situation, thereby seriously impairing America's ability to export and sell in the export markets of the world. And, remembering that this represents something like $30 billion a year in hard production, this is not an inconsiderable item, either.

Mr. President, what is the worst of all is that he invites another day, because we have not paid the price of the restraint, curtailment, and reduction in expenditures and in credit available within the country today. This would really cause massive unemployment. We are talking about the possibility of doubling the rate of unemployment from the present roughly 3.5 or 4 percent to a rate of 6 percent and 8 percent. We have seen that happen in our country.

These are the dangers which people in our country need to be protected against. And the superficial argument that a particular program—which is so important to the rank and file of our people—will be curtailed does not begin to hold a candle to the destruction and havoc which can be heaped upon him if we stain our hands because we have not the courage or the wisdom to do what the times demand we should do.

The fact is that we are engaged in war, and the cost involves not only the casualties, but also the expenditures and the total indirect effects upon the economy which multiply the amount of those expenditures by a ratio of 3 to 1 in terms of their inflationary impact.

Mr. President, to sum up the arguments for the pending measure. It is the one opportunity which the Senate has to demonstrate its fidelity to this proposition.

First. The Vietnam war must be paid for. If we do not pay for it directly in taxation, we will pay for it in privation and depression in the United States and in the world.

Second. We must make room within the budget for essential domestic expenditures, and whatever quarrels I may have as to priorities, the fact is that if

the overall budget will not make room for these expenditures, it is even worse not having the right priorities. At least, we are getting something out of model cities and other programs which are essential to meet the crisis existing in the cities. And whether we get as much as we should, and in the right place, the fact is that we are getting something and are not left with nothing, in which case we would be in even graver danger than we are now.

Mr. President, may I have a little order. I can hardly hear myself.

The PRESIDING OFFICER. Let there be order in the Senate.

The Senator may proceed.

Mr. JAVITS. Mr. President, third, it is very important to avoid a credit squeeze, which would occur if we rely solely on a tight money policy to reduce inflation. In the short space of 3 years heavy demands on the capital markets to finance the Federal deficit accounted for an increase in prices and inflation of a total of about 10 percent, which is absolutely unheard of in modern times in this country.

Fourth. The fiscal year budget deficit of $20 billion is just unacceptable to the world in terms of the confidence in the American dollar. Strengthening confidence in the American dollar is absolutely essential both to our export and import trade and to the raw materials which we must purchase in the world, without which the American industrial machine would grind to a halt. And if we have to overpay in dollars for those raw materials, that puts us even further out of competition in the export markets of the world and worsens our balance of payments.

The PRESIDING OFFICER. Let there be order in the Senate.

The Senator will proceed.

Mr. JAVITS. Fifth. We have undertaken, and quite properly, an implied commitment both at Basel and Stockholm and in the other countries which hold dollar surpluses in their international payments—whereas we have been running substantial payments deficits—that we would bring our fiscal situation under control. We asked that other countries and those other central bankers to hold our hands. The clear implication—and I am not privy to those secrets, and perhaps it was really very solemnly expressed—at Basel and Stockholm was that within a measurable time lag, Congress would take action to put America's financial house in order. This amendment represents such action.

Sixth. We must reduce our budget deficit to meet the growth of American economy to continue to grow with the minimum of inflation. We have been growing at the rate of approximately 60 percent of what we ought to grow—3.3 percent, and not 5 percent.

Finally, it is most illuminating to all of us that in political season and out, and though late—and it is late and the administration should be sharply condemned for that—nonetheless the President has consistently called upon the country, when he was thought to be a candidate and when he said he was not going to be a candidate, for this measure as the basic rock on which to build in physical and economic terms the country.

I think the case is ironclad. I think it is as strong as it can be.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. Mr. President, I yield 1 additional minute to the Senator from New York.

The PRESIDING OFFICER. The Senator from New York is recognized for 1 minute.

Mr. JAVITS. Mr. President, it is not too late now, but it will be too late if the Senate does not see its duty and act today to give leadership to the country, the leadership for which the country and the world is waiting. We can assure the world that the United States will remain steadfast in its economic leadership of the free world.

That is what is at stake in today's vote.

However the Senate votes, I could be right or I could be wrong—let the Senate realize how serious the implication of its vote today is.

Mr. BIBLE. Mr. President, will the Senator yield me 2 minutes?

Mr. LONG of Louisiana. Mr. President, I yield 2 minutes to the Senator from Nevada.

The PRESIDING OFFICER. The Senator from Nevada is recognized for 2 minutes.

Mr. BIBLE. Mr. President, as a member of the Appropriations Committee, I voice my opposition to the substitute.

Mr. President, although this material may have already been printed in the CONGRESSIONAL RECORD, I ask unanimous consent that a reprint from the CONGRESSIONAL RECORD of December 15, 1967, be printed at this point in the RECORD.

There being no objection, the reprint was ordered to be printed in the RECORD, as follows:

SUMMARY OF ACTION ON BUDGET ESTIMATES OF "APPROPRIATIONS" IN APPROPRIATION BILLS, 90TH CONG., 1ST SESS., AS OF DEC. 15, 1967

[Does not include any "back door" type appropriations, or permanent appropriations [1] under previous legislation. Does include indefinite appropriations carried in annual appropriation bills]

	Budget estimates considered by House	Passed House	Budget estimates considered by Senate	Passed Senate	Enacted	Latest action compared to budget (+) or (−)
Bills for fiscal 1968:						
Treasury-Post Office	$7,613,787,000	$7,499,230,000	$7,615,148,000	$7,555,167,000	$7,545,641,000	−$69,507,000
District of Columbia:						
Federal payments	63,499,000	59,499,000	73,499,000	71,499,000	67,478,200	−6,020,800
Federal loan appropriation	49,600,000	48,100,000	89,700,000	79,200,000	79,200,000	−10,500,000
Interior	1,443,793,000	1,365,310,150	1,458,218,000	1,399,359,550	1,382,848,350	−75,369,650
Loan and contract authorizations	(30,700,000)	(16,200,000)	(30,700,000)	(16,200,000)	(16,200,000)	(−14,500,000)
Independent offices—HUD	[2] [3] 10,804,642,700	[2] [3] 10,013,178,782	[2] [3] 10,820,513,700	[2] [3] 10,514,830,900	[2] [3] 10,139,473,900	−681,039,800
Contract authorization (rent supplements)	(40,000,000)		(40,000,000)	(40,000,000)	(10,000,000)	(−30,000,000
Labor-HEW	[3] 13,322,603,000	[3] 13,137,488,000	[3] 13,424,146,000	13,421,660,000	[3] 13,255,356,000	−168,790,000
State, Justice, Commerce, and Judiciary	[3] 2,342,942,000	[3] 2,194,026,500	[3] 2,437,803,195	[3] 2,186,105,500	[3] 2,169,012,500	−178,790,695
Legislative	231,311,132	228,089,952	726,005,210	275,885,804	275,699,035	−306,175
Agriculture	[3] 5,021,097,400	[3] 4,770,580,950	[3] 5,021,097,400	[3] 6,782,529,789	[3] 4,952,945,700	−68,151,700
Loan authorization	(859,600,000)	(859,600,000)	(859,600,000)	(909,000,000)	(859,600,000)	
Defense	71,584,000,000	70,295,200,000	71,584,000,000	70,132,320,000	69,936,620,000	−1,647,380,000
Transportation	[4] 1,718,618,772	[4] 1,530,198,372	[4] 1,718,618,772	[4] 1,651,407,272	[4] 1,581,905,772	−136,713,000
Public works	4,867,813,000	4,622,922,000	4,867,813,000	4,776,064,000	4,689,938,000	−177,875,000
NASA	5,100,000,000	4,583,400,000	5,100,000,000	4,678,900,000	4,588,900,000	−511,100,000
Military construction	2,937,000,000	2,142,693,000	2,937,000,000	2,099,350,000	2,093,362,000	−843,638,000
Foreign assistance	3,818,736,000	2,775,011,000	3,818,736,000	3,313,345,000	2,876,591,000	−942,145,000
Supplemental (poverty, Appalachia, etc.)	[5] 2,120,785,000	1,679,436,500	[5] 2,120,785,000	2,077,510,309	1,842,923,790	[5] −277,861,210
Subtotal, 1968 bills	133,040,228,004	126,944,364,206	133,273,083,277	131,015,134,124	127,477,895,247	[6] −5,795,188,030
Bills for fiscal 1967:						
Defense supplemental (Vietnam)	12,275,870,000	12,196,520,000	12,275,870,000	12,196,520,000	12,196,520,000	−79,350,000
2d supplemental	2,134,932,833	2,041,826,133	2,257,604,652	2,260,246,933	2,197,931,417	−59,673,235
Subtotal, 1967 bills	14,410,802,833	14,238,346,133	14,533,474,652	14,456,766,933	14,394,451,417	−139,023,235
Cumulative "appropriation" totals for the session:						
House (17 bills)	147,451,030,837	141,182,710,339				[6] −6,268,320,498
Senate (17 bills)			147,806,557,929	145,471,901,057		[6] −2,334,656,872
Enacted (17 bills)			147,806,557,929		141,872,346,664	[6] −5,934,211,265

[1] Permanent "appropriations" were tentatively estimated in January budget at about $15,212,066,000 for fiscal year 1968. (All forms of permanent "new obligational authority" for 1968 were tentatively estimated in the January budget at $17,452,899,000.)

[2] Includes advance funding for fiscal 1969 for urban renewal and mass transit grants (budget, $980,000,000; House bill, $925,000,000; Senate bill, $955,000,000; enacted, $925,000,000).

[3] And participation sales authorizations as follows: Independent offices-HUD, $3,235,000,000 in budget estimates, $881,000,000 in House bill, $3,235,000,000 in Senate bill, and $3,235,000,000 enacted; Labor-HEW, $115,000,000 in budget estimates, House bill, and enacted; State, Justice, Commerce, and Judiciary, $150,000,000 in budget estimates, House bill, Senate bill, and enacted; Agriculture, $800,000,000 in budget estimates and House bill, $700,000,000, in Senate bill and $750,000,000 enacted. Total authorizations requested in budget, $4,300,000,000; total in House bills, $1,946,000,000; total in Senate bills, $4,085,000,000; total enacted, $4,250,000,000.

[4] Includes advance funding for fiscal 1969 for grants-in-aid for airports (budget, $75,000,000; House bill, $65,000,000; Senate bill, $75,000,000; enacted, $70,000,000).

[5] Excludes $136,797,000, budget estimates not considered in any appropriation bill.

[6] If the $136,797,000 of estimates not considered were also counted, these figures would be that much greater.

Mr. BIBLE. Mr. President, the tabulation shows that with respect to all fiscal 1968 bills reported by the Appropriations Committees, there was a decrease of $5,795,188,030.

I think that is where these cuts should be made, in the regular way and after full hearings.

I think that the Appropriations Committee worked its will responsibly in the last session of the Congress. I was privileged last year, and I am this year, to be chairman of the Military Construction Subcommittee of the Appropriations Committee. On that particular committee we had a budget request of $2,937,000,000. We reported the bill from the Senate side in an amount far less than that. We went even below that as a result of the conference, and in our final action, the bill was $843,638,000 less than the budget request. So, I think that the Appropriations Committees have been responsible. I think they have acted on the basis of the national interest and certainly they made many cuts. I am sure that they are prepared to do it again this year. This is the way the cuts should be handled.

In addition, I cannot vote for a 10-percent surcharge on income taxes. This tax proposal is a controversial, highly sensitive issue, and hits those who are least able to pay. It demands separate, careful treatment and properly must originate in the House.

Mr. BYRD of West Virginia. Mr. President, as I have said before, the Federal Government needs to put its financial house in order. Before any new tax burden, however, is placed upon the American taxpayer, the executive branch and the legislative branch should reduce, and eliminate where possible, all nonessential expenditures.

The amendment in the nature of a substitute provides for certain reductions in Federal spending, but these do not go in the right direction. In the first place, such reductions, in my opinion, should more properly be made on a selective basis so that wasteful or unnecessary programs could be reduced or delayed or eliminated without disturbing, penalizing, or interfering with essential programs and activities.

For example, the fiscal year 1969 budget, as presented to Congress by the President, contains $2,176,000,000 in new obligational authority for the Office of Economic Opportunity. I have repeatedly criticized some of the so-called antipoverty programs because of the moneys that are wasted through improper administration and because of the fact that some poverty employees have utilized the program to foment unrest and generate demonstrations in various parts of the country. All too often, the people who have benefited have not been the poor people. I have repeatedly referred to the Office of Economic Opportunity the complaints contained in correspondence from my constituents, and it has been to no avail thus far.

Some of the antipoverty programs have been worthwhile, undoubtedly, but I believe that the taxpayers of the country would be well served if at least a billion dollars were cut from the budget request of the Office of Economic Opportunity.

Mr. President, I have also been critical of Government expenditures for a moonshot program during this bad period of economic turbulence. New obligational authority of $4.4 billion is recommended for the National Aeronautics and Space Agency in 1969. Of this amount, $2,362,000,000 is for a manned lunar landing and $463,000,000 is for extended manned flight.

It would seem to me that this is a program which should properly be stretched out and delayed until better days are upon us, and it would appear that a very sizable cut could be made in the NASA budget.

Additionally, approximately $1.5 billion is being spent in connection with our troops and dependents stationed in Western Europe. When we subtract military sales from this figure, there remains a balance, at least, in excess of $700 million in cost to us. As I have stated recently on this floor, Western European nations are enjoying an unprecedented level of high prosperity, in great measure due to the aid which they have received in past years from the United States. I maintain, therefore, that it is time these nations take upon themselves a share of the financial and military burden of defending Western Europe. I do not see why the United States should continue to maintain in Western Europe the equivalent of six divisions, and dependents, numbering about 350,000 and 248,000 respectively, making a total of approximately 600,000 persons. Let the United States withdraw some of these divisions and dependents and reduce the dollar drain upon our own Treasury.

It would also appear reasonable to suggest that other savings could be instituted in the military budget, which roughly approximates $80 billion in fiscal year 1969. Surely the Defense Department could find some fat in this budget, and even a small percent reduction in a budget of such gigantic proportions would constitute a good savings at a time when our country needs to cut back on its spending. The Appropriations Committee of the Senate can only do so much, and it simply does not have the staff manpower to do the kind of job on this budget which could be done by the Defense Department with its thousands of staff personnel.

Moreover, the United States has expended, in grants and soft loans, in the neighborhood of $100 billion over the past several years in its various foreign aid programs. If we want to see just how many friends we have, it may be well to take a look at South Vietnam. The number of countries that have placed fighting men shoulder to shoulder with our fighting men can be counted on the fingers and thumb of one hand. Why should we continue to funnel out our hard-earned tax dollars to aid countries which do not help us when we are fighting to maintain their freedom? I maintain that there is enough money in the pipeline, resulting from appropriations in former years, to allow us to cut out the foreign aid appropriations entirely in fiscal year 1969. It might be a good time to take a new look at this area of spending anyway, inasmuch as we cannot hope to continue making large outlays for foreign aid year after year and decade after decade. There are a few countries which we should perhaps help, in our own national interest, but the foreign aid request for fiscal year 1969, which approximates $3 billion, can be greatly reduced if not entirely eliminated. Of course, the Senate Department would not agree with this, nor would the budget planners in the executive department. Many Members of Congress would also disagree.

Mr. President, I would vote for an increased tax on individual incomes were I convinced of its absolute necessity at this moment and were I convinced that the budget reflected true austerity in dealing with nonessential items. I do believe that there is a clear necessity to put our financial house in order, but until there is a genuine effort made to reduce expenditures for nonessential programs and programs the merit of which can be seriously questioned, I find it hard to join in placing an additional burden upon the taxpayer. The proposal upon which we are about to vote puts the cart before the horse. In other words, why should I vote for an increase in taxes to pay for the very programs which I believe to be unnecessary at this time, wasteful, poorly administered and misguided, antiquated, or productive of unrest or disorder? I shall vote against a surtax at this time.

Mr. President, I ask unanimous consent to insert in the RECORD certain tables on the fiscal year 1969 Federal budget requests for space research and technology and for the Office of Economic Opportunity.

There being no objection, the tables were ordered to be printed in the RECORD, as follows:

OFFICE OF ECONOMIC OPPORTUNITY

[In thousands of dollars]

	1967 enacted	1968 estimate	1969 estimate	Increase or decrease (−)	Explanation
FEDERAL FUNDS					
General and special funds: Economic opportunity program:					
New obligational authority	1,663,960	1,748,500	[1] 2,176,500	428,000	Estimate will enable major expansion of the comprehensive employment program, and will provide increases for rural community action, Head Start Follow Through, and emergency food programs.
Expenditures	1,483,042	1,851,702	1,996,006	144,304	
Public enterprise funds: Economic opportunity loan fund:					
Loan authority	21,500	14,500	3,500	−11,000	Lower estimate together with collections on outstanding loans will continue the total dollar level of outstanding loans at about the 1968 level. Approximately 7,500 loans for farm improvements or small nonfarm businesses and 250 loans to rural cooperatives will be made.
Expenditures	978	1,400	905	−495	
Net lending	24,389	16,898	3,089	−13,809	
Subtotal, Federal funds:					
New obligational authority	1,663,960	1,748,500	2,176,500	428,000	
Loan authority	21,500	14,500	3,500	−11,000	
Expenditures	1,484,020	1,853,102	1,996,911	143,809	
Net lending	24,389	16,898	3,089	−13,809	
TRUST FUNDS					
Gifts and contributions (permanent):					
New obligational authority	2	2	2	----------	These funds are used to help support the war on poverty.
Expenditures	187	14	2	−12	
ADJUSTMENTS					
Applicable receipts from the public:					
New obligational authority	−131	−131	−131	----------	
Expenditure					
Total, Office of Economic Opportunity:					
New obligational authority	1,663,831	1,748,371	2,176,371	428,000	
Loan authority	21,500	14,500	3,500	−11,000	
Expenditures	1,484,076	1,852,985	1,996,782	143,797	
Net lending	24,389	16,898	3,089	−13,809	

[1] Appropriation requested for 1969.

Space Research and Technology

New obligational authority of $4.4 billion is recommended for the National Aeronautics and Space Administration in 1969, a decrease of $218 million. This is 5% less than the current year and $597 million less than 1967. Expenditures for 1969 are estimated to be $4.6 billion, a $230 million decrease from the current year.

SPACE RESEARCH AND TECHNOLOGY

[Fiscal years, in millions]

	Expenditures			Recommended NOA for 1969[1]
	1967 actual	1968 estimate	1969 estimate	
Manned space flight:				
Manned lunar landing	$3,587	$3,028	$2,571	$2,362
Extended manned flight	62	138	422	463
Space sciences	674	563	498	479
Space applications	122	135	147	148
Space technology	440	420	425	410
Aircraft technology	89	113	120	131
Supporting activities[2]	452	411	394	378
Applicable receipts from the public (−)	−2	−4	−3	−3
Total	5,423	4,803	4,573	4,369

[1] Compares with new obligational authority (NOA) for 1967 and 1968, as follows: 1967, $4,966,000,000; 1968, $4,587,000,000.
[2] Includes both Federal funds and trust funds.

Mr. LONG of Louisiana. Mr. President, if other Senators desire time in opposition to the amendment, I shall be glad to yield.

How much time do I have remaining?

The PRESIDING OFFICER (Mr. Byrd of Virginia in the chair). The Senator from Louisiana has 7 minutes remaining.

Mr. LONG of Louisiana. Otherwise, I will use approximately 2 minutes of that time and permit the sponsors of the amendment to close.

Mr. President, in a nutshell, my objection to the amendment is that, first, it would impose a major tax increase that properly should originate in the House of Representatives. I have seen no indication that the House is any less patriotic or responsible than the Senate; and if the House believes that we should have a major tax increase, the House will send one to the Senate.

Second, the substitute proposes a major cutback in Federal personnel. It would exempt the Department of Defense and the Post Office Department from the cutback, but would require a cut in personnel in other departments which the administration and those who would have to administer it find completely unworkable and impractical. It has not been studied by the Committee on Post Office and Civil Service or by any other committee to see how it could work. The administration cannot perceive how such a goal could be achieved, although the executive branch of the Government certainly would like to cooperate in reducing the number of Federal employees.

Third, this amendment proposes a $6 billion cut in expenditures; and at this time no one is in a position to know how it would apply. No one knows what he would be voting to eliminate or to retain. It would simply be a matter of shooting in the dark.

If we were to wait until the Committee on Appropriations has had an opportunity to act on the appropriations recommendations, we would be in a much better position to know what to eliminate and what not to eliminate. Simply to vote to cut spending by $6 billion at this point is shooting in the dark, not knowing where the bullet will hit. That is not a wise manner in which to cut expenditures.

So, Mr. President, in my opinion, the amendment should not be agreed to.

When Senators vote on the substitute—and the President's message might have impressed them with the fact that is the way they should vote, although the President did not comment on this particular package one way or the other—then I trust they will vote in accordance with their conscience and conviction in this matter. I ask no one to vote the way I shall vote in this matter. I ask no one to base his vote on any reason other than his assessment on the merits of the proposal. I shall not vote for the amendment, because I do not believe this is the way to achieve the result sought by its sponsors.

Mr. MORSE. Will the Senator yield time to me in opposition to the amendment?

Mr. LONG of Louisiana. How much time does the Senator desire?

Mr. MORSE. I do not wish to interfere with the Senator. I should like all the time used.

Mr. LONG of Louisiana. Mr. President, how much time do I have remaining?

The PRESIDING OFFICER. The Senator from Louisiana has 4 minutes remaining.

Mr. LONG of Louisiana. I yield 4 minutes to the Senator from Oregon.

Mr. MORSE. Mr. President, for reasons I have expressed in the Senate from time to time in the days since H.R. 15414 has been under consideration, I am opposed to the Williams-Smathers amendment. I am not in favor of sacrificing the welfare and the tax money of the American people in order that we may see to the welfare of Southeast Asia and save Europeans from paying for their own defense, or to pour millions of dollars into a defense program in Africa, Latin America, and elsewhere in the world.

But I should like to call attention to one area of domestic construction that should be spared from the $6 billion cut in domestic spending called for in the amendment. This is the construction of forest roads and trails. Many people think they are excluded, they are not.

The national forests operated by the Forest Service in the Department of Agriculture are expected to bring receipts of $189 million into the Treasury in fiscal 1969. But the realization of those receipts will depend upon the accessibility of the timber. There is no fund into which receipts from timber sales go, to be spent exclusively for timber management, though under existing law 10 percent may be plowed back into roads. Nonetheless, there is a clear relationship between the construction of roads and the timber harvest.

The fiscal 1969 budget called for $92 million for forest roads, compared to $170 million authorized by Congress. The fiscal year 1968 appropriation of $120 was already low, and this was cut back in January by $15 million.

There is no saving made by such cuts. They merely reduce the income from timber sales.

My State has a lumber economy, and the Federal Government owns well over 50 percent of the land in the entire State. In my State, we must pay very close attention to programs such as those imbedded in the Williams-Smathers amendment. It would do irreparable damage to my State, and I do not sit here to liquidate the economy of my State.

Furthermore, I agree with the Senator from Nevada [Mr. BIBLE] in the point he just made. I believe it is an unanswerable argument. This matter should go through the Committee on Appropriations, in the regular order.

I agree wtih the position of the Senator from Wisconsin [Mr. PROXMIRE] in his opposition to the bill.

I have on my desk a series of amendments, which the acting majority leader knows I have agreed not to offer, because I believe that the Senate is ready to vote, and it would not make any difference, because Senators are either for or against the amendment in its present form.

Let me summarize quickly. I shall not support the bill, because it proposes to increase taxes on people who already pay taxes, and that is not the group that should have a tax increase. Many people in this country are able to escape taxes, and that is why we should fill the tax loopholes and make them pay the taxes, rather than have it done through this bill. I shall vote against the bill.

Mr. WILLIAMS of Delaware. Mr. President, I yield 3 minutes to the distinguished Senator from South Carolina [Mr. THURMOND].

Mr. THURMOND. Mr. President, my support today of the Williams-Smathers tax amendment is not given without reservation.

It has been my position not to support an increase in taxes unless there was a significant reduction in domestic expenditures and a tax increase still appeared necessary in order to support our fighting men in Vietnam or to balance the budget.

However, this amendment includes a $6 billion reduction in Federal spending, and, if the administration is not going to meet its obligation to cut expenditures, then Congress must act on its own. I could not support this amendment were it not for this sizable budget reduction.

I would much rather see a reduction in spending of $8 billion as originally discussed, but it appears the $6 billion cut is all the Senate will accept at this time. This $6 billion will certainly help, but it is not sufficient in view of the pending $22 billion deficit for the current fiscal year and the forecast of a $28 billion deficit for the 1969 fiscal year.

Still, Congress must do something to restore fiscal responsibility, or the results will be far more disastrous than it is possible to imagine. The leaders of our banking industry and our economists have advised us it is critical for the fiscal safety of the Nation that we reduce the size of the deficit.

Fortunately, it has been possible for Congress to reduce taxes since 1962 in the amount of about $25 billion. But today we are in a war in Vietnam, and, additionally, we are beset with countless pressures resulting from deficit spending and fiscal irresponsibility in past years.

Once again I call upon this administration to put its own house in order and halt this wreckless and wasteful spending in domestic programs. Congress is trying to meet its obligation, but this is a two-way street, and, unless the President takes quick and affirmative action, the tide toward fiscal disaster will continue unabated.

I would much prefer to withhold action on approval of a tax increase until the President takes definitive steps in implementing his austerity program. The $6 billion reduction in spending contained in this amendment will be a step toward sensible financing, but it will be a futile one if the administration does not share this obligation which it has largely created.

Mr. WILLIAMS of Delaware. Mr. President, I yield myself 2 minutes.

The PRESIDING OFFICER. The Senator from Delaware is recognized for 2 minutes.

Mr. WILLIAMS of Delaware. Mr. President, I ask for the yeas and nays on the Williams-Smathers amendment in the nature of a substitute.

The yeas and nays were ordered.

Mr. WILLIAMS of Delaware. Mr. President, I hope that the Senate will agree to the Williams-Smathers package. I think it is the very least we can do under the present circumstances.

The suggestion has been made that the Senate should wait until after Congress acts on the appropriation bills or until after the House of Representatives has acted. I remind Senators that we have been waiting for 15 months to take this appropriate step, and nothing has been done in connection with either the suggestion of an expenditure reduction or increasing taxes. I do not think we can afford to wait further.

At the end of this fiscal year, assuming we take no action, we will be faced with a deficit of $20 billion. We are confronted with a deficit of $28.3 billion for fiscal 1969. Those estimates are based on the premise that we do not increase taxes or reduce spending. Therefore, we would have a deficit of $48 billion in 2 years or a deficit of approximately $2 billion a month.

Mr. President, we cannot tolerate such a deficit without national bankruptcy. I think we are all familiar with the threat to the American dollar. Let us face the facts. The devaluation of the currency of any country is international recognition of national bankruptcy, and we should not let that happen in America.

I hope that Members on both sides of the aisle will join in agreeing to this package. It represents the minimum action we should take at this time to preserve the security of our dollar and prevent runaway inflation, which could eat up the purchasing power of the American dollar and thereby pauperize the aged people and those people who live on pensions and retirement income. I hope the proposal will be agreed to.

I am ready to yield back the remainder of my time.

Mr. LONG of Louisiana. Mr. President, I am informed that the Senator from Oklahoma [Mr. MONRONEY] wishes to speak in connection with this matter for 3 minutes.

The PRESIDING OFFICER. The Senator from Oklahoma is recognized.

Mr. MONRONEY. Mr. President, I must regretfully vote against the Smathers-Williams amendment. In doing so I am not voting against an increase in revenues because I think one is necessary. I believe I am voting in a realistic manner in that any revenue bill we agree to, including the Smathers-Williams amendment, will be thrown out instantly by the Ways and Means Committee of the House of Representatives because they have sent over to us a simple extension of excise taxes. We know the custom and the prestige of the House of Representatives in this field. That is one of the reasons I refuse to go along on something that I know will be a nullity as far as legislation is concerned.

The second reason I am against a straight 10-percent surtax is that I think it would fall unjustifiably heavy upon those people in the lower income tax brackets who are least able to pay, who are today facing increases in the cost of living, in everything they buy, and who would, in addition be charged a flat 10-percent surtax on their income taxes.

I proposed a 4.5-percent income tax increase. I think that would be modest enough to be met by the average taxpayer, even those taxpayers in the low income bracket. The difference to arrive at almost the same amount of revenue could be made up by a luxury tax.

We have always had a luxury tax in time of war. I think it is only proper that we tax those items we could avoid buying, if necessary. The tax would be on items which are injurious to the health, such as cigarettes, and in addition, might help to keep people from smoking. A tax of 2 cents on a package of cigarettes would bring in a great deal of revenue and perhaps prolong life.

I believe that a tax on alcoholic beverages of $1 a fifth would be justified. People who are from Tennessee and Kentucky say that it is worth every dollar they have to pay because it is one of their great products. I think a similar tax should be on cosmetics, Other matters that I brought up earlier I hope are being looked into by the Ways and Means Committee.

I would suggest to the Committee on Finance that this would be a better method of raising the same amount of money but in a less painful manner. The luxury tax would be one tax that the American people would not have to pay unless they wanted to enjoy these luxuries that have always been taxed in time of war.

I thank the Senator for yielding to me.

Mr. TOWER. Mr. President, the present economic position of the United States is approaching what I believe to be crisis proportions, unless decisive action is taken immediately. I will thus vote for the Williams-Smathers substitute. It is quite apparent, Mr. President, that we must substantially reduce the financial deficit in both our domestic and foreign accounts.

The entire monetary system of the free world is in jeopardy unless the United States acts in the days ahead, not weeks, not months, but days, to regain the confidence once merited by the dollar. Confidence cannot be established by continuing to follow what I believe to be a policy of fiscal irresponsibility.

As was brought out in the recent debate on the gold reserve bill, this country has lost over $2 billion—$12.6–10.4—in gold in the past 5 months. The stabilization fund has relinquished nearly $3 billion in gold bullion in an effort to shore up the stability of the dollar.

As we all know, our domestic economy is in dire straits. We are in the midst of a fiscal year that could produce a deficit of some $20 to $25 billion. The 1969 fiscal budget projections of red ink spending may well be $30 billion unless we act forcefully.

Other problems, such as inflationary pressures presently eroding the purchasing power of the dollar at the rate of some 4 percent, can be expected to worsen in the fourth quarter of 1968.

I do not believe, Mr. President, that we can possibly regain the confidence of the financial community of the world by our present fiscal course. Our dollar acts as the cornerstone of the global monetary system, and as we have seen, has withstood a series of very serious attacks in recent month. We cannot continue to withstand such attacks unless we cut expenditures.

As I have noted, we recently voted to free the remaining $11 billion in gold this Nation holds. We must of course further demonstrate this Nation's preparedness to meet its financial commitments and obligations, but we can only do this through the responsible action of reducing expenditures.

During the course of the debate on the gold cover matter, it was clear that virtually all of us favored meaningful action to bring this Nation's monetary policies into line and thus restore confidence in the dollar. A tax increase is not the prime answer, Mr. President; a substantial reduction in Federal expenditures is.

The United States has recently been engaged in a most important meeting in Stockholm for the express purpose of creating a new kind of monetary asset. This Nation conducted these negotiations with hat in hand. Our representatives were again forced to present a list of promises instead of a proven record of successes. The picture is not good: deficits for the current year and for the 1969 fiscal year could conceivably total $50 billion; the deficit in our foreign accounts for 1968 can be expected to be around $5 billion; we face an inflationary rate at 4 percent that seems destined to become much worse in the final quarter of 1968 and the first half of 1969.

Mr. President, for the special drawing rights proposal to meet with success and the ultimate adoption by the members of the International Montary Fund, the United States must demonstrate a determination to put its fiscal house in order. Unless the United States make a substantial reduction in its spending programs as outlined in the Williams-Smathers proposal, the crisis facing the dollar will worsen to perhaps disastrous proportions. Reduction in spending coupled with a tax increase will demonstrate to the financial communities both at home and abroad that the United States is seriously and honestly committed to the protection and stability of the dollar, and this at a period when the global monetary system faces perhaps its most serious threat in over three decades.

Mr. WILLIAMS of Delaware. Mr. President, I am ready to yield back the remainder of my time.

Mr. PROXMIRE. Mr. President, I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. PROXMIRE. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the amendment in the nature of a substitute offered by the Senator from Delaware [Mr. WILLIAMS] and the Senator from Florida [Mr. SMATHERS].

On this question the yeas and nays have been ordered, and the clerk will call the roll.

The legislative clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Alaska [Mr. GRUENING], the Senator from Missouri [Mr. LONG], and the Senator from Texas [Mr. YARBOROUGH], are absent on official business.

I also announce that the Senator from Idaho [Mr. CHURCH], the Senator from North Carolina [Mr. JORDAN], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], and the Senator from Alabama [Mr. SPARKMAN] are necessarily absent.

I further announce that, if present and voting, the Senator from Idaho [Mr. CHURCH], and the Senator from Texas [Mr. YARBOROUGH] would each vote "nay."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from New York [Mr. KENNEDY]. If present and voting, the Senator from Rhode Island, would vote "yea" and the Senator from New York would vote "nay."

On this vote, the Senator from Ohio [Mr. LAUSCHE] is paired with the Senator from Alaska [Mr. GRUENING]. If present and voting the Senator from Ohio would vote "yea" and the Senator from Alaska would vote "nay."

Mr. KUCHEL. I announce that the Senator from Tennessee [Mr. BAKER] and the Senator from Utah [Mr. BENNETT] are necessarily absent.

If present and voting, the Senator from Tennessee [Mr. BAKER] and the Senator from Utah [Mr, BENNETT] would each vote "yea."

The result was announced—yeas 53, nays 35, as follows:

[No. 96 Leg.]

YEAS—53

Aiken	Hansen	Muskie
Allott	Hickenlooper	Pearson
Boggs	Holland	Pell
Brooke	Hruska	Percy
Byrd, Va.	Inouye	Prouty
Carlson	Jackson	Randolph
Case	Javits	Russell
Cooper	Jordan, Idaho	Scott
Curtis	Kuchel	Smathers
Dirksen	Mansfield	Smith
Dodd	McClellan	Spong
Dominick	McIntyre	Stennis
Eastland	Miller	Symington
Ervin	Montoya	Thurmond
Fannin	Morton	Tower
Fong	Moss	Tydings
Gore	Mundt	Williams, Del.
Griffin	Murphy	

NAYS—35

Anderson	Harris	Metcalf
Bartlett	Hart	Mondale
Bayh	Hartke	Monroney
Bible	Hatfield	Morse
Brewster	Hayden	Nelson
Burdick	Hill	Proxmire
Byrd, W. Va.	Hollings	Ribicoff
Cannon	Kennedy, Mass.	Talmadge
Clark	Long, La.	Williams, N.J.
Cotton	Magnuson	Young, N. Dak.
Ellender	McGee	Young, Ohio
Fulbright	McGovern	

NOT VOTING—12

Baker	Jordan, N.C.	McCarthy
Bennett	Kennedy, N.Y.	Pastore
Church	Lausche	Sparkman
Gruening	Long, Mo.	Yarborough

So the Williams-Smathers amendment, in the nature of a substitute, was agreed to.

Mr. SMATHERS. Mr. President, I move to reconsider the vote by which the amendment was adopted.

Mr. WILLIAMS of Delaware. Mr. President, I move to lay that motion on the table.

The motion to lay on the table was agreed to.

The PRESIDING OFFICER. The question is on the engrossment of the amendment and third reading of the bill.

The amendment was ordered to be engrossed, and the bill to be read a third time.

The bill was read the third time.

PERSONAL STATEMENT—CORRECTION OF POSITION ON VOTE

Mr. McCLELLAN. Mr. President, on Thursday, March 28, the Senate voted on the Ribicoff amendment to the pending legislation. The Ribicoff amendment dealt with the tax exempt status of industrial revenue bonds and a vote for the amendment was a vote to remove the tax exempt status these revenue bonds have enjoyed since the 1954 revenue ruling.

I did not vote. I was in the radio press gallery for a press interview and did not get any signal that a vote was in progress. On that vote, according to the CONGRESSIONAL RECORD of March 28, page S2562, I am recorded as being in favor of the amendment. I was not in favor of the amendment and was incorrectly recorded. I ask unanimous consent that the permanent RECORD be corrected so as to reflect my opposition to the amendment.

The PRESIDING OFFICER. Without objection, it is so ordered.

EXPLANATION OF VOTE

Mr. CLARK. Mr. President, I was necessarily absent during the debate on the substitute amendment and returned to Washington just in time to vote, but I would like to take a few minutes to explain my vote.

I voted against the amendment; first, because I could not in good conscience vote for cuts in the budget which I understood will come out of the welfare and educational programs, that I strongly support. I supported the Javits amendment to make it possible to make these cuts elsewhere. I proposed an amendment of my own to have these cuts taken out of the military program, the space program, and the supersonic transport program.

Second, I would have preferred an excess profits tax.

Third, I would have preferred closing the tax loopholes.

Fourth, I do not believe the Senate should undertake to legislate on so important and complex a matter by floor action without having had adequate consideration in committee as to how these amendments should be done.

Fifth, I believe, in due course, in conference this Christmas tree legislation will be knocked out and the House will pass its own bill. I am prepared to take another hard look at a tax increase and also a cut in expenditures.

In my opinion, we have taken the wrong method, at the wrong time, in the wrong way; therefore I voted against the amendment.

The yeas and nays were ordered.

PAYING THE PRICE FOR VIETNAM

Mr. TYDINGS. Mr. President, it is with a heavy heart that I must cast this vote in favor of increasing taxes to pay for the war in Vietnam. Coupled as it is with a major slash of $6 billion in Federal spending and a freeze of Federal employment at its present level, this tax increase means that we will have to pay more, but get less at home, so that we can pay for the war in Vietnam.

NO WAY TO AVOID TAX INCREASE

I oppose that war. I have opposed taxing the American people to pay for it. I have opposed increasing taxes without first making meaningful tax reforms. But we have no choice. The cost of the Vietnam war is so great that it threatens us with economic ruin if we do not take stringent action now to pay for the war.

Although I have hoped and argued and worked for an end to the war, I recognize that there is little hope of its being ended before our economy is deeply damaged by its cost, unless we take action now to increase taxes and cut our Federal budget. So I must reluctantly vote for this tax increase and, with it, a realistic expenditure ceiling. The preservation of our economy simply cannot wait for tax reform or an end to the war.

VIETNAM IS SOLE REASON FOR TAX INCREASE

Let there be no mistake that the war in Vietnam, not domestic expenditures, is the sole reason for this tax increase.

The war has so far cost an admitted $52 billion and will cost an admitted $78 billion by the end of the next fiscal year. The actual cost of the war, taking into account such items as veterans benefits for a generation and interest on the war-created national debt, is probably closer to $100 billion so far.

All this has been paid for thus far by shortchanging domestic needs. But there is no way to cut our domestic programs enough to pay for the $30 billion-plus annual cost of the war. We could not pay for the war even if we eliminated every dime we will spend this year for: Federal aid to education; all health programs, hospital construction, and medical research; all housing and aid to cities; all aid to depressed areas; all foreign aid and the Peace Corps; the war on poverty; and practically the entire cost of our domestic Government, including the Congress, the Federal courts, and the Departments of Labor, Justice, Post Office, Interior, Commerce, Housing and Urban Renewal, and Health, Education, and Welfare.

So we must increase taxes to pay for the war.

THE ECONOMIC DAMAGE VIETNAM WAR HAS CAUSED

We cannot go on financing the Vietnam war with deficit spending. The facts are these:

First, Vietnam war-caused deficits already total more than $31 billion for the last 3 years. We and our children will be paying interest on this staggering debt for countless years to come. We must have a tax increase to prevent further massive war-caused additions to the national debt.

Second, the $30 billion a year spent for Vietnam war material is competing with civilian dollars for available goods and is driving prices up. After the war began to escalate in 1966, inflation jumped from the 1.2 percent annual rate of the previous 5 years to an annual rate of about 3.5 percent since then—triple the pre-war inflation. Only by ending the war purchases or reducing consumer demand through higher taxes can this inflation be stemmed. Even this 1-percent tax increase is painful, but a 3.5 percent annual rate of inflation is much worse.

Third, as long as the war is financed by borowing, the Government is competing with private industry and consumers for banks' and investors' funds. Money, just like consumer goods, gets more expensive as competition for the available supply becomes more intense. When the Government has to borrow $18 billion, as it will this year, to help pay for the war, interest rates—the cost of money—are driven higher and higher, just like any other prices when demand exceeds supply. That means that home buyers, car buyers, State and local governments, school districts, and private industry all must pay more for their loans and mortgages.

Industry must pass these increased borrowing costs on to consumers in the form of higher prices. Government must pass them on as higher taxes. And the consumer must pay more, and sometimes do without.

As the war borrowing has driven interest rates up, money for home mortgages has practically disappeared in some parts of the country. Throughout the country, home buyers have had to pay higher downpayments and interest costs and home sellers have had to pay more "points," because the war borrowing has absorbed much of the money which would otherwise be available for home mortgages.

Interest rates stand today at record levels. Industry is frequently paying the highest interest rates on loans since the Civil War. State after State has had to amend its usury laws and raise permissible interest rates as the war borrowing has driven rates through existing interest ceilings, leaving no money to be lent at the old, lower rates. This skyrocketing credit chaos will not be arrested and interest rates will not come down, until the war is ended, or taxes are raised to pay a larger part of the war cost and to reduce the amount of Government borrowing to pay for the war.

Fourth, and perhaps most dangerous of all, the combination of inflation, high interest rates and enormous deficits the war has caused has led foreign people and governments to doubt our ability to maintain the value of the dollar. The U.S. dollar used to be "as good as gold." That explains how all free nations came to accept it as the keystone of international commerce. Thanks to the Vietnam war cost, this is no longer true. As a result, foreign individuals, institutions, and governments, who have more than $32 billion in their hands, have begun a rush to cash those dollars for U.S. gold, because we have only about $10.5 billion left in gold to redeem them. This gold rush, although temporarily stemmed by drastic action 2 weeks ago, will begin again unless these foreign holders of dollars become convinced that we are going to end the war-caused borrowing, inflation, and international payments deficits either by ending the war itself or by beginning to pay for it with higher taxes.

HOW THIS TAX INCREASE WILL AFFECT THE AVERAGE TAXPAYER

The President has sought a 10-percent surtax to help pay for the war. This

terminology has led many people to believe that he is talking about a 10-percent increase in tax rates, when in fact what he is talking about is an increase of 10 percent in a taxpayer's total tax bill, only about a 1 to 2 percent increase in his tax rates. The tax increase we are considering today is less than the President requested. This bill would impose a surcharge of 7.5 percent on income earned after April 1 this year. The surcharge would drop to 5 percent next year.

Personal income taxes stand today at their lowest levels since before World War II. To reach Korean war or World War II rates, average personal tax rates would have to be increased by about 50 percent. In fact, this tax proposal we are voting on today would restore only a part of the tax cut enacted by Congress in 1964, and still leave personal taxes lower than at any time during the 20 years prior to 1964.

This tax increase will pay for less than a third of the annual war cost. Much of the rest of that cost will still take the form of additions to the national debt through deficit spending. But this tax increase will help keep the war-caused inflation from getting even further out of hand, will reduce the war deficit, and will help preserve our economy and save the value of our dollar.

THE COST OF THE WAR

This tax increase is also going to bring the war cost home to every American. Except for those whose loved ones or who themselves have served in Vietnam, this has been a distant war seeming to cost nothing. Now it is becoming clear how much this war actually is costing in lives approaching the Korean war total, in inflation of 3.5 percent a year, in international payments deficits of billions, in prestige as we sink deeper into the Asian quagmire, and now in new taxation. I think we will see increased reevaluation of the war by more and more citizens who will be asking "Is Vietnam worth the price?"

I hope that the President's new initiatives for peace will lead to deescalation and an end to our loss of life in Vietnam. I hope that that war, and this tax increase to pay for it, can both be promptly terminated.

EXPLANATION OF FAILURE TO VOTE

Mr. CHURCH. Mr. President, for some reason that I cannot explain, the bells failed to ring in my office, as a result of which I was unable to reach the Chamber in time to cast my vote. I would like, since this is a matter of considerable importance, first, to explain that I was present and the reason why I failed to vote; and, second, to ask that on final passage there may be the yeas and nays, so I may be recorded on this legislation.

Mr. President, we are about to vote on a bill to increase, by 10 percent, all individual and corporate income tax rates—an added tax which, when all the rhetoric is stripped away, is simply a war tax. The need for it, everyone now admits, is occasioned by the skyrocketing costs of our involvement in Vietnam.

It is urged upon us that this new tax must be enacted to protect the integrity of the dollar, to reduce the mounting deficit, and to curb inflation. We are told that, painful as it is, we must raise more money to pay for the war.

Mr. President, it is true that the dollar faces a strain greater than ever before. The recent decision of Congress to remove the gold cover testifies to that fact. However, the pressures on the dollar will be only indirectly affected by increasing taxes here at home. This problem can be effectively dealt with only through substantial retrenchment in our foreign spending.

Regarding the other reasons for increasing Federal revenues, I have no argument. Without new taxes, it is obvious that we will face a huge deficit this year. Cutting nonmilitary spending may reduce the size of this deficit, but it cannot possibly overcome it. Furthermore, it is true that deficit spending keeps inflation creeping upward. The purchasing power of the dollar keeps shrinking.

Yet, although these arguments clearly point up the need for increased taxes, they do not justify the means proposed, an additional levy of 10 percent on every individual and corporate taxpayer. The root cause for needing more revenue is the war in Vietnam. Without the war, we would not be faced today with a gold crisis, a towering deficit, or a new round of inflation. Logically, then, we should seek to raise additional revenue from those taxpayers who have profited most from the war itself, or generally, from those who are best able to pay.

During the past week I have voted consistently to reduce expenditures. I have supported the proposal to cut back on civilian spending by $6 billion. At the same time, I have recognized that such a reduction, though very substantial indeed, cannot alone do the job. New revenue must be found if we are to reduce adequately the anticipated deficit.

To this end, I proposed last week that the Senate enact an excess war profits tax, rather than increase income tax rates for all taxpayers. The excess war profits tax would apply only to those corporate earnings which exceed normal levels and are related to increased business resulting from the war in Vietnam.

Unfortunately, the Senate voted down the excess war profits tax proposal, even though it was closely patterned after the tax in effect during World War II and the Korean war. Such an excess war profits tax would not only have produced more revenue than the administration's 10 percent surtax, but it would have spared those taxpayers, like the farmer, wage earner, and small businessman, who can least afford the burden of higher income tax payments.

Following the Senate's refusal to adopt an excess war profits tax, I supported an effort to raise additional revenue by restoring wartime excise taxes on liquor, tobacco, cosmetics and certain luxury merchandise. Again, the Senate rejected the proposal, even though it would have substantially reduced—from 10 to 4½ percent—the increase in income tax rates. For a second time, the Senate refused to apportion higher taxes in a way that would minimize their impact on all taxpayers, many of whom are already overburdened.

So we are now faced with a bill which has been amended to include a 10-percent increase in income tax rates. Last October, I informed my constituents of my opposition to raising the income tax. My views have not changed in the intervening months. Accordingly, I shall vote against the pending bill.

If we must have new taxes, we should collect them from those best able to pay. No more suitable source exists than the big earnings which are directly related to the war itself. Our situation calls for the enactment of an excess war profits tax. If we were to take the profit out of the war in Vietnam, perhaps there would be fewer pressures in the future propelling us into new misadventures on distant foreign shores.

The PRESIDING OFFICER. The bill having been read the third time, the question is, Shall it pass? On this question the yeas and nays have been ordered, and the clerk will call the roll.

The bill clerk called the roll.

Mr. BYRD of West Virginia. I announce that the Senator from Alaska [Mr. GRUENING], the Senator from Missouri [Mr. LONG], and the Senator from Texas [Mr. YARBOROUGH], are absent on official business.

I also announce that the Senator from North Carolina [Mr. JORDAN], the Senator from New York [Mr. KENNEDY], the Senator from Ohio [Mr. LAUSCHE], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Rhode Island [Mr. PASTORE], and the Senator from Alabama [Mr. SPARKMAN], are necessarily absent.

I further announce that, if present and voting, the Senator from Texas [Mr. YARBOROUGH], would vote "yea."

On this vote, the Senator from Ohio [Mr. LAUSCHE] is paired with the Senator from Alaska [Mr. GRUENING]. If present and voting, the Senator from Ohio would vote "yea" and the Senator from Alaska would vote "nay."

On this vote, the Senator from Rhode Island [Mr. PASTORE] is paired with the Senator from New York [Mr. KENNEDY]. If present and voting, the Senator from Rhode Island would vote "yea" and the Senator from New York would vote "nay."

Mr. KUCHEL. I announce that the Senator from Tennessee [Mr. BAKER] and the Senator from Utah [Mr. BENNETT] are necessarily absent.

The Senator from Kentucky [Mr. MORTON] is detained on official business.

If present and voting, the Senator from Tennessee [Mr. BAKER], the Senator from Utah [Mr. BENNETT], and the Senator from Kentucky [Mr. MORTON] would each vote "yea."

The result was announced—yeas 57, nays 31, as follows:

[No. 97 Leg.]

YEAS—57

Aiken	Dodd	Holland
Allott	Dominick	Hruska
Anderson	Eastland	Inouye
Boggs	Ervin	Jackson
Brooke	Fannin	Javits
Byrd, Va.	Fong	Jordan, Idaho
Carlson	Gore	Kuchel
Case	Griffin	Magnuson
Cooper	Hansen	Mansfield
Curtis	Hayden	McClellan
Dirksen	Hickenlooper	McIntyre

Miller	Pell	Spong
Monroney	Percy	Stennis
Montoya	Prouty	Symington
Moss	Randolph	Thurmond
Mundt	Russell	Tower
Murphy	Scott	Tydings
Muskie	Smathers	Williams, N.J.
Pearson	Smith	Williams, Del.

NAYS—31

Bartlett	Fulbright	Metcalf
Bayh	Harris	Mondale
Bible	Hart	Morse
Brewster	Hartke	Nelson
Burdick	Hatfield	Proxmire
Byrd, W. Va.	Hill	Ribicoff
Cannon	Hollings	Talmadge
Church	Kennedy, Mass.	Young, N. Dak.
Clark	Long, La.	Young, Ohio
Cotton	McGee	
Ellender	McGovern	

NOT VOTING—12

Baker	Kennedy, N.Y.	Morton
Bennett	Lausche	Pastore
Gruening	Long, Mo.	Sparkman
Jordan, N.C.	McCarthy	Yarborough

So the bill (H.R. 15414) was passed.

Mr. LONG of Louisiana. Mr. President, it will be necessary to amend the actual title.

I ask unanimous consent that the title be amended, so as to read: "An act to continue the existing excise tax rates on communication services and on automobiles, to apply more generally the provisions relating to payments of estimated tax by corporations, to amend the Social Security Act, to impose import quotas on certain items, to increase income taxes, to limit expenditures, and for other purposes."

The PRESIDING OFFICER (Mr. HOLLAND in the chair). Without objection, it is so ordered.

Mr. LONG of Louisiana. Mr. President, I move that the Senate insist on its amendments to the bill (H.R. 15414) and ask for a conference with the House thereon, and that the Chair appoint the conferees on the part of the Senate.

The motion was agreed to, and the Presiding Officer appointed Mr. LONG of Louisiana, Mr. SMATHERS, Mr. ANDERSON, Mr. WILLIAMS of Delaware, and Mr. CARLSON conferees on the part of the Senate.

Mr. LONG of Louisiana. Mr. President, I ask unanimous consent that the bill (H.R. 15414) be printed with the amendments of the Senate numbered; and that in the engrossment of the amendment of the Senate to the bill the Secretary of the Senate be authorized to make all necessary technical and clerical changes and corrections, including corrections in section, subsection, and so forth designations, and cross-references thereto.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MANSFIELD. Mr. President, the passage of this measure brings us a great deal closer to the enactment of the long-awaited income tax surcharge that is considered so vital to our economic stability. Of course this proposal contains a good deal more than a tax surcharge; it includes provisions calling for substantial budget reductions, modifications in our welfare program, provisions for the removal of the tax-free status of industrial development bonds, and the continuance of the excise tax rates at present levels.

These and the other provisions of the measure were highly important and most complex. But the splendid manner in which the bill was handled assured its efficient disposition with reasonable dispatch. I refer specifically to the fine work of the Senator from Louisiana [Mr. LONG], the able and distinguished chairman of the Committee on Finance. His quick grasp of the issues, his clear and concise explanations and his broad knowledge of our financial structure served immensely to assure such efficiency. Over the years Senator LONG has worked tirelessly and with deep and abiding devotion in the service of the Nation. His many outstanding achievements bear witness to the exemplary record he has compiled in this Chamber. The manner in which he handled this proposal adds to that already abundant record.

Joining Senator LONG in leading and maintaining such a high-level discussion during the consideration of this measure was the Senator from Florida [Mr. SMATHERS]. He too has consistently demonstrated a deep knowledge of our financial structure and a great ability to articulate it clearly. We appreciate his participation in this discussion and his fine contribution. The senior Senator from Delaware [Mr. WILLIAMS] is similarly to be commended. As the ranking minority member of the committee he has always exhibited a strong and sincere interest in fiscal matters. His efforts on this measure were no exception.

Other Senators also joined to assure the thoughtful and constructive consideration of this measure. The distinguished Senator from Connecticut [Mr. RIBICOFF], the distinguished Senator from Nebraska [Mr. CURTIS], and the distinguished Senator from Arkansas [Mr. FULBRIGHT] certainly deserve our thanks, as do the distinguished Senator from Wisconsin [Mr. PROXMIRE], the distinguished Senator from South Carolina [Mr. HOLLINGS], and the distinguished Senator from Indiana [Mr. HARTKE].

Again, I wish to express my appreciation and the appreciation of the Senate to Senator LONG and to the entire committee for the fine manner in which this proposal was handled. It stands as a credit to the entire Senate.

Mr. SPONG. Mr. President, the Senate today passed the Tax Adjustment Act of 1968 by a vote of 57 to 31. This legislation includes provisions that will postpone drops in the excise taxes on automobiles and telephone services, but will provide for a reduction of these taxes over the next few years.

It also provides for the payment of corporate taxes on a basis more nearly the same as that of individuals and unincorported businesses. However, the Senate version of the bill includes more liberal exemptions for small businessmen than did the House-passed measure.

The Senate adopted amendments to the bill which would provide for the elimination of the tax-exempt status of industrial development bonds, and the establishment of quotas on textile imports.

Most significantly, the Senate added an amendment which would provide a ceiling on Government spending for the 1969 fiscal year, representing a cut of $6 billion in the President's proposed budget, a $10 billion cut in the spending obligations the Federal Government can make in fiscal 1969 for the future, and a 10-percent surtax on individual and corporate income.

It is apparent to all that the United States is facing one of the most difficult times in its history. The war in Vietnam, the disorders in our cities, the crisis in the international monetary system and the accompanying attacks on the dollar have all imposed a heavy burden on the resources, both spiritual and material, of our Nation.

The strain on our economy has become obvious. Recent statistics have shown that prices rose more than 3 percent last year, will rise 4 percent-plus in 1968, and 5 percent or more in 1969.

It is estimated that without a tax increase, we will have a deficit of approximately $22.8 billion in fiscal 1968 and $20.9 billion in fiscal 1969. This of course does not take into account the expected supplemental request for additional appropriations for Vietnam.

It is likely that without cuts in spending and a tax increase the Government will have to borrow $20 to $22 billion in the private money market in 1968 and again in 1969 and that the pressures on the money market are likely to dry up much of the available credit for housing, State and local governments, and for small business.

The United States must act to meet the burdens imposed on us by our international obligations and our internal problems. The Congress as well as business, labor, and our individual citizens, must be willing to take the painful steps necessary to put our financial house in order.

Throughout my service in the Senate I have called for the establishment of rational priorities in the spending policies of the Federal Government, and I have supported selective and substantial cuts in the budget which represent my view of what our priorities must be. In the voting on this legislation I have supported the provisions which impose a ceiling of $6 billion on fiscal 1969 spending and $10 billion in obligational authority for the same year. This enables the Congress to put a limit on projected Federal spending, and allows the legislative process to determine where the cuts must come. While this is not the most satisfactory method of dealing with spending, in the face of our present difficulties I believe that this approach is necessary and will be effective.

Any increase in taxes is distasteful to those who must pay and to those who must vote to impose the increase. Throughout the past year my position has been that before I would support the imposition of new taxes on the American people I would have to be convinced that serious and effective cuts in Federal spending would be imposed, and that an increase in tax receipts was absolutely necessary to meet our burdens abroad and protect our economy at home.

In the face of the increased cost of Vietnam, the international monetary crisis and the threat of inflation, I have come to the conclusion that a tax increase is vital to the well-being of our Nation. Thus, I supported the amend-

ment to the Tax Adjustment Act of 1968, which would impose a 10-percent surtax on an individual and corporate income and I supported the legislation on final passage.

FISH PROTEIN CONCENTRATE

Mr. MANSFIELD. Mr. President, I ask unanimous consent that Calendar No. 994, S. 3030, be laid before the Senate. I understand that it will take only a few minutes.

The PRESIDING OFFICER. The bill will be stated by title.

The ASSISTANT LEGISLATIVE CLERK. A bill (S. 3030) to amend section 3 of the act of November 2, 1966, relating to the development by the Secretary of the Interior of fish protein concentrate.

The PRESIDING OFFICER. Is there objection to the request of the Senator from Montana?

There being no objection, the Senate proceeded to consider the bill.

Mr. COTTON. Mr. President, I shall only take the time of the Senate for a minute or so.

Mr. President, I made a reservation on this measure when it was reported by the Commerce Committee.

I am not going to oppose the bill or even vote against it. However, it was held up because of my reservation and I wanted to explain the situation to the Senate and to record a little unhappiness about the bill.

In 1966 our committee reported the measure that authorized the Secretary of the Interior to engage in the development and production of fish protein. I think the Senate will recall that the chairman of our committee, the distinguished Senator from Washington [Mr. MAGNUSON], and others from the west coast, were very active in promoting this measure, and that former Senator Saltonstall, of Massachusetts, and other Senators from New England were equally active in promoting it.

When the bill was finally reported, it was proposed that there be two pilot plants, experimental production plants, one on the west coast and one on the east coast. It was estimated that each such plant would cost $1 million.

It was decided in the discussion of the committee that in the interest of postponing the expenditures and not putting a $2-million burden on the budget in 1 year, the committee would authorize $1 million, which was understood to be expended for the plant on the west coast, and that the following year—in order words, 1967 or 1968—a second million dollars would be authorized and hopefully appropriated for a plant on the east coast.

What happened was first, that construction was delayed and construction costs had increased; and, second, I believe, that the Food and Drug Administration imposed some new requirements that would affect this matter, with the result that when the time came to pass the bill, the cost of the plant, which was to be limited to $1 million had increased in cost to $1.9 million, nearly $2 million, which sum was to be expended on the west coast.

I am rather unhappy that the matter should have been deferred so long. It seems to me that there was a good deal of neglect and that somebody was remiss in not being more accurate in their figures.

I am naturally unhappy that the original arrangement to establish a plant on the east coast as well as on the west coast is no longer in effect and that if the authorization is made today, the appropriations in the amount of almost $2 million will go to the plant on the west coast. No one knows when New England and the east coast fisheries, where the fishing industry is extremely vital to our future, is going to receive the attention that is proper and due.

The PRESIDING OFFICER. Let there be order in the Senate.

Mr. COTTON. Consequently, I do wish to express my regret and, to a certain extent, my dissatisfaction that this has been handled in this unfortunate manner. New England, and I am proud to include New Hampshire, has a long and intrepid seafaring history. Our area was supplying the Nation with fish well before a line or net was dropped on the west coast. I think we are entitled to better treatment than is proposed here, and when the present budgetary restrictions are eased, I will make it my business to see that we receive equal consideration. And, with that expression, I withdraw my objection to the passage of the bill.

The PRESIDING OFFICER. The question is on the engrossment and third reading of the bill.

The bill was ordered to be engrossed for a third reading and was read the third time.

The PRESIDING OFFICER. The bill having been read the third time, the question is, Shall it pass?

The bill (S. 3030) was passed as follows:

S. 3030

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the first sentence of section 3 of the Act of November 2, 1966 (80 Stat. 1090; 16 U.S.C. 778f), is amended to read as follows: "There is authorized to be appropriated not to exceed $1,900,000 for the construction of one experiment and demonstration plant."

NEEDED CLARIFICATION ON THE EXTENT OF THE PRESENT CESSATION OF BOMBING IN NORTH VIETNAM

Mr. FULBRIGHT. Mr. President, I was very much impressed by the President's statement on Sunday night that he was stopping the bombing in Vietnam unilaterally.

The PRESIDING OFFICER. Let there be order in the Senate Chamber.

The Senator may proceed.

Mr. FULBRIGHT. Mr. President, I phoned the President. I congratulated him. I think everyone got the impression that he was making a major change in the existing policy and that it was to stop the bombing. This was in accord with suggestions made by such people as U.N. Secretary General U Thant, the Premier of Russia, and by the majority leader of the Senate, the distinguished Senator from Montana [Mr. MANSFIELD], three of the most important men I know of in this field.

It is true that the President's statement was qualified. I shall read the President's language. I think this language is so important that I am suggesting in the final analysis that it be clarified.

All I am doing is raising the question that there is confusion in my mind. I know that there is also confusion in the minds of some of the people with whom we should be moving toward an understanding. I have already talked with one ambassador of an important country of the Socialist bloc.

This is what the President said:

> I have ordered our aircraft and our naval vessels to make no attacks on North Vietnam except in the area north of the demilitarized zone where the continuing enemy build-up directly threatens allied forward positions and where the movement of their troops and supplies are clearly related to that threat.
>
> The area in which we are stopping our attacks includes almost 90 per cent of North Vietnam's population, and most of its territory. Thus there will be no attacks around the principal populated areas, or in the food-producing areas of North Vietnam.

My reaction to that statement of the President, and the reaction of everyone to whom I have talked, was that this was a major stopping of the bombing, the exception being that area very close to the DMZ that would possibly, for example, threaten Khesanh. That was my feeling about it. I believe that generally was the feeling. I believe the reaction was that we had stopped the bombing, with very little exceptions.

Today, the headlines in the Washington Post reads "U.S. Jets Hit Deep in North." I shall not read the entire story. I shall ask that it be printed in the RECORD.

I have had inquiry made as to what the administration meant by this statement. I was disturbed. It is a misunderstanding, at the very least. The chief of staff of the Foreign Relations Committee was informed that the explanation was that some of these roads—three, I believe—go very far up, as far as 250 miles, into North Vietnam, and that, under the interpretation of the military, at least, and one of the assistants to the President, this was what they have in mind by the language "just north of the DMZ."

Well, perhaps it is. If it is going to be interpreted in such a way that they are free to bomb within 25 or 40 miles of Hanoi, this is a very limited change in existing policy, and I submit that it is not calculated to bring a response from North Vietnam in the nature of an agreement to revive the Geneva Conference. If that is true, I deeply regret it.

The hopes at least of those who are disillusioned with existing policy have been raised; and all over the world, in my opinion, there was the belief that, coupled with the President's dramatic statement as to his personal intentions in the coming election year, there was a major change in the policy of bombing the north, which has for many months been considered the principal obstacle to moving toward a negotiated peace.

I do appeal to the President to clarify exactly what he meant by the language

that I read—the language which leaves the impression that there is to be a cessation of bombing in the north.

The President stated in other parts of his speech that he hoped—he did not state any condition—that this bombing stop would elicit a response; that on their own, without any condition whatever, they would show some relevant response to this action.

Well, that in itself means that he was going to do something significant. To hope for a response just for refraining from bombing Hanoi does not seem to me to be any particular justification for any hope.

As we all know, the North Vietnamese believe—rightly or wrongly—that we attacked them without provocation. They do not accept the oftrepeated allegation that they are the aggressor. In fact, they believe that we are the aggressor. These are differences, I suppose, that always occur in every war, and I do not wish to argue the merits of that aspect. I believe that our hearings with respect to the Gulf of Tonkin had some bearing upon that question. But I do not wish to argue it.

What I wish to argue is that the President made a very important announcement that many people, including myself, interpreted to mean a significant change in the existing policy of bombing North Vietnam; and today, within 48 hours, it appears that it was not a significant change at all. I regret this very much.

I do not believe that we should allow this confusion to stand, and I appeal to the President to clarify exactly what he means by the stopping of the bombing in the north and why, if this is all he is doing, he expects any significant response. I wanted to make that clear.

This is a most serious matter. Many people in the world were waiting for just such a gesture. I was fairly certain that there would be a response, a significant response, and I have had a degree of confirmation—a very minor degree—not from the countries directly involved, but from some of their allies, that this confusion of what is meant by stopping the bombing is a most serious matter; and I consider it my duty to bring it to the attention of the Senate and of the President.

Mr. MANSFIELD. Mr. President, the distinguished Senator from Arkansas, the chairman of the Committee on Foreign Relations, has raised a most pertinent question. A number of Senators now in the Chamber have had conferences with the President over the last week. Speaking for myself, I spent 3 hours with the President last Wednesday evening, at which time we discussed a number of matters of mutual interest, including the speech he was going to deliver in the next day or two or three. As a matter of fact, the entire speech was read to me that evening, and I recall that in the speech a reference was made to a cessation of the bombing below the 20th parallel.

Mr. FULBRIGHT. Above?

Mr. MANSFIELD. The Senator is correct—above.

The President discussed at that time the cessation of bombing above the 20th parallel and the need below the 20th parallel to protect the marines and our troops stationed along the DMZ at places such as Khesanh, and Con Thien—in other words, to try to block the trails which were being used to carry men and materiel to be used along the DMZ against American areas, especially in the region of Khesanh.

If we go back to what the President said—the distinguished Senator from Arkansas read it correctly—I would like to add to what has been quoted—the paragraph preceding what the distinguished Senator from Arkansas has read to the Senate:

> We are prepared to move immediately toward peace through negotiations. So tonight in the hope that this action will lead to early talks, I am taking the first step to de-escalate the conflict. We are reducing—substantially reducing—the present level of hostilities, and we are doing so unilaterally and at once.

The President pointed out further—and this emphasizes what the chairman of the Committee on Foreign Relations has said—that 90 percent of North Vietnam's population would be excluded under this statement.

Furthermore, I find on investigation that 78 percent of the territory is also excluded. So what you have is a decrease from 100-percent territory to approximately 22 percent. And so far as the population is concerned, the breadbasket of North Vietnam, the Red River Delta, the cities of Hanoi and Haiphong, the docks at Haiphong, the Gio Linh airport, and other areas are excluded, and these attacks now are against areas, against trails, which are being used for shipping purposes. This particular attack took place somewhere 170 or 180 miles north of the DMZ, against a marshalling yard wherein trucks were being gathered for the purpose of transporting men and material south through the Mu Gia Pass, to be used against American positions at Khe Sanh and elsewhere along the 17th parallel.

I would say that while the inexact language in the speech could give rise to questions, the President did not lie. Technically he is correct. He wanted to put in his statement and into his speech the 20th parallel, which he used in discussion of this matter with various Members who are now in the Chamber. But he was dissuaded by his diplomatic colleagues, which I assume to be the State Department, not to put that in because it would, in effect, furnish a signal over which a safe area could be created.

I do want the RECORD to show that while there may be questions raised, and evidently there are, insofar as the President is concerned—and I can state this on my personal word—he is intent only on trying to stop these men and supplies from going down these trails along the western side of North Vietnam, the objective of which, the terminal point of which, is the DMZ where they will be used against Americans stationed along that area.

I am prepared to support every kind of protection which these men need because they are not there by choice but because they are carrying out their duties and obligations under the Constitution.

The Senate is aware of the fact that as far as I am concerned personally I would like to see an end to the bombing in all of North Vietnam, negotiations or not. But I do approve the President's formula which keeps away from the population centers, which absolves in effect, most of the territory of North Vietnam, but which does not preclude the trails carrying the men, supplies, and material of various kinds to be used in the demilitarized zone.

I wish that the language had been more clear because there is a good deal of validity to the argument raised by the Senator from Arkansas, in that a certain impression was created.

Mr. FULBRIGHT. Mr. President, will the Senator yield for a question for the record?

Mr. MANSFIELD. I am delighted to yield to the Senator from Arkansas.

Mr. FULBRIGHT. Today's Washington Post reports as follows:

> U.S. planes yesterday hit North Vietnamese targets 205 miles north of the Demilitarized Zone—about 80 miles south of Hanoi.

Then, in the Daily News of today there is the same thing.

I do not wish to nit-pick over whether it is 200 miles or 195 miles or whatever it may be.

The point is that the President made a very dramatic statement on Sunday night which took the country and the world by surprise; it made a great impression—and I know it made a great impression—all over the world.

Part of that impression, aside from the fact that he said he was not going to run, and he coupled that with the thought of disavowing any partisanship—and one of the reasons, I would gather from his speech that he was not going to run—was so he could devote his entire attention to bringing about peace. I got the impression that he thought it was more important for him to bring this war to a close than for all else. That was part of the speech.

A part also was to stop the bombing. I do not wish to argue with the Senator. I know he is quite right technically within the explanation he has given. I only submit there was a very important psychological impact from that speech arising from the combination of stopping the bombing plus his own statement disavowing an intention to run.

If he had said nothing about his own condition, his own purposes, he could have just said, "I am going to stop the bombing around Hanoi"—the administration has said this time and again—"or an area 10 miles around Hanoi—or an area 10 miles around Haiphong—for 36 hours, a week, and see what we get." We have gotten no response. That has been tried time and time again.

Perhaps it is my fault in assuming this was a significant statement. If it is, I apologize for my lack of understanding, but I have assured myself that most everyone I saw and talked to since that time thought this was a significant statement.

Surely, the New York Stock Exchange people, not that they are experts, thought the bombing cessation was significant. The market went up 20 points with 17 million shares traded. All of those hard-boiled businessmen in New York

Jones, Mo.	Myers	Skubitz
Keith	Nelsen	Smith, Calif.
King, N.Y.	Passman	Smith, N.Y.
Kleppe	Pelly	Smith, Okla.
Kuykendall	Pettis	Snyder
Kyl	Pirnie	Springer
Laird	Poage	Stafford
Latta	Poff	Stanton
Lennon	Pollock	Steed
Lipscomb	Pool	Steiger, Ariz.
Lloyd	Price, Tex.	Steiger, Wis.
McClory	Quie	Taft
McCloskey	Quillen	Talcott
McClure	Railsback	Teague, Calif.
McDade	Rarick	Thompson, Ga.
McDonald, Mich.	Reid, Ill.	Thomson, Wis.
	Reid, N.Y.	Utt
McEwen	Reifel	Vander Jagt
MacGregor	Reinecke	Waggonner
Mailliard	Rhodes, Ariz.	Wampler
Martin	Riegle	Watkins
Mathias, Calif.	Robison	Watson
May	Roudebush	Whalen
Mayne	Rumsfeld	Whitten
Meskill	Ruppe	Widnall
Michel	Ryan	Wilson, Bob
Miller, Ohio	Sandman	Winn
Mink	Saylor	Wyatt
Minshall	Schadeberg	Wydler
Montgomery	Scherle	Wylie
Moore	Schneebeli	Wyman
Morse, Mass.	Schweiker	Zion
Morton	Scott	Zwach
Mosher	Shriver	

NAYS—200

Abbitt	Gibbons	O'Neal, Ga.
Abernethy	Gilbert	O'Neill, Mass.
Adams	Gonzalez	Ottinger
Albert	Gray	Patman
Anderson, Tenn.	Green, Oreg.	Patten
	Griffin	Pepper
Annunzio	Griffiths	Perkins
Ashmore	Halpern	Philbin
Aspinall	Hamilton	Pickle
Barrett	Hanley	Pike
Bennett	Hanna	Price, Ill.
Bingham	Hansen, Wash.	Pryor
Blanton	Hardy	Pucinski
Blatnik	Hathaway	Purcell
Boggs	Hawkins	Randall
Boland	Hays	Rees
Bolling	Hechler, W. Va.	Reuss
Brademas	Hicks	Rhodes, Pa.
Brasco	Holifield	Rivers
Brooks	Howard	Roberts
Broyhill, N.C.	Hull	Rodino
Burke, Mass.	Hungate	Rogers, Colo.
Burleson	Ichord	Rogers, Fla.
Byrne, Pa.	Irwin	Ronan
Cabell	Jacobs	Rooney, N.Y.
Cahill	Jarman	Rooney, Pa.
Carey	Joelson	Rosenthal
Casey	Johnson, Calif.	Rostenkowski
Celler	Jones, Ala.	Roush
Colmer	Jones, N.C.	Roybal
Corbett	Karth	St Germain
Corman	Kastenmeier	St. Onge
Culver	Kazen	Satterfield
Daniels	Kee	Scheuer
Davis, Ga.	Kelly	Shipley
Dawson	Kirwan	Sikes
de la Garza	Kluczynski	Sisk
Delaney	Kornegay	Slack
Donohue	Kupferman	Smith, Iowa
Dorn	Kyros	Staggers
Downing	Landrum	Stephens
Dulski	Leggett	Stratton
Eckhardt	Long, Md.	Stubblefield
Edmondson	McCarthy	Stuckey
Edwards, Calif.	McFall	Sullivan
Edwards, La.	McMillan	Taylor
Eilberg	Machen	Tenzer
Evans, Colo.	Madden	Thompson, N.J.
Everett	Mahon	Tiernan
Fallon	Marsh	Tuck
Fascell	Mathias, Md.	Tunney
Feighan	Meeds	Udall
Fisher	Miller, Calif.	Ullman
Flood	Mills	Van Deerlin
Foley	Minish	Vanik
Ford, William D.	Monagan	Vigorito
	Moorhead	Waldie
Fountain	Morgan	Walker
Fraser	Morris, N. Mex.	Watts
Friedel	Moss	White
Fulton, Tenn.	Murphy, Ill.	Whitener
Fuqua	Natcher	Wiggins
Galifianakis	Nedzi	Willis
Gallagher	Nichols	Wilson, Charles H.
Garmatz	O'Hara, Ill.	
Gathings	O'Hara, Mich.	Wolff
Gettys	O'Konski	Young
Giaimo	Olsen	

ANSWERED "PRESENT"—2

Hébert Yates

NOT VOTING—41

Anderson, Ill.	Green, Pa.	Matsunaga
Ashley	Gurney	Mize
Broomfield	Hagan	Murphy, N.Y.
Burton, Calif.	Helstoski	Nix
Clark	Herlong	Podell
Conyers	Holland	Resnick
Daddario	Karsten	Roth
Dellenback	King, Calif.	Schwengel
Denney	Langen	Selden
Dent	Long, La.	Teague, Tex.
Diggs	Lukens	Whalley
Dowdy	McCulloch	Williams, Pa.
Evins, Tenn.	Macdonald, Mass.	Wright
Farbstein		Zablocki

So the resolution was rejected.

The Clerk announced the following pairs:

On this vote:

Mr. Hébert for, with Mr. Karsten against.

Mr. Yates for, with Mr. Dent against.

Mr. Denney for, with Mr. Resnick against.

Mr. Langen for, with Mr. King of California against.

Mr. Broomfield for, with Mr. Evins of Tennessee against.

Mr. Williams of Pennsylvania for, with Mr. Podell against.

Mr. Gurney for, with Mr. Farbstein against.

Mr. Dellenback for, with Mr. Zablocki against.

Mr. Anderson of Illinois for, with Mr. Daddario against.

Mr. Long of Louisiana for, with Mr. Matsunaga against.

Mr. Selden for, with Mr. Green of Pennsylvania against.

Until further notice:

Mr. Ashley with Mr. McCulloch.

Mr. Murphy of New York with Mr. Mize.

Mr. Clark with Mr. Schwengel.

Mr. Teague of Texas with Mr. Lukens.

Mr. Macdonald of Massachusetts with Mr. Whalley.

Mr. Dowdy with Mr. Hagan.

Mr. Helstoski with Mr. Nix.

Mr. Diggs with Mr. Holland.

Mr. Burton of California with Mr. Wright.

Mr. RIVERS changed his vote from "yea" to "nay."

Mr. YATES. Mr. Speaker, I have a live pair with the gentleman from Pennsylvania [Mr. DENT]. If he had been present, he would have voted "nay." I voted "yea." I withdraw my vote and vote "present."

Mr. HÉBERT. Mr. Speaker, I have a live pair with the gentleman from Missouri [Mr. KARSTEN]. If he had been present, he would have voted "nay." I have voted "yea." I withdraw my vote and vote "present."

The result of the vote was announced as above recorded.

The doors were opened.

FURTHER MESSAGE FROM THE SENATE

A further message from the Senate by Mr. Arrington, one of its clerks, announced that the Senate has passed with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H.R. 15414. An act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The message also announced that the Senate insists upon its amendments to the bill H.R. 15414, entitled "An act to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations," requests a conference with the House on the disagreeing votes of the two Houses thereon, and appoints Mr. LONG of Louisiana, Mr. SMATHERS, Mr. ANDERSON, Mr. WILLIAMS of Delaware, and Mr. CARLSON to be the conferees on the part of the Senate.

GENERAL LEAVE

Mr. BLATNIK. Mr. Speaker, I ask unanimous consent that all Members have 5 legislative days in which to revise and extend their remarks and include extraneous matter on the resolution just rejected.

The SPEAKER. Is there objection to the request of the gentleman from Minnesota?

There was no objection.

APPOINTMENT OF CONFEREES ON H.R. 15414, TAX ADJUSTMENT ACT OF 1968

Mr. MILLS. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill, H.R. 15414, to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, with Senate amendments thereto, disagree to the Senate amendments and agree to the conference asked by the Senate.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

Mr. WAGGONNER. Mr. Speaker, reserving the right to object, I appreciate the concern of the gentleman from Arkansas to move this bill on toward final enactment, but in view of the action which was proposed on the civil rights bill, containing the infamous open housing section, would it not be more proper to take this bill from the Speaker's desk and concur in the Senate amendments and pass it?

Mr. MILLS. I would admonish my friend, if he will yield to me, not to try to be consistent on the treatment of all bills.

Mr. WAGGONNER. The gentleman has made the point I wanted to make.

Mr. Speaker, I withdraw my reservation.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas? The Chair hears none, and appoints the following conferees: Messrs. MILLS, KING OF California, BOGGS, BYRNES of Wisconsin, and CURTIS.

CORRECTION OF THE RECORD

Mr. GONZALEZ. Mr. Speaker, I ask unanimous consent to correct in the permanent RECORD an error in my special order of March 27 entitled "Military Injustice." On page H2321 of the daily RECORD, I referred to Subcommittee No. 1 of the House Committee on the Judiciary. That should be Subcommittee No. 1 of the House Committee on Armed Services.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

INSIDE THE INSANE ASYLUM

(Mr. HULL asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include extraneous matter.)

Mr. HULL. Mr. Speaker, efforts being made at State Hospital No. 2 in St. Joseph, Mo., in my congressional district, to help the mentally ill characterize the great new strides being made in mental hospitals throughout the Nation.

What is happening at St. Joseph and elsewhere is described in an excellent article by Harold H. Martin appearing in the April 6 issue of the Saturday Evening Post and under leave to extend, I include this article:

INSIDE THE INSANE ASYLUM

(By Harold H. Martin)

A late sun filtered through the decorative iron bars on the Gothic windows, Dr. Liam O'Brien, a short, dark Irishman with a tongue like an adder and a soft spot in his heart for all people who are mentally ill, sat at his desk in the stately old administration building of State Hospital No. 2 in St. Joseph, Mo. Just outside the doctor's office a grand staircase with a red carpet and a fine carved-wood banister let down to an entrance hall floored in colored tile. In one corner a grandfather clock ticked away the generations. Here, in the past, anguished families would bring one of their poor deranged kinsmen and, reassured by the beauty and quiet of the entrance-way, leave him forever, contend that he would be cared for gently and with compassion.

"And if he proved unruly, they tranquilized him with this," said Dr. O'Brien, slapping a leather harness strap into his palm. "And here was his medication." He picked up a dusty ledger dated 1929, ran his finger down a column:

"'Two ounces of whiskey every four hours,'" he read. "Prescribed for everything from melancholia to myocarditis."

He tossed aside the ledger and the strap. "Relics," he said, "but not of so long ago. It has been only about six years since my predecessor here felt the community had advanced in its thinking far enough so that he could free the patients who were chained to the walls."

He rose. "Come on," he said, and led the way along the corridors of his hospital until we reached a large room crammed with beds. They were placed head to foot, three rows deep, along each side, with only a knee's width between one row and the next. Down the narrow center passage, about 100 women, ranging in age from 16 to 80, sat in chairs or shuffled aimlessly about. There were old paretics, chronic schizophrenics, regressed psychotics, the demented senile: the whole sad spectrum of mental illness. Some seemed little more than vegetables, but if one paused to listen to their babble, one might sense a great awareness, and a hurt. "Tell my momma tell my papa come get me . . ." a dark-haired girl repeated over and over in a toneless singsong.

"Here are our worst," said Dr. O'Brien, standing in the midst of them. A young girl, sucking both thumbs, came up and nuzzled her head against his chest. He held her gently. "I get white faced with anger every time I come in here. These are our failures of the past. And what is there left to salvage here so late? God knows. But we are going to try."

Six months later the results of his efforts were spectacularly visible. The ward was empty. The women had been moved out to nursing homes, to foster homes, to better quarters that opened up on other wards as St. Joseph's bed-patient population, under the impact of a psychiatric staff increase from three to 16 doctors, began to drop from 2,000 to 1,450.

Dr. O'Brien's determination that the forgotten patients on his back wards shall become human beings again is a manifestation of a new spirit of confidence, a new approach to the ancient problem of the mentally ill that now prevails in a majority of the country's mental hospitals.

Until only a very few years ago the attitude of most hospital staffs toward a mental patient was that of the jailer toward a prisoner. The sick person was to be fed, clothed, disciplined—with straitjackets, handcuffs, chains and clubs if necessary—and kept until he died.

This was the situation when the *Post*, in a classic series of articles by John Bartlow Martin [INSIDE THE ASYLUM, October 6–November 10, 1956] exposed these dreadful facts of life as they affected the 750,000 men, women and children who were then hospitalized in the U.S. for mental illness. After months of research, Martin chose Columbus State Hospital in Ohio as a typical—and by no means the worst—example of the way rich, compassionate, generous-hearted America treated those of her mentally ill who could not afford the luxury of private care. There, in one of the country's wealthiest states, he found 2,700 patients served by 16 doctors, only 10 of whom (none a fully trained psychiatrist) gave daily psychiatric care on the wards. Some patients had been there for more than 60 years. On a daily budget allowance of $2.60 per patient per day, only about 400 were receiving any sort of therapy. The 2,300 others were merely there, in custody, helplessly awaiting death.

Martin's series stirred the conscience of the nation, but it was not until 1961 that a Joint Commission on Mental Illness and Health, appointed by the Congress, confirmed on a national scale what Martin had uncovered in microcosm at Columbus. Its recommendations become the basis for President Kennedy's plea to Congress for a national mental-health program—"a wholly new emphasis and approach" to a problem that at one time or another will afflict one of every three American families. The legislators responded by passing the Mental Health Act of 1963. This authorized federal grants for the construction of a nationwide network of community mental-health centers, each to serve a population of roughly 200,000 people, and to provide a wide range of services, from around-the-clock emergency care for the person suddenly gone out of control to outpatient clinics, halfway houses, and follow-up support by social workers and sychiatric nurses. Of the $150 million provided, $60 million has now been awarded for the construction and staffing of 128 centers in 42 states, Puerto Rico and the District of Columbia. Construction, though, is the quick and easy part. The problem lies in finding trained professionals to staff these centers. The National Committee Against Mental Illness, Inc. estimates the country needs at least 10,000 more psychiatrists than the 18,750 now in practice (private practice, mainly), and psychologists, psychiatric nurses and psychiatric social workers are in equally short supply.

The National Institute of Mental Health says that despite these shortages 175 of the new mental-health centers will open their doors in 1968, and by 1970, some 500 will be serving their communities.

For the next few years, however, the old state hospital will remain the last refuge for those who cannot afford private hospital care, with its cost of about $35 a day, or the care of private psychiatrists, with fees ranging from $25 to $50 an hour. What, then, awaits the patient who still must turn to the public hospital for help?

The picture, formerly one of unrelieved darkness, is now one of mingled light and shadow. There are still areas—in the country as a whole and within individual hospitals, including the better ones—where the gloom is as deep as ever. But more and more the asylum is emerging from its apathy and despair. Traditionally a place of custody, it now is becoming a place of healing.

In the 10 years following World War II, according to the National Comittee Against Mental Illness, the number of bed patients in mental hospitals increased at the rate of 13,000 a year. But in the next 10 years the number dropped by an average of 8,300 patients a year. Today the bed population in the nation's 362 public mental hospitals has fallen to an estimated 426,000, a new low.

The reduction in hospital population does not mean that the incidence of mental illness is dropping. The pressures and frustrations of life are no less abrasive than in the past, and the "social breakdown syndrome," manifested in a retreat from reality to a world of fantasy, is no less common. In consequence more people are entering mental hospitals today than ever before. Between 1955 and 1965, while the population of the U.S. was increasing by 17 percent, the number of admissions to public mental hospitals each year increased by 76 percent, to 314,500 in 1965, the last year for which complete figures are available. In this same period, however, the number of patients discharged each year more than doubled, reaching 287,000 in 1965—an increase of 127 percent.

Thus, more people are going into mental hospitals than ever before, but they no longer inevitably follow the dreary route of the past—from violent madness, to grim withdrawal, to the hopeless gray oblivion of the back wards. Instead, a new emphasis on getting the patient into the hospital early, and then getting him out again as quickly as possible, has resulted in a considerable reduction in length of stay. Today, between 85 and 90 percent of patients entering a mental hospital for the first time can expect to be discharged within a year. In most cases they are strong enough to face once more the terrors that sent them there, although frequently they regress and have to come back again—and perhaps yet again. Of the 314,500 persons admitted in 1965, some 115,500—more than one third—were returnees. But the important thing, nearly every expert agrees, is that those who enter need no longer abandon all hope.

No one factor can account for this dramatic change; rather, a combination of many factors is responsible. First, giving impetus to all the others, is a new tolerance of the mentally ill on the part of the community, a willingness to accept a discharged mental patient as just another sick person who has been to the hospital and has come home again. The community has begun to recognize what certain psychiatrists—the brothers Menninger, for example—long have recognized: The madness that destroys the personality is a madness that afflicts us all, only expressed in greater degree. And the fragmented personality is capable of being restored to some degree of dignity and pride.

Public awareness that this can be done—and must be done in a society that calls itself civilized and compassionate—has recently been reflected in the greater generosity of state legislatures in support of their state hospitals. In the U.S. as a whole the average daily expenditure per patient in a mental hospital, while still grossly inadequate, has more than doubled since 1955. As a direct result, so has the ratio of full-time hospital employees to patients—although there are still crippling shortages in the critical professional fields. Nearly a third of the country's

DIGEST of Congressional Proceedings

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HIGHLIGHTS: House received President's taxation-expenditures message. House Ways and Means Committee announced bargaining position on taxation-expenditures bill. House passed San Gabriel Wilderness bill. House passed Kerr Memorial bill.

HOUSE

1. TAXATION; EXPENDITURES. Received the President's message requesting passage of a tax bill and stating that he would accept the House Appropriations Committee's formula on H. R. 15414, the taxation-expenditures bill, including a $4 billion reduction in 1969 expenditures, but that "it would be a serious mistake to go beyond that formula" (H. Doc. 305); to Ways and Means Committee. pp. H3334-5

The Ways and Means Committee announced that it had adopted the following position regarding H. R. 15414:

"(1) That it is the view of the Committee on Ways and Means that budget expenditures for the fiscal year ending June 30, 1969, should be reduced by at least $4 billion (excepting special Vietnam costs, interest on the debt, veterans' benefits, and Social Security Trust Funds, in excess of amounts estimated in the budget);

"(2) That the chairman and the House conferees are requested to negotiate within the conference on an appropriate limitation on expenditures for the fiscal year ending June 30, 1969;

"(3) That there should be a reduction of at least $10 billion in new obligational authority and a rescission of at least $8 billion in old authority; and

"(4) That the Committee on Ways and Means further considers, as a part of the foregoing, that appropriate income tax increases (either through a 10-percent surcharge or comparable rate adjustments) should be developed by the conferees on H. R. 15414 to yield approximately $10 billion in a full year of operation to become a part of the combined expenditure-tax action to be embodied in the conference report on the bill, H. R. 15414."

Rep. McCormack inserted "Talking Points on the Tax Increase," a memorandum from the Council of Economic Advisers to the President. p. H3392

Several members discussed the President's request for a tax increase, etc. pp. H3333-4

2. WILDERNESS. Passed without amendment S. 2531, to designate the San Gabriel Wilderness, Angeles National Forest, Calif., in lieu of H. R. 13514. This bill will now be sent to the President. p. H3343

3. KERR MEMORIAL. Passed under suspension of the rules H. R. 15822, to authorize this Department to establish the Robert S. Kerr Memorial Arboretum and Nature Center in the Ouachita National Forest, Okla. pp. H3357-62

4. LANDS. Passed as reported H. R. 9098, to revise the boundaries of the Badlands National Monument, S. Dak., and to authorize exchanges of certain lands including forest lands. pp. H3346-8

5. VOCATIONAL REHABILITATION. Passed, 335-0, under suspension of the rules H. R. 16819, to extend the authorization under the Vocational Rehabilitation Act for grants to States for rehabilitation services, to broaden the scope of the goods and services available for the handicapped, etc. pp. H3369-82

6. HOLIDAYS. Rep. McClory inserted the results of opinion polls on H. R. 15951, to provide for certain holidays to be observed on Mondays, and inserted a report on holiday traffic fatalities. pp. H3386-9

7. APPROPRIATIONS. The Appropriations Committee reported (on May 3 during adjournment) H. R. 17023, the independent offices and HUD appropriation bill (H. Rept. 1348). p. H3397

90TH CONGRESS } HOUSE OF REPRESENTATIVES { DOCUMENT
2d Session } { No. 305

TAX SURCHARGE

COMMUNICATION

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

A RECOMMENDATION URGING IMMEDIATE ACTION BY THE CONGRESS ON THE TAX INCREASE

MAY 6, 1968.—Referred to the Committee on Ways and Means and ordered to be printed

THE WHITE HOUSE,
Washington, May 4, 1968.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Time is fast running out on one of the most crucial legislative measures of the decade—the tax surcharge. Further delay is a ticket to disaster.

I have repeatedly urged passage of this vital revenue measure. It is modest—about a penny on the dollar earned. It is an American imperative, essential in its importance to the national interest:

—To help ward off inflation that will rob the pockets of the poor and elderly and the millions of families living on fixed incomes.

—To support responsibly the needs of our sons and brothers in Vietnam who fight to defend us all.

—To safeguard our dollar, the guardian of our prosperity at home and the bulwark of the free world monetary system.

The $186 billion budget I submitted in January was tight. It was tailored to finance responsibly the urgent work we must pursue in our cities, to help the poor and to protect our national security.

The budget which was made up last year and the year before contemplated tax increases which the Congress has not enacted. But the President can only propose in matters of taxes and appropriations. Under the constitution he cannot dispose. That is the duty and power and responsibility of the Congress.

Now the Congress is indicating that reductions in the January budget will be necessary to secure passage of the tax bill. I do not recommend or urge such reductions—for the budget is already lean.

But so crucial is the tax surcharge to the national interest that I would reluctantly accept some reductions if they are realistic and reasonable.

The House Appropriations Committee late last week approved a formula which included a $4 billion reduction in expenditures for fiscal 1969.

To accept reductions any deeper than this in an already lean budget—designed to meet the urgent needs of our people at home and abroad—is unwise.

As Secretary Fowler stated, the reduction formula voted out by the House Appropriations Committee will be approved by me, although I know it will require great sacrifices. I think it would be a serious mistake to go beyond that formula. But above all, it is essential that the Congress act and act at once.

I know that you will, as you have always done throughout your career, place the interest of the Nation first and do all in your power to secure passage of the necessary tax legislation. I cannot too strongly urge immediate favorable action by the Congress on the vitally needed tax increase.

Sincerely,

LYNDON B. JOHNSON.

○

PH 3389 Removed.

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Congressional Record

PROCEEDINGS AND DEBATES OF THE 90th CONGRESS, SECOND SESSION

Vol. 114 WASHINGTON, MONDAY, MAY 6, 1968 No. 76

House of Representatives

The House met at 12 o'clock noon.

The Chaplain, Rev. Edward G. Latch, D.D., offered the following prayer:

On the lips of him who has understanding wisdom is found.—Proverbs 10: 13.

O Thou whose strength sustains us in our labor and whose spirit supports us in our leisure, grant unto us the consciousness of Thy presence as we face this day that our work may not be a burden but a delight, our rest not be troubled by fear but filled with faith, and our lives not be haunted by the bitter acts of others but hallowed by the brighter attitudes of our own.

Give us the faith that never falters, the hope that never fails, and the love which never falls by the way as we live through these troubled times. May our concern for our country help us to lift the fallen, strengthen the weak, and sustain the weary that we may hasten the dawn of a new day for our people and for all mankind.

In the Master's name we pray. Amen.

THE JOURNAL

The Journal of the proceedings of Thursday, May 2, 1968, was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Bradley, one of its clerks, announced that the Senate had passed with amendments in which the concurrence of the House is requested, a bill of the House of the following title:

H.R. 13058. An act to repeal certain acts relating to containers for fruits and vegetables, and for other purposes.

The message also announced that the Senate agrees to the amendments of the House to a joint resolution of the Senate of the following title:

S.J. Res. 131. Joint resolution to designate May 20, 1968, as "Charlotte, N.C., Day."

The message also announced that the Senate had passed a bill of the following title, in which the concurrence of the House is requested:

S. 2060. An act to amend section 503(f) of the Federal Property and Administrative Services Act of 1949 to extend for a period of 5 years the authorization to make appropriations for allocations and grants for the collection and publication of documentary sources significant to the history of the United States.

The message also announced that the Presiding Officer of the Senate, pursuant to Public Law 115, 78th Congress, entitled "An act to provide for the disposal of certain records of the U.S. Government," appointed Mr. MONRONEY and Mr. CARLSON members of the Joint Select Committee on the part of the Senate for the Disposition of Executive Papers referred to in the report of the Archivist of the United States numbered 62–12.

PERMISSION FOR SUBCOMMITTEE ON PUBLIC BUILDINGS AND GROUNDS, COMMITTEE ON PUBLIC WORKS, TO SIT DURING GENERAL DEBATE TODAY

Mr. HOWARD. Mr. Speaker, I ask unanimous consent that the Subcommittee on Public Buildings and Grounds of the Committee on Public Works be permitted to sit during general debate today.

The SPEAKER. Is there objection to the request of the gentleman from New Jersey?

Mr. HALL. Mr. Speaker, reserving the right to object, I will ask the gentleman making the request if this request has been cleared with the minority members of the committee?

Mr. HOWARD. Mr. Speaker, if the gentleman will yield, the distinguished gentleman from Florida [Mr. CRAMER] has cleared it.

Mr. HALL. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the request of the gentleman from New Jersey?

There was no objection.

CONGRESS SHOULD FACE UP TO ITS RESPONSIBILITIES

(Mr. FRASER asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. FRASER. Mr. Speaker, I strongly endorse the call by the President of the United States for action by this Congress to enact a tax increase promptly. The issue has been before us for many months; I believe that the press conference held by the President last week was a vivid reminder of the need for immediate action.

The current Senate-House conference provides the vehicle for House action, and I believe that we need to employ this vehicle without further delay.

Mr. Speaker, I believe the failure of the Congress to act on a tax increase is costing the citizens of the United States millions and millions of dollars in higher interest rates and in inflation, and this process is going to continue until we face up to our responsibilities here on the Hill.

PRESIDENT JOHNSON IS INDICTING HIS OWN DEMOCRAT-CONTROLLED CONGRESS

(Mr. ARENDS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. ARENDS. Mr. Speaker, President Johnson's intemperate castigation of the Congress at his press conference last Friday cannot be other than an indictment of his own Democrat-controlled Congress for lack of political courage.

While he would emulate President Truman's "give 'em hell" technique in trying to fix responsibility on the Congress for our grave fiscal crisis, unlike Truman he does not have a Republican Congress. In this 90th Congress the Democrats have a majority of 3 to 2 in the House and 2 to 1 in the Senate.

Throughout this Democrat 90th Congress, both last session and this second session, the Republican minority has courageously sponsored and consistently supported as a team a series of amendments to authorization and appropriation bills for specific reductions in President Johnson's budget. In this determined economy effort our Republican minority has received only opposition

from the administration and the Democrat majority leadership.

When President Johnson called both the House Republican and Democrat leadership to the White House on April 3 we met with him and his advisers on fiscal and monetary affairs, we hoped that the President was then initiating a bipartisan program in a meaningful effort to put the country's fiscal house in order. In vain we hoped that a program would be worked out on a bipartisan basis for decreasing expenditures and increasing taxes to such an extent necessary to place the country on a sound fiscal basis.

Now is the time when the President himself should set aside all partisanship, stand up as President of all the people, and exercise the bold national leadership as befits the Office of President of the United States in meeting the grave fiscal and monetary crisis confronting the Nation.

From what has transpired to the contrary one might reasonably assume that President Johnson is reassessing his previous announcement that he would not be a candidate for reelection.

THE PRESIDENT HAS DEMANDED EVER MORE SPENDING

(Mr. GROSS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. GROSS. Mr. Speaker, it was quite a spectacle last Friday to watch the Texas gift to the Presidency as he stood in the "bunkhouse" at the other end of Pennsylvania Avenue trying to crack his bullwhip and charging the cowhands in Congress with "blackmail."

He called on his "peons" in Congress to start bushwhacking the taxpayers immediately if not sooner, and then, if they wanted to round up a few stray dollars they should "stand up like men."

And if they "stand up like men," and cut spending more than he thinks they should, "it will be a phony paper cut," the "Presidente" said.

Between cracks of the bullwhip, there was the warning to the congressional cowhands to "bite the bullet," whatever that means.

Mr. Speaker, one fact the President conveniently chose to ignore during this outburst was the identity of the spendthrift and squanderer who came up to this House year after year demanding ever more and more spending without any regard whatsoever to where it would surely lead us.

CORRECTION OF VOTE

Mr. SANDMAN. Mr. Speaker, last Thursday, May 2, on rollcall No. 113 on the bill, H.R. 15856, the National Aeronautics and Space Administration authorization bill, I was recorded as not having voted.

Mr. Speaker, I was present and voted "nay" and ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from New Jersey?

There was no objection.

PRESIDENT'S APPEAL FOR TAX INCREASE

(Mr. EDMONDSON asked and was given permission to address the House for 1 minute and to revise and extend his remarks).

Mr. EDMONDSON. Mr. Speaker, sometimes when a burr gets under a saddle it hurts. It is very obvious that some folks are feeling a burr under their saddle this morning because of the remarks that have just been made.

Mr. Speaker, I personally think the President of the United States has been making a valiant effort, and I believe it has been a consistent effort, to get action by the Congress on the fiscal situation, and that his efforts to secure action with regard to a tax increase are efforts that are well known to all of us in the Congress. Most of us have been down to the White House if not two times at least once to hear the personal appeal of the President on this particular subject.

It is always easy to pass the buck, and I think that is what we have been hearing this morning from some spokesmen from the other side.

Personally, I think we are going to have to face up to the responsibility here in the Congress of the United States with regard to the budgetary situation and with regard to the fiscal situation.

The President, while making some comments that have been somewhat abrasive with regard to the Congress, has nonetheless been courageous and consistent in his clear-cut call for action by this body.

FLYING PHYSICIANS GIVE AID IN AFRICA

(Mr. O'HARA of Illinois asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. O'HARA of Illinois. Mr. Speaker, today it was my pleasure to meet Dr. A. Michael Wood, medical director, the African Medical and Research Foundation, which is located in Nairobi, Kenya.

Dr. Wood, a Tanzanian citizen, has distinguished himself in 10 years of service as medical director of this international, multiracial, privately supported foundation which he helped found.

The African Medical and Research Foundation has established a Nairobi-based radio network linking more than 75 private, government, and mission hospitals with the foundation's flying doctor service. In addition, AMRF provides a range of medical research and consulting services, and has been of assistance to other African governments in developing self-help medical programs.

The foundation is fortunate to have as a member of the board of directors the former great Senator from the State of Illinois, the Honorable Paul H. Douglas, and as executive vice president, the very able Ned W. Bandler, Jr. With men such as these, Dr. Wood, Senator Douglas, and Ned Bandler guiding the destiny of this organization, it cannot help but continue to succeed.

In the present scarcity of physicians in the developing nations of Africa, the flying physician always on the alert to answer sick calls even from spots most remote is indeed a godsend.

WHO PUT THE BURR UNDER THE SADDLE?

(Mr. HALL asked and was given permission to address the House for 1 minute.)

Mr. HALL. Mr. Speaker, the American people full well know that out West, where the gentleman from Oklahoma and I come from, no responsible horseman ever puts a burr under a saddle—it is always inserted by a "trickster."

Mr. Speaker, I yield back the balance of my time.

TAX SURCHARGE—COMMUNICATION FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 305)

The SPEAKER laid before the House the following communication from the President of the United States; which was read and referred to the Committee on Ways and Means and ordered to be printed:

THE WHITE HOUSE,
Washington, D.C., May 4, 1968.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: Time is fast running out on one of the most crucial legislative measures of the decade—the tax surcharge. Further delay is a ticket to disaster.

I have repeatedly urged passage of this vital revenue measure. It is modest—about a penny on the dollar earned. It is an American imperative, essential in its importance to the national interest:

—To help ward off inflation that will rob the pockets of the poor and elderly and the millions of families living on fixed incomes.

—To support responsibly the needs of our sons and brothers in Vietnam who fight to defend us all.

—To safeguard our dollar, the guardian of our prosperity at home and the bulwark of the free world monetary system.

The $186 billion budget I submitted in January was tight. It was tailored to finance responsibly the urgent work we must pursue in our cities, to help the poor and to protect our national security.

The budget which was made up last year and the year before contemplated tax increases which the Congress has not enacted. But the President can only propose in matters of taxes and appropriations. Under the constitution he cannot dispose. That is the duty and power and responsibility of the Congress.

Now the Congress is indicating that reductions in the January budget will be necessary to secure passage of the tax bill. I do not recommend or urge such reductions—for the budget is already lean.

But so crucial is the tax surcharge to the national interest that I would reluctantly accept some reductions if they are realistic and reasonable.

The House Appropriations Committee late last week approved a formula which

included a $4 billion reduction in expenditures for fiscal 1969.

To accept reductions any deeper than this in an already lean budget—designed to meet the urgent needs of our people at home and abroad—is unwise.

As Secretary Fowler stated, the reduction formula voted out by the House Appropriations Committee will be approved by me, although I know it will require great sacrifice. I think it would be a serious mistake to go beyond that formula. But above all, it is essential that the Congress act and act at once.

I know that you will, as you have always done throughout your career, place the interest of the Nation first and do all in your power to secure passage of the necessary tax legislation. I cannot too strongly urge immediate favorable action by the Congress on the vitally need tax increase.

Sincerely,

LYNDON B. JOHNSON.

THE VIETNAM TALKS AND THE PRESIDENTIAL CANDIDATES

(Mr. HAYS asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. HAYS. Mr. Speaker, I think it is worthwhile that we take note of the fact that while the administration was trying to pick a neutral site to hold peace talks with North Vietnam, they were hampered and impeded by at least one of the candidates, and I understand two of the candidates for President, who were saying that we ought to accept any site, even a Communist nation.

I would hope that these presidential candidates would have the interest of their country enough at heart that when the peace talks get started, they refrain from indicating that everything should be given away. I think Paris is a site that we can live with. It is not exactly a neutral site, but at least De Gaulle is neutral against us, not openly an advocate of destroying us militarily. I would hope that the two Senators who are running for President could just find some other reason to try to get the people to vote for them without trying to run the peace talks as a corollary to their campaigns.

REPRESENTATION FOR THE RESIDENTS OF THE DISTRICT OF COLUMBIA

(Mr. GUDE asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. GUDE. Mr. Speaker, certain presidential hopefuls who would like to further the cause of self-government for the District of Columbia should be here in Washington working on legislation to insure voting representation for the city, not making promises at the hustings. Work on this legislation is the first meaningful step toward insuring effective representation for the District citizenry.

The District has had elected officials in the past and we have seen that these can be taken away. Congress can grant local self-government but Congress also has the power to remove it. This is why I have worked to implement voting representation in Congress as the first necessary step. This, once established, cannot be removed. It would insure a permanent voice for District residents in national and local affairs.

There is no excuse for District citizens not having a voice in a Congress that decides national policy and has control over the city's destiny.

We must work for this. The House made a good beginning last year, and I am sure the Rules Committee will report out the bill this year. But the Senate still has a great deal to do. Action has not been taken even in committee. This is why I feel that any Senator who wants to further self-government in the District should be in town working on the voting representation bill.

CONSENT CALENDAR

The SPEAKER. This is Consent Calendar day. The Clerk will call the first bill on the Consent Calendar.

AUTHORIZING THE USE OF FUNDS ARISING FROM A JUDGMENT IN FAVOR OF THE SPOKANE TRIBE OF INDIANS

The Clerk called the bill (H.R. 15271) to authorize the use of funds arising from a judgment in favor of the Spokane Tribe of Indians.

The SPEAKER. Is there objection to the present consideration of the bill?

Mr. GROSS. Mr. Speaker, reserving the right to object, and I shall not object, I simply want to say I have never been able to understand why—as in this case, in this bill—$670,000 of the $6,700,000 is going to be paid out for attorney fees. I have never been able to understand why it should cost the Indians 10 percent of what they get from the Government for legal counsel. I would hope that somehow or other sometime, the Indians could be paid what the Government legally owes them without having to spend, as in this case, $670,000 to get it.

Mr. ASPINALL. Mr. Speaker, will my friend, the gentleman from Iowa, yield?

Mr. GROSS. I yield to the gentleman from Colorado.

Mr. ASPINALL. Mr. Speaker, of course, there are those of us who serve on the Committee on Interior and Insular Affairs who feel at different times that some of the attorneys' fees are somewhat out of line, but on the other hand, we must remember these are all contingent fees, and the Indian Claims Commission, sitting as a court, has the jurisdiction and authority and responsibility to fix these fees. It cannot be traced back to the Congress of the United States at all. It is just a regular legal action.

Mr. GROSS. I will say to my friend, the gentleman from Colorado, it is my understanding there is supposed to be expertise on the Indian Claims Commission, which ought to have some bearing upon the amount of money which is paid out to collect the money which the Government legally owes the Indians.

Mr. ASPINALL. Of course, my colleague is correct, but, on the other hand, many of these claims last over a long period of years, sometimes 15 or 20 years.

Mr. GROSS. Mr. Speaker, I withdraw my reservation of objection.

The SPEAKER. Is there objection to the present consideration of the bill?

There being no objection, the Clerk read the bill as follows:

H.R. 15271

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the unexpended balance of funds on deposit in the Treasury of the United States to the credit of the Spokane Tribe of Indians that were appropriated by the Act of May 29, 1967 (81 Stat. 30), to pay a judgment by the Indian Claims Commission in Docket 331 and 331A, and interest thereon, less payment of attorneys' fees and expenses, may be advanced, expended, invested, or reinvested for any purpose that is authorized by the tribal governing body and approved by the Secretary of the Interior. Any part of such funds that may be distributed to the members of the tribe shall not be subject to the Federal or State income tax.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

AUTHORIZING THE PURCHASE, SALE, AND EXCHANGE OF CERTAIN LANDS ON THE SPOKANE INDIAN RESERVATION, WASH.

The Clerk called the bill (H.R. 3299) to authorize the purchase, sale, and exchange of certain lands on the Spokane Indian Reservation, and for other purposes.

There being no objection, the Clerk read the bill, as follows:

H.R. 3299

Be it enacted by the Senate and House of Representatives of the United State of America in Congress assembled, That, (A) for the purpose of effecting consolidations of land situated within the Spokane Indian Reservation in the State of Washington into the ownership of the tribe and of individual tribal members and for the purpose of attaining and preserving an economic land base for Indian use, alleviating problems of Indian heirship and assisting in the productive leasing, disposition, and other use of tribal lands, the Secretary of the Interior is authorized in his discretion to:

(1) Purchase for the Spokane Tribe of Indians with any funds of such tribe and to otherwise acquire by gift, exchange, or relinquishment any lands or interest in lands or improvements thereon within the Spokane Indian Reservation.

(2) Sell or approve sales of any tribal trust lands, any interest therein or improvements thereon.

(3) Exchange any tribal trust lands, including interests therein or improvements thereon, for any lands situated within such reservation.

(4) Approve leases of tribal lands for periods of time not exceeding thirty-five years with rights of renewal for an additional term of not to exceed thirty-five years.

(B) Where lands are individual Indian trust lands held in multiple ownership, the Secretary is authorized to sell and exchange such lands to other Indians or to the Spokane Tribe only if the sale or exchange is authorized in writing by owners of at least a majority interest in such lands; except that no greater percentage of approval of individual Indians shall be required under this Act than in any other statute of general application approved by Congress.

(C) Title to lands, or any interests therein, acquired pursuant to this Act by the Spokane Tribe or individual enrolled members thereof, shall be taken in the name of the United States of America in trust for the tribe or individual Indian, and shall be nontaxable as other tribal and allotted Indian trust lands of the Spokane Reservation: *Provided, however,* That no greater acreage of nontrust lands, or nontrust interests in land, shall be acquired under this Act by the Spokane Tribe during any twelve-month period than the acreage of lands, or the interests in land, that passed in any manner from a nontaxable trust status to a taxable fee status within the boundaries of the Spokane Reservation in Stevens County, Washington, during the twelve-month period preceding acquisition by the tribe.

(D) That any tribal land that may be sold pursuant to this Act may, with the approval of the Secretary of the Interior, be encumbered by a mortgage or deed of trust and shall be subject to foreclosure or sale pursuant to the terms of such a mortgage or deed of trust in accordance with the laws of the State of Washington. The United States shall be an indispensable party to any such proceeding with the right of removal of the cause to the United States district court for the district in which the land is located, following the procedure in section 1446, title 28, United States Code: *Provided,* That the United States shall have the right to appeal from any order of remand in the case.

(E) The acquisition and sale of lands for the Spokane Tribe pursuant to this Act shall be upon request of the business council of the Spokane Tribe, evidenced by a resolution adopted in accordance with the constitution and bylaws of the tribe, and shall be in accordance with a land purchase and consolidation plan approved by the Secretary of the Interior, and except as it may otherwise be authorized or prescribed by the Secretary, shall be limited to lands situated within the boundary of the Spokane Reservation. Such acqusition by the Spokane Tribe, or individual members thereof, may be achieved by exchange of lands with Indians or non-Indians as well as by outright purchase, with adjusting payments to approximate equal value. Moneys or credits received by the tribe in the sale of lands shall be used for the purchase of other lands, or for such other purpose as may be consistent with the land purchase and consolidation program, approved by the Secretary of the Interior.

With the following committee amendments:

On page 1, line 3, after "That,", strike out "(A)" and insert "(a)".

On page 2, strike out all of paragraph (4) on lines 10, 11, and 12.

On page 2, strike out all of lines 13 through 20 and insert:

"(b) The Secretary of the Interior is authorized to sell and exchange individual Indian trust lands held in multiple ownership to the Spokane Tribe or to individual members thereof if the sale or exchange is authorized in writing by owners of at least a majority interest in such lands; except that no greater percentage of approval of individual Indians shall be required under this Act than in any other statute of general application approved by Congress."

On page 2, line 21, strike out "(C)" and insert "(c)".

On page 3 lines 1 through 9, strike out all of the proviso and insert:

"*Provided, however,* That the value of nontrust lands, or nontrust interests in land, acquired under this Act by the Spokane Tribe during any twelve-month period shall not exceed the value of lands, or interests in land, that passed in any manner from a nontaxable trust status to a taxable fee status within the boundaries of the Spokane Reservation in Stevens County, Washington, during the twelve-month period preceding acquisition by the tribe."

On page 3, line 10, strike out "(D)" and insert "(d)".

On page 3, line 22, strike out "(E)" and insert "(e)".

On page 4, after line 14, insert:

"(f) Section 1 of the Act of August 9, 1955 (69 Stat. 539), as amended, is hereby further amended by inserting the words 'the Spokane Reservation,' after the words 'the Fort Mojave Reservation,'."

The committee amendments were agreed to.

The bill was ordered to be engrossed and read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

GRANTING MINERALS, INCLUDING OIL AND GAS, ON CERTAIN LANDS IN THE CROW INDIAN RESERVATION, MONT., TO CERTAIN INDIANS, AND FOR OTHER PURPOSES

The Clerk called the bill (S. 1119) to grant minerals, including oil and gas, on certain lands in the Crow Indian Reservation, Mont., to certain Indians, and for other purposes.

There being no objection, the Clerk read the bill, as follows:

S. 1119

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 6 of the Act of June 4, 1920 (41 Stat. 751), as amended by the Act of May 26, 1926 (44 Stat. 658), as further amended by the Act of September 16, 1959 (73 Stat. 565), is hereby amended to read as follows:

"SEC. 6. (a) Any and all minerals, including oil and gas, on any of the lands to be allotted hereunder are reserved in perpetuity for the benefit of the members of the tribe in common and may, with the consent of the tribal council be leased for mining purposes in accordance with the provisions of the Act of May 11, 1938 (52 Stat. 347; 25 U.S.C. 386a–f), under such rules, regulations and conditions as the Secretary of the Interior may prescribe: *Provided,* That leases entered into pursuant to section 6 of the Act of June 4, 1920 (41 Stat. 751), as amended by the Act of May 26, 1926 (44 Stat. 658), may with the consent of the tribal council and under such rules, regulations, and conditions as the Secretary of the Interior may prescribe, as amended to change the terms thereof to ten years and as long thereafter as minerals are produced in paying quantities."

With the following committee amendment:

On page 2, line 10, after "be" insert "renegotiated and".

The committee amendment was agreed to.

The bill was ordered to be read a third time, was read the third time, and passed, and a motion to reconsider was laid on the table.

GRANTING MINERALS, INCLUDING OIL, GAS, AND OTHER NATURAL DEPOSITS, ON CERTAIN LANDS IN THE NORTHERN CHEYENNE INDIAN RESERVATION, MONT., TO CERTAIN INDIANS

The Clerk called the bill (H.R. 5704) to grant minerals, including oil, gas, and other natural deposits, on certain lands in the Northern Cheyenne Indian Reservation, Mont., to certain Indians, and for other purposes.

There being no objection, the Clerk read the bill, as follows:

H.R. 5704

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 3 of the Act of June 3, 1926 (44 Stat. 690), as amended by the Act of July 24, 1947 (61 Stat. 418), and the Act of September 22, 1961 (75 Stat. 586), is hereby amended to read as follows:

"SEC. 3. (a) The coal or other minerals, including oil, gas, and other natural deposits, on said reservation are hereby reserved for the benefit of the tribe and may be leased with the consent of the Indian council for mining purposes in accordance with the provisions of the Act of May 11, 1938 (52 Stat. 347; 25 U.S.C. 396a–f), under such rules, regulations, and conditions as the Secretary of the Interior may prescribe: *Provided,* That at the expiration of fifty years from the date of the approval of this 1966 amendment of this Act, the coal or other minerals, including oil, gas, and other natural deposits, of said allotments shall become the property of the respective allottees or their heirs or devisees, subject to any outstanding leases, regardless of any prior conveyance by such allottee, heirs, or devisees of the land overlying such minerals, oil, gas, or other natural deposits and regardless of the form of reference in such conveyance, or lack of reference, to the minerals, oil, gas, or other natural deposits reserved by this Act. *prescribe.*

"(b) Title to the minerals so granted shall be held by the United States in trust for the Indian owners, except that if upon the expiration of said fifty years the entire Indian interest in the minerals within any allotment or parcel thereof is granted by this Act to a person or persons who at that time hold an unrestricted title to the lands overlying such minerals, oil, gas, or other natural deposits. then the Secretary of the Interior shall by fee patent transfer to such person or persons the unrestricted fee simple title to such minerals, oil, gas, or other natural deposits, which title shall vest in such person or persons as of the date of the patent.

"(c) The unallotted lands of said tribe of Indians shall be held in common, subject to the control and management thereof as Congress may deem expedient for the benefit of said Indians."

With the following committee amendments:

On page 1, line 9, after "reserved", insert "in perpetuity".

On page 2, line 4, after "may", strike out "prescribe:" and insert "prescribe.".

On page 2, lines 4 through 14, strike out all of the proviso.

On page 2, line 15, through page 3, line 2, strike out all of subsection (b).

On page 3, line 3, reletter paragraph "(c)" to read "(b)".

On page 3, after line 6, add a new section as follows:

"SEC. 2. Any allottee on the Northern Cheyenne Indian Reservation, or any heir or devisee of an allottee, or the Northern Cheyenne Tribe, may commence in the United States District Court for the District of Montana an action against the United States to determine whether the provisions of section 3 of the Act of June 3, 1926, as amended, which provided that at the end of 50 years the minerals in allotted land shall become the property of the allottees or their heirs or devisees, gave the allottees a constitutionally protected interest. The court shall have jurisdiction to hear and determine the action, and an appeal from its judgment may be taken as provided by law. If the court determines that the allottee has a right that

ate such an unreasonable, bigoted, and unpatriotic order of their fighting men.

I am sure, Mr. Speaker, that our generals in Vietnam have great responsibilities in conducting this war. I am sure that they have a tremendous responsibility for their men, but, I am also sure that this responsibility, Mr. Speaker, does not extend to the point of trying to destroy a soldier's faith, pride, and loyalty to his State.

I want to know, Mr. Speaker, which general it is who believes it is his duty to tell a man that he cannot display the flag of his State with pride and dignity.

I have written to my constituent, Mr. Speaker, and I have told him to keep me informed as to the developments of this incident.

I have written to the Department of Defense demanding—yes, I say demanding, Mr. Speaker—that this ridiculous and dangerous order be investigated.

And I call on my colleagues here today to join me in protesting this order for the removal of State flags from the bunks of our fighting boys.

TEACHER CORPS

(Mrs. MINK asked and was given permission to extend her remarks at this point in the RECORD and to include extraneous matter.)

Mrs. MINK. Mr. Speaker, in its short, 2-year existence, the Teacher Corps has made pioneering advances in aiding educationally deprived areas. I urge continued support of this outstanding program.

The recent disturbances in the cities have again emphasized the need for a national effort to improve education in the areas where the need is greatest. The "Report of the National Advisory Commission on Civil Disorders" has declared that "the Teacher Corps is a sound instrument for such an effort."

The No. 1 need of education in the poverty areas is motivated and trained teachers. The Teacher Corps has demonstrated it can supply these desperately needed people.

In Hawaii there are five Teacher Corps teams composed of 26 teacher interns and five team leaders. Not only are the teams reaching slow learners in the elementary and secondary grades but they are also working with school dropouts and getting involved in community projects. These dedicated interns, who receive relatively little compensation for their work, have done an outstanding job in the short time they have been in Hawaii.

The Teacher Corps is a national effort to improve educational opportunities for children from low-income families. It recruits able college graduates to teach in poverty area schools. At present there are more than 1,300 such interns teaching in 29 States, Puerto Rico, and the District of Columbia. Teacher interns receive $75 a week plus $15 for each dependent. While teaching and working on community projects the intern attends a nearby university and studies toward his master's degree and teaching certificates. In Hawaii the Teacher Corps works in conjunction with the University of Hawaii and the Hawaii State Department of Education.

As we know one of the reasons that children fall behind in school is the inability to read properly. The teacher interns teach the slow learners new ways to read. They also concentrate on the enrichment of the whole child with field trips which better relate education to the world outside the classroom.

Some Corps programs in Hawaii deserve special note. One of the Teacher Corps teams is giving primary consideration to teaching dropouts. This class now consists of 48 pupils and the corpsmen have developed very good relations with these students. One intern is living in a low-rent housing project where he has developed recreational programs for the tenants. One girl intern was recently named to the Council of Social Agencies, an organization that, up to the time she joined, did not have a representative from the educational community of the area she serves.

The Teacher Corps in Hawaii is also using teaching materials that are more related to the world in which their pupils are living. This, of course, makes learning more enjoyable and interesting for the slow learner. The constructive use of the daily newspaper, with a discussion of the many subjects it contains, gives the pupils a broader look at the world around them.

In a praiseworthy notice in the Honolulu Star Bulletin for October 25, 1967, that newspaper said:

> The idea for the Teacher Corps is buttressed by records—the records of youngsters who drop out of school, the records of police and courts, the records of generation after generation who retain a place on welfare and seldom move far from that niche.

The Corps is funded 90 percent by the Federal Government. However, the control of the programs, is in the hands of the local school district. The members are employees of the school system where they work. The school's authorities decide whether a member will be hired, fired, or reassigned.

Currently the appropriations for the Teacher Corps for fiscal 1969 is before the Congress. On the basis of the marvelous work of this program in Hawaii and across the Nation, I will support the program and urge my colleagues to do likewise. I support the full administration request of $31.2 million for 1,500 corpsmen this summer.

DEPARTMENT OF CONSUMER AFFAIRS

(Mrs. MINK asked and was given permission to extend her remarks at this point in the RECORD and to include extraneous matter.)

Mrs. MINK. Mr. Speaker, I wish to add my wholehearted support for legislation introduced today by the Honorable BENJAMIN S. ROSENTHAL, of New York to create a Department of Consumer Affairs within the executive branch of the Government which I have joined in as a cosponsor. It is most fitting that the 90th Congress which has become known as the "consumer Congress" should take the initiative to organize this system of safeguards for the general benefit of the consumers.

I believe the statistics maintained and published by the Federal Government explain fully the extent of consumer activities. Total retail sales for the United States for the month of March 1968 amounted to $26,943,000,000. The Bureau of Census, which maintains these statistics, reports that total sales for the country for 1967 amounted to a staggering $313,503,000,000, which is roughly 40 percent of the country's gross national product. And retail sales have been increasing each year at the rate of 4 to 7 percent. Easily it can be seen that this is one of the areas of activity within which there is a potential for greater consumer safeguards.

The historic theory of "the consumer beware" has come under unusual pressures with the development of innovative advertising and sales techniques.

I wish to extend my congratulations to Miss Betty Furness, the Special Assistant to the President for Consumer Affairs, and to her predecessor, Mrs. Esther Peterson, who have made great strides in familiarizing the housewives and consumers on the pitfalls of hasty and ill-considered purchases. I believe they may share most of the credit for promoting legislation which has resulted in the Truth in Packaging and Labeling Act, the Truth in Lending Act and the Meat Inspection Act.

However, their authority in this vast area of spending is greatly restricted to an advisory role and it is still on a part-time basis carried out by advisory committees. I am informed that there are now 33 separate Federal departments and agencies which have a responsibility for protecting the consumer in various manners. It is a rare occasion when all 33 are represented in an organized fashion.

The legislation introduced today will charge the Department of Consumer Affairs with these responsibilities:

First. To protect and promote the interests of the people of the United States as consumers of goods and services;

Second. To present the consumer viewpoint before Federal departments and agencies in the formulation of policies of the Federal Government;

Third. To represent the interests of consumers of the United States in proceedings before courts and regulatory agencies; and

Fourth. To assemble, evaluate and disseminate information helpful to consumers.

The Department would also receive, evaluate and take appropriate action with respect to complaints concerning commercial and trade practices detrimental to the interests of consumers.

A semiautonomous unit of National Consumer Information Foundation would be established within the Department and would administer a voluntary program under which manufacturers would submit their products for testing against specified performance characteristics. The comparative results of these tests would be indicated on information tags affixed to the product in order that the consumer might be better

able to judge the relative merits of competing products.

An Office of Consumers Safety will conduct a continuing study of the safety of household products and shall identify and publish information concerning these products determined to present an unreasonable hazard to the health and safety of the consuming public.

Finally, an Institute for Consumer Research would be established to test products for the Consumer Information Foundation and make recommendations to other agencies of the Government as to the need for consumer research of various kinds.

I am pleased to say that my own State of Hawaii has already moved forward in this field to protect its consumers with the establishment of an Office of the Consumer Protector. Earlier this year, Governor Burns appointed Mr. Walter W. Harris to this post and a general information campaign has already been launched to appraise the consumer of ways to improve his buying techniques.

I urge the passage of this legislation as urgently needed and hope that early hearings can be held so that the immense public interest on this matter can be used as the basis for its favorable consideration by this Congress.

TALKING POINTS ON THE TAX INCREASE

(Mr. McCORMACK (at the request of Mr. ALBERT) was given permission to revise and extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. McCORMACK. Mr. Speaker, I enclose for the information of my colleagues a "Memorandum for the President" dated May 2, 1968, from the Chairman of the Council of Economic Advisers on the subject "Talking Points on the Tax Increase." This memorandum contains valuable information which should be of deep concern to all Members of both branches of the Congress and to the people of our country.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS,
Washington, May 2, 1968.

MEMORANDUM FOR THE PRESIDENT

Subject: Talking Points on the Tax Increase.

Through Lloyd Hackler, you requested an updated checklist on the benefits to the Nation from enactment of the tax surcharge.

1. The tax bill will bring the present hectic pace of economic advance down to a *reasonable and safe speed.*

The *record GNP increase* of $20 billion in the first quarter—a 10% annual rate—is clearly *unsustainable.*

The huge Federal Budget deficit is fueling the excessive advance; the tax bill would *take our foot off the gas.* With reckless driving we take unnecessary risks of a crash.

2. The tax bill will *insure the strength of our record prosperity,* now in its 87th month. Good fiscal management contributed greatly to the tremendous progress of the 1960's, and poor fiscal management would jeopardize the gains.

In the past 7 years, the *growth* in our real GNP (corrected for price increases) has been nearly $250 billion, as much as the *total output* of the Nation as recently as 1938.

The *real income* (after taxes) of the *average American* has increased 31%, as much as in the preceding 19 years combined.

3. The tax bill will *curb inflation* and start us on the road back to price stability.

Our Nation's spending is spilling over into higher prices because we are trying to buy more than even our immensely productive economy can produce.

Our present 4% rate of inflation is unacceptable. Inflation is the *cruelest tax,* throwing the burden on the weak and the poor.

For those who cannot defend themselves against inflation, a 4% price increase is far more costly than the penny-on-a-dollar tax surcharge.

Once an inflationary spiral gets going, Congress can't repeal it. But a *tax increase can be taken off the books* as soon as it is no longer necessary.

4. The tax bill will *halt the dangerous tightening of money.*

For the first time in nearly 50 years, the *Treasury has to pay 6%* to borrow, because of the huge deficit.

Mortgage rates are approaching 7% on the average, and are running way above that in many areas. For the average homebuyer, an extra percentage point of mortgage interest costs more than the surcharge—well over $100 a year for many years.

Money is beginning to get scarce as well as expensive. Homebuilders should not be forced to suffer a repeat performance of 1966.

5. The tax bill will *bring our budgetary deficit down to a safe size.*

In a prosperous economy, there is simply *no excuse for two $20 billion deficits* back to back.

Our *war effort* can and should be financed responsibly.

6. The tax bill will *promote recovery in our world trade position.*

A significant part of the Nation's excess spending is slopping over into added imports.

In *March,* our trade performance deteriorated to a record low, running *in the red by $158 million.* Last year, we were $344 million a month in the black, and that wasn't good enough.

7. The tax bill will generally *strengthen our balance of payments and international position.*

Demonstrating that we are managing our economy soundly will strengthen *world confidence in the dollar.*

The *SDR agreement and the Washington gold accord* showed the power of international cooperation. We have to meet our responsibilities to maintain that excellent spirit.

8. The enactment of the tax bill will be a *convincing success for the democratic process.*

It will show that our ability to promote prosperity *works both ways:* to apply the brakes—when needed—as well as the gas.

We can prove we are willing and able to take *unpleasant—but essential—medicine, even in an election year.*

9. In comparison with all these benefits, the tax increase imposes *relatively small costs.*

It will take away only an average of a a limited time. It will leave Americans $13 billion ahead on their tax bills, compared to the rates that were in effect in 1963.

It is so important that the Administration is willing to cut deeply into an already stringent Budget in order to produce a broadly-based, nonpartisan compromise.

ARTHUR M. OKUN.

THE 100TH ANNIVERSARY OF MILLERS FALLS CO.

(Mr. CONTE asked and was given permission to extend his remarks in the body of the RECORD.)

Mr. CONTE. Mr. Speaker, last week marks the 100th anniversary of the Millers Falls Co., one of the most distinguished manufacturing organizations in western Massachusetts.

Ever since primitive man discovered that he could provide food for his family, clothe and shelter them and protect himself from his enemies by striking one rock against another to make tools, tools have become among his most important possessions. Indeed, successive eras in history have come to be characterized as the age of stone, the bronze age, the iron age, the age of steel.

This week, Millers Falls Co. of Greenfield, Mass., moves into its second century of unsurpassed craftsmanship in the design and production of hand and power tools and saw blades. Since 1868 this internationally known tool company and its skilful men and women from northwestern Massachusetts have produced the tools which have gone into the opening of the West, the laying of thousands of miles of railway tracks, the building of great and small ships, the construction of canals, bridges and highways, the building of homes and giant skyscrapers, the fabrication of farm equipment, automobiles, aircraft and space vehicles and, in fact, everything conceived by the minds of man and made by his hands, including, today, computerized equipment.

I daresay every man in this Congress who is familiar with tools would find many with the trademark of Millers Falls were he to reexamine his own tool chest.

Later this year Millers Falls will celebrate its centennial appropriately in Greenfield. While in discussion with Mr. Otis E. Brown, the company president, I was pleased to learn that they are not content to rest on past achievements and that work throughout the year will concentrate on long- and short-term planning for future accomplishment.

Mr. Brown said to me:

Our second century concerns us most. The double insulation of electric power tools, in which our Company is the American pioneer, dominates Company thinking.

Although we are now marketing more than 100 of these safer, more convenient power tools, we are, in fact, converting our entire tool production to double insulation now that the National Electrical Code approves them for industrial maintenance and construction use as well as for the home workshop. At the same time we continue to expand and improve upon our hand tool and saw blade lines which now number more than 4000 distinctive products. The past and present experience have provided us with the tool technology which now is utilized to produce the tools for today and tomorrow.

According to Vincent C. Giffen, vice president of marketing:

In particular, the market for double insulated shock-proof tools is expanding at a phenomenal rate. We would not have determined to convert all our power tool production to double insulation had it not been for the overwhelming response from the public for both these industrial and home workshop tools. We concede with the National Electrical Code that conventional power tools are safe when properly grounded, but that phrase. "when properly grounded", is the intangible which has inspired us and is influencing our entire industry to concentrate on these safer, more convenient tools.

Electrification. "A request for $500,000 was included in the budget to initiate a national energy study at the direction of the President. The basic purpose of such a study would be to appraise Government policies and programs for all forms of energy--coal, oil, gas, hydro-electric, and nuclear--which are becoming progressively interchangeable and competitive.

"The Committee recognizes that the Government must be assured that its energy policies are rational and reasonably consistent. Qualified experts on the staff of the Office of Science and Technology and in various departments and agencies of the Government should seek the cooperation of industry to bring together information currently available, and perhaps achieve most of the goals of the study at substantial savings. Accordingly, funds for this study are denied by the Committee at this time."

Assessments. "Last year the Committee expressed its displeasure with a proposal of the Commission to finance the cost of its interagency board program by reimbursements and charges to agencies and departments instead of by direct appropriation. The Committee recognizes the merits of the program, but is of the opinion that the centralized activities should cost less, not more, than the agency boards replaced. The boards are now funded by direct appropriations. The Committee notes that a number of other activities promoted by the Commission are being financed by charges and reimbursements from agencies and departments. Section 307 of the bill specifically prohibits the use of funds for certain interdepartmental boards, commissions, councils, committees, or similar groups which do not have prior and specific Congressional approval."

2. TAXATION; EXPENDITURES. The "Daily Digest" states that the conferees on H. R. 15414, the tax and expenditure-control bill, "announced that agreement had been reached to impose a 10-percent surcharge on income taxes, and to reduce Federal expenditures by $6 billion." p. D410

3. OIG. Received a GAO report on a review of activities of the Office of the Inspector General, USDA. p. H3516

SENATE

4. EMPLOYMENT. The Labor and Public Welfare Committee reported an original bill, S. 3465, to further promote equal employment opportunities of American workers (S. Rept. 1111). pp. S5154-5

5. FOREIGN TRADE. Sen. Percy inserted several editorials analyzing the "critical situation" confronting the U. S. balance of trade. pp. S5165-8

6. TRANSPORTATION. The Commerce Committee reported with amendment H. R. 15190, to amend the act providing for an investigation to determine a site for a sea-level canal connecting the Atlantic and Pacific Oceans (S. Rept. 1112). p. S5154

Sen. Harris was added as a cosponsor of S. 3410, to establish an advisory commission to make a study and report with respect to freight rates for farm products. p. S5156

7. INTER-AMERICAN DEVELOPMENT BANK. The Foreign Relations Committee voted to report (but did not actually report) H. R. 15364, to provide for increased participation by the U. S. in the Inter-American Development Bank. p. D407

8. CROP INSURANCE. Sen. Nelson praised the Federal crop insurance program in Wis. p. S5162

9. FARMERS HOME ADMINISTRATION. Sen. Gruening praised FHA's role in the development of rural Alaska. pp. S5162-3

10. TAXATION. Sen. Harris inserted an Okla. Legislature resolution urging the continuation of the tax-exempt status of industrial revenue bonds. p. S5163

Sen. Curtis inserted the minority report of the Municipal Industrial Finance Committee, which details matters that support his amendment to prevent the Treasury Department's ruling to eliminate the tax exemption on industrial-type revenue bonds from taking effect. pp. S5179-80

11. WILDERNESS. Sen. Bayh inserted a speech regarding South American "heartlands," which emphasized that the agricultural, industrial, and commercial development of the U. S. was largely dependent on an inflow of foreign capital. pp. S5180-2

12. INTERGOVERNMENTAL COOPERATION. Sen. Muskie inserted amendments intended to be proposed by him to S. 698, the intergovernmental cooperation bill, to encourage simplification and improved coordination of accounting, auditing, and financial reporting requirements of Federal assistance programs. pp. S5156-7

EXTENSION OF REMARKS

13. TRADE. Rep. Curtis inserted a speech by the president of the International Economic Policy Ass'n in which he stated that the U. S. must balance the budget to maintain the value of the dollar, and eliminate other-than-tariff barriers in foreign countries that impede U. S. exports. pp. E3903-5

14. RURAL LIFE; FHA. Sen. McGovern paid tribute to Msgr. Louis Miller as "champion of the American farmer", and inserted an FHA memorandum expressing sorrow at his death. pp. E3906-7

15. POTATOES. Rep. Hathaway stated that the potato diversion and purchase programs established by this Department in Jan. "have accomplished their objectives." p. E3913

16. RURAL-URBAN BALANCE. Rep. Stephens inserted Secretary Freeman's speech before the Ass'n County Commissioners of Ga. "directed toward the problem of rural-urban imbalance and the need for regional planning as a means to resolve this problem." pp. E3915-7

17. EMPLOYMENT. Rep. Scheuer inserted a partial transcript of hearings on the proposed equal employment opportunity bill. pp. E3928-30

Rep. Conyers inserted an analysis of the proposed bill. pp. E3949-61

18. POVERTY. Rep. Ashbrook criticized the poverty program and inserted an article, "How Poverty Program Throws Away Dollars." pp. E3969-71

Deny funds to pay salaries of Federal employees participating in, or inciting, a riot.

Rejected amendments regarding—

Supplementary training for secondary school science and mathematics teachers;

$188 million reduction in funds for model cities program;

Reduction of maximum payments limitation for rent supplement program by $15 million; and

Elimination of funds for rent supplement program.

Adopted by a voice vote H. Res. 1164, providing for a waiver of points of order against the National Aeronautics and Space Administration provisions of the bill.

Pages H 3458–H 3502

Quorum Call—Record Votes: One quorum call and two record votes developed during the proceedings of the House and appear on pages H3458, H3501, and H3501–H3502.

Program for Thursday: Adjourned at 6:37 p.m. until Thursday, May 9, 1968, at 12 o'clock noon, when the House will consider the following measures:

Conference report on H.R. 14940, the Arms Control and Disarmament Act;

H.R. 16911, the Special Drawing Rights Act (open rule, 2 hours of debate, waiving points of order against sec. 3(b));

H.R. 16729, the Higher Education Act amendments (open rule, 1 hour of debate); and

H.R. 15951, regarding uniform annual observance of certain legal holidays on Monday (open rule, 2 hours of debate).

Committee Meetings

MILITARY PROCUREMENT

Committee on Armed Services: Met in executive session and continued consideration of S. 3293, military procurement authorization. Testimony was heard from Dr. Alain Enthoven, Assistant Secretary of Defense for Systems Analysis.

MILITARY APPEALS

Committee on Armed Services: Subcommittee No. 1, approved for full committee action S. 2634, Court of Military Appeals.

The subcommittee held a hearing on the bill prior to approving S. 2634. Testimony was heard from Robert Emmett Quinn, Chief Judge, U.S. Court of Military Appeals, and associate judges.

IDA

Committee on Banking and Currency: Continued hearings on H.R. 16775, International Development Association. Testimony was heard from Henry Fowler, Secretary of the Treasury.

AIR POLLUTION

Committee on the District of Columbia: Subcommittee No. 5 met in executive session and approved for full committee action H.R. 15575, amended, air pollution.

GUARANTEED EMPLOYMENT

Committee on Education and Labor: Select Subcommittee on Labor continued hearings on H.R. 12280, guaranteed employment. Testimony was heard from a public witness.

WELFARE AND PENSION PLAN PROTECTION

Committee on Education and Labor: General Subcommittee on Labor continued hearings on H.R. 5741, Welfare and Pension Plan Protection Act. Testimony was heard from a public witness.

FOREIGN AID

Committee on Foreign Affairs: Met in executive session and continued markup of H.R. 15263, foreign aid. No announcements were made.

AFRICA

Committee on Foreign Affairs: Subcommittee on Africa held a hearing on assistance programs in Africa. Testimony was heard from a public witness.

VIRGIN ISLANDS

Committee on Interior and Insular Affairs: Met in executive session and reconsidered S. 450, to provide for the popular election of the Governor of the Virgin Islands, adopted an additional amendment and reported favorably to the House S. 450 with the amendment.

The committee also considered but did not take final action on H.R. 7329, to provide for the popular election of the Governor of Guam.

AIRCRAFT NOISE ABATEMENT—MUTUAL FUNDS—MEDICAL PROGRAMS—PENDING BUSINESS

Committee on Interstate and Foreign Commerce: The Subcommittee on Transportation and Aeronautics met in executive session and approved for full committee action H.R. 3400, amended, aircraft noise abatement.

The following subcommittees each met in executive session but made no announcements:

Commerce and Finance, considered mutual funds;

Public Health and Welfare, considered H.R. 15758, regional medical programs; and

Communications and Power, considered pending business.

EDUCATION GRANTS—CLAIMS

Committee on Judiciary: Subcommittee No. 3 continued hearings on S. 3 and H.R. 1198, judicial review of constitutionality of Federal education grants. Testimony

was heard from Erwin N. Griswold, Solicitor General, Department of Justice, and a public witness.

Subcommittee No. 2 met in executive session and acted on several private claims bills.

MARITIME PROGRAM

Committee on Merchant Marine and Fisheries: Subcommittee on Merchant Marine continued hearings on H.R. 13940, to provide a new maritime program. Testimony was heard from public witnesses.

CRIMINAL STATISTICS—LEGISLATIVE PROGRAM

Committee on Post Office and Civil Service: Subcommittee on Census and Statistics continued hearings on criminal statistics. Testimony was heard from public witnesses.

Subcommittee on Manpower and Civil Service met in executive session and considered the legislative program for the remainder of the year. The subcommittee will consider the following topics in the following order:

1. Wage board pay increase;
2. Civil Service Commission revolving fund;
3. S. 1035, invasion of rights;
4. H.R. 460, employee-management relation bill.

HIGHWAYS

Committee on Public Works: Subcommittee on the Federal-aid Highway Program continued hearings on highway safety, design, and operations. Testimony was heard from departmental and public witnesses.

OAS

Committee on Public Works: Subcommittee on Public Buildings and Grounds held a hearing on H.R. 16175, to authorize transfer and improvement of property in D.C., for use as headquarters site for the Organization of American States. Testimony was heard from Saul Linowitz, U.S. Ambassador to the OAS, and other departmental witnesses.

RULES

Committee on Rules: Granted an open rule with 2 hours of debate, waiving points of order against section 3(b), on H.R. 16911, special drawing rights bill. Testimony was heard from Representatives Patman, Reuss, and Widnall.

Granted an open rule with 1 hour of debate on H.J. Res. 1224, authorizing the President to reappoint as Chairman of the Joint Chiefs of Staff, for an additional term of 1 year, the officer serving in that position on April 1, 1968. Testimony was heard from Representatives Bates and Rivers.

PENDING BUSINESS

Committee on Standards of Official Conduct: Met in executive session and considered pending business. No announcements were made.

NURSING CARE

Committee on Veterans' Affairs: Subcommittee on Intermediate Care met in executive session and approved for full committee action H.R. 7481, amended, hospital costs for nursing home care, and H.R. 16902, nursing care and treatment in State homes.

Joint Committee Meetings

MONETARY MANAGEMENT

Joint Economic Committee: Committee began a series of hearings on the operational aspects of monetary management, having as its witnesses Lester V. Chandler, professor of economics, Princeton University; Franco Modigliani, professor, departments of economics and industrial management, MIT; and Henry C. Wallich, professor of economics, Yale University.

Hearings continue tomorrow.

TAXATION

Conferees continued in executive session to resolve the differences between the Senate- and House-passed versions of H.R. 15414, providing a surcharge on income taxes, reducing Government expenditures, continuing existing excise tax on communications and automobiles, and to expedite payments of estimated tax by corporations, and announced that agreement had been reached to impose a 10-percent surcharge on income taxes, and to reduce Federal expenditures by $6 billion.

Conferees did not complete work on this bill, and will meet again tomorrow.

COMMITTEE MEETINGS FOR THURSDAY, MAY 9

(*All meetings are open unless otherwise designated*)

Senate

Committee on Aeronautical and Space Sciences, executive, to mark up S. 2918, fiscal 1969 authorizations for NASA, 10:30 a.m., 235 Old Senate Office Building.

Committee on Appropriations, full committee, executive, to hear Senator Long of Louisiana explain expenditures limitations and budget reduction to be proposed in the tax bill, 10 a.m., 1223 New Senate Office Building.

Subcommittee, executive, hearings on fiscal 1969 budget estimates for the Defense Establishment, to hear Army Secretary Resor and Army Chief of Staff General Johnson, 10:30 a.m., 1114 New Senate Office Building.

Subcommittee, on fiscal 1969 budget estimates for Labor-HEW, on funds for the Office of the Secretary of HEW, 10:30 a.m., 1224 New Senate Office Building.

Subcommittee, on fiscal 1969 budget estimates for public works, on Army civil functions items, 11 a.m. and 2 p.m., 1318 New Senate Office Building.

Committee on Commerce, on the nomination of Frederic G. Donner, of New York, to be a member of the board of directors of the Communications Satellite Corp., to be followed by con-

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
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HIGHLIGHTS: House committee reported bill to provide fringe benefits for ASC county committee employees. House committee voted to report farm bill. Conferees agreed to file report on tax-expenditure bill. Sen. Mondale introduced and discussed East-West trade bill. Sen. Hartke submitted and discussed measure to increase farm disaster loans.

HOUSE

1. COUNTY COMMITTEES. The Post Office and Civil Service Committee reported with amendment S. 1028, to provide fringe benefits for ASC county committee employees (H. Rept. 1371). p. H3642

2. CREDIT UNIONS. The Banking and Currency Committee reported with amendment H. R. 14907, to amend the Federal Credit Union Act (H. Rept. 1372). p. H3642

3. APPROPRIATIONS. Passed without amendment H. J. Res. 1268, making supplemental appropriations for fiscal year 1968 for highways and certain claims (pp. H3572-3). The bill was reported earlier by the Appropriations Committee (H. Rept. 1373) (p. H3642).

4. TAXATION; EXPENDITURES. The "Daily Digest" states that the conferees "agreed to file a conference report on the differences between the Senate- and House-passed versions of H. R. 15414" the tax and expenditure control bill (p. D417). Rep. Vanik deplored the conferees' "demanding... the $6 billion budget cut as a condition for the surtax" (p. H3519).

5. EDUCATION. Passed 348-5, with amendments H. R. 16729, to amend legislation regarding higher education (pp. H3522-72). Rejected a motion by Rep. Gross to recommit the bill with instructions that "no funds authorized by this Act shall exceed by 80 percent the sums herein authorized" (p. H3571).

6. FARM PROGRAM. The Agriculture Committee voted to report (but did not actually report) H. R. 17126, to extend for 1 year the Food and Agriculture Act of 1965 (p. D416) and the committee was granted until midnight Sat. May 11 to file a report (p. H3572).

7. HOLIDAYS. Passed without amendment H. R. 15951, by a vote of 212-83, to provide for uniform annual observances of certain legal public holidays on Mondays (pp. H3573-602). Rejected a motion, 141-153, by Rep. Poff to recommit the bill with instructions that Washington's Birthday be observed on Feb. 22 (pp. H3600-1)

8. ELECTRIFICATION. Rep. Price, Ill., commended the Rural Electrification Adm. programs and inserted Administrator Clapp's annual report. pp. H3620-1

9. HOUSING. Rep. Dorn inserted the President's remarks upon the signing of H. R. 10477, the Veterans' Administration housing law amendment. pp. H3621-3

10. PEANUTS. Received a GAO report of "peanut price-support programs of the Commodity Credit Corporation." p. H3642

SENATE

11. TAXATION;EXPENDITURES. The "Daily Digest" states the Appropriations Committee met in executive session to hear Sen. Long, La., "explain agreement to reduce Federal expenditures by $6 billion", which agreement was reached by the conferees on Wed., May 8, in connection with H.R. 15414, the proposed Revenue and Expenditure Control Act of 1968. p. D414

Sen. Mansfield said that he hoped that before the conferees reached final agreement on the tax and expenditures bill they would furnish the membership of both Houses with a bill of particulars as to where they think these reductions should be applied. pp. S5185-6

12. SUPPLEMENTAL APPROPRIATIONS. The "Daily Digest" states the Appropriations Committee approved H.J. Res. 1268, making supplemental appropriations for fiscal year 1968 for highways and certain claims. p. D414

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PROCEEDINGS AND DEBATES OF THE 90th CONGRESS, SECOND SESSION

Vol. 114 WASHINGTON, THURSDAY, MAY 9, 1968 No. 79

Senate

(Legislative day of Tuesday, May 7, 1968)

The Senate met at 11 a.m., on the expiration of the recess, and was called to order by the Acting President pro tempore (Mr. METCALF).

The Chaplain, Rev. Frederick Brown Harris, D.D., offered the following prayer:

Eternal God, Father of our spirits, with a faith that will not shrink though pressed by every foe, we would this day climb the altar steps which lead through darkness up to Thee. For our greatest need is of Thee.

In the crises of our times join us with those who, across the waste and wilderness of human hate and need, preparing the way of the Lord, throw up a highway for our God.

With minds burdened for the Nation and for the world, we turn to Thee in this baffling hour, praying that in this fear-haunted earth the flame of our faith may not grow dim.

We would share that sacred fire until tyranny everywhere is consumed and thus all the nations of the earth be blessed.

We ask it in the name of the dear Redeemer, who is the light of the world. Amen.

THE JOURNAL

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Journal of the proceedings of Wednesday, May 8, 1968, be approved.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

MESSAGE FROM THE HOUSE—ENROLLED BILLS SIGNED

A message from the House of Representatives by Mr. Hackney, one of its reading clerks, announced that the Speaker had affixed his signature to the following enrolled bills:

S. 948. An act for the relief of Seaman Eugene Markovitz, U.S. Navy;

S. 1147. An act for the relief of Mariana Mantzios;

S. 1180. An act for the relief of Ana Jacalne;

S. 1395. An act for the relief of Dr. Brandia Don (nee Praschnik);

S. 1406. An act for the relief of Dr. Jorge Mestas;

S. 1483. An act for the relief of Dr. Pedro Lopez Garcia;

S. 1490. An act for the relief of Yang Ok Yoo (Maria Margurita);

S. 1828. An act for the relief of Susan Elizabeth (Cho) Long;

S. 1829. An act for the relief of Lisa Marie (Kim) Long;

S. 1909. An act to provide for the striking of medals in commemoration of the 100th anniversary of the completion of the first transcontinental railroad;

S. 1918. An act for the relief of Dr. Gabriel Gomez del Rio;

S. 1968. An act for the relief of Dr. Jose Ernesto Garcia y Tojar;

S. 2005. An act for the relief of Dr. Anacleto C. Fernandez;

S. 2022. An act for the relief of Dr. Mario Jose Remirez DeEstenoz;

S. 2023. An act for the relief of Virgilio A. Arango, M.D.;

S. 2078. An act for the relief of Dr. Alberto De Jongh;

S. 2132. An act for the relief of Dr. Robert L. Cespedes;

S. 2139. An act for the relief of Dr. Angel Trejo Padron;

S. 2149. An act for the relief of Dr. Jose J. Guijarro;

S. 2176. An act for the relief of Dr. Edgar Reinaldo Nunez Baez;

S. 2193. An act for the relief of Dr. Alfredo Jesus Gonzalez;

S. 2256. An act for the relief of Dr. Margarita Lorigados;

S. 2285. An act for the relief of Gordon Shih Gum Lee;

S. 2301. An act for the relief of Dr. Francisco Guillermo Gomez-Inguanzo;

S. 2381. An act for the relief of Dr. Jesus Adalberto Quevedo-Avila;

S. 2403. An act for the relief of Dr. Teobaldo Cuervo-Castillo;

S. 2404. An act for the relief of Dr. Heriberto Jose Hernandez-Suarez; and

S. 2489. An act for the relief of Dr. Jesus Jose Eduardo Garcia.

ORDER OF BUSINESS

The ACTING PRESIDENT pro tempore. Under the previous order, the Senator from Montana is recognized for 15 minutes.

Mr. MANSFIELD. Mr. President, I suggest the absence of a quorum, the time to be taken out of the time allocated to me.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

TAX INCREASE AND BUDGET REDUCTION PROPOSALS

Mr. MANSFIELD. Mr. President, the conferees of both Houses have evidently agreed on a 10-percent surcharge on income tax for those having an income of $5,000 or more, and also on a $6 billion reduction in Federal expenditures for the next fiscal year. I would hope that before the conferees reached final agreement on this matter, they would furnish the membership of both Houses with a bill of particulars as to where they think these reductions should be applied.

As the Senate is aware, the President has said that he would be willing to accept a $4 billion reduction in expenditures—though reluctantly—but that if the cut went to $6 billion, grave difficulties would be created. I assume that what he would have to consider in the latter case would be appropriations dealing with the most difficult social problems which affect urban centers, and also public works projects under the jurisdiction of the Bureau of Reclamation and the Corps of Engineers. The latter would affect almost every State in the Union; the former would affect almost every city in the Nation.

I myself have suggested where I think expenditures ought to be cut or reduced. For the RECORD I will state them again:

I have said that an area which could—and should—be given the most serious consideration is the research and development program of the Department of Defense, for which almost $8 billion was authorized a few weeks ago, an amount 10 percent above the amount of last year. This program operates under a division of the Department of Defense having contracts with individuals, corporations, universities, and the like, and covers such subjects as population control. It has included, also, such subjects as Camelot—a social science study—civic projects in Korea, social

behavior studies elsewhere, and others numbering not into the hundreds but into the thousands, even millions, of dollars.

I also stated that I anticipated, as was the case over the last several years, that there would be further cuts in foreign aid this year.

I also mentioned the space program. In my opinion, it could stand some reduction and thus provide for the needs of the people living on this planet and in this country rather than enable us to be the first to reach the moon.

Then I said there was the possibility of a reduction in public works, and also the possibility of a sharp reduction in the 600,000 troops and dependents who now comprise U.S. forces in Western Europe at a cost, I understand, in excess of $2.5 billion a year.

Another potential area is the field of defense expenditures in relation to Vietnam—when and if deescalation takes place and there is a possibility of an honorable settlement; but not, however, so long as the need is apparent for the protection of our men who are stationed there in the carrying out of policy.

Also, I see no reason why the luxury taxes which were removed only a few years ago should not be reinstituted.

I see no reason why we should not consider the raising of corporate income tax from the present level of 48 percent of the old level of a few years ago—52 percent—because, as I read the Wall Street Journal, the profits of most corporations this year are much improved compared with last year—and last year the earnings were not peanuts.

These are some categories which I believe should be considered.

Also, if need be, regulation W could be restored so as to circumscribe consumer credit buying, which at this time totals, I understand, in excess of $115 billion and is sharply increasing. I believe that figure is conservative.

If the economy is in such dire straits, consideration should be given to the reimposition of wage and price controls.

Mr. President, I must say that any one Senator cannot and should not make this decision. It is up to the committees which represent the rest of us, in their wisdom, to provide a bill of particulars. They should specify—for the consideration of the two Houses—where, how, and when the cuts in expenditures should be made.

If we do not face up to this responsibility, which is basically ours, it will mean that we are throwing the burden to the President and placing on him an additional responsibility, one that is rightfully ours. If we continue to operate on this basis merely because the job is difficult and unpleasant, we should make no complaints about centralization of power in the White House or in the hands of the President. In my opinion, such centralization is the natural result of a failure on our part to live up to the responsibilities which are ours under the Constitution.

Mr. President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The assistant legislative clerk proceeded to call the roll.

Mr. MORTON. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER (Mr. HOLLINGS in the chair). Without objection, it is so ordered.

Under the previous order the Senator from Kentucky is recognized for 15 minutes.

THE NATIONAL DIVIDEND PLAN

Mr. MORTON. Mr. President, it is becoming more and more evident that we must develop a fresh, new philosophy of economic opportunity if we are to successfully solve the many serious problems confronting our Nation today.

This need has grown over the years as the complexity of our society has increased. Having served on the Senate Finance Committee for many years, I have become deeply concerned and disturbed by current trends in our economic machinery.

The problems of fiscal stability, poverty and welfare in a land of abundance, economic thrust for our free enterprise system and equal opportunity for all segments of our population have become more pronounced. I recently had an opportunity to study in some depth a most interesting and intriguing proposal which challenges each of us to study and consideration as a possible solution.

There is much convincing evidence at hand that we can no longer delay in coming to grips with the problems through bold, imaginative action.

For example, the stock market has been going up and down like a yoyo, because prices have been entirely dependent on speculation, instead of the stability of earnings.

Our balance-of-payments deficit increased $1.8 billion during the fourth quarter of 1967. That brought the deficit for the full year up to $3.6 billion, as opposed to an average of $2.1 billion for the last 6 years. Mr. President, you will recall that it was not too long ago when we took for granted an average annual balance of $5 billion in our favor.

The very foundation of our monetary system, along with that of the remainder of the free world, was shaken only a few weeks ago by an unchecked drain on our gold reserve.

And, more recently, many of our cities, including this National Capital, have been ravaged by shocking civil disorders by a segment of our population protesting the social and economic conditions which entrap them.

All these things, and they represent only a fraction of the total, are the results of efforts to saddle the country with an economy managed and controlled by the Federal Government.

The new breed economists, who have held sway in high levels of our Government in recent years, should realize now, as most Americans do, that their crystal balls do not always work. Their fanciful theories have succeeded in distorting our economic structure to a perilous degree and, at the same time, intensifying and compounding many of our social problems.

It was these people who, in the face of mounting signs of trouble, pushed the President into an attack on the wrong front. They urged solving the problem not by earning more but by spending and investing less.

Nondefense spending has increased 97 percent since 1960. Health and welfare spending alone has increased 21 percent. However, during that same period, the Nation's population increased only 10 percent.

The 89th Congress alone passed 136 new domestic welfare programs. Yet, today thousands of burned out, looted and smashed businesses and dwelling units in scores of American cities stand as mute testimony to the futility of the effort to solve the problems at which those programs were aimed.

The time has come to restore our economy to a sound, business-like basis. Ruinous Government attempts to manage it must be halted. We must return to the basic principles of the free enterprise system.

The late Sir Winston Churchill once said:

> Some people regard free enterprise as a tiger to be shot. Others look at it as a cow they can milk. Not enough people see it as a healthy horse pulling a sturdy wagon.

Consider it what you will—tiger, cow, or horse—free enterprise is the system that we Americans have chosen as our own. No one has ever claimed that it is perfect. It would not even be interesting if it were. But the fact remains that free enterprise is what has made this country great. From it have come products and wealth to give us the highest standard of living civilization has ever known.

It has developed and produced consumer goods for our comfort and well-being in such quantity and at low enough cost that we accept them as commonplace. But to those millions living under government-controlled economies such as the theoreticians would impose upon us, these goods are cherished luxuries, far beyond the reach of most.

The most significant and compelling feature of the free enterprise system is that its success has been achieved without loss of personal liberties by the American people.

As it has flourished, the basic principles of individual freedom, the right to private property and human dignity have been maintained and perpetuated. It is these fundamentals that a government-controlled economy demands must be sacrificed as the individual and his efforts are consigned to a great, gray sea of anonymity and mediocrity.

An intriguing idea has been developed by John H. Perry, Jr., a prominent Florida businessman, which would utilize the free-enterprise system to return the economy to a sound, business-like basis, improve the general welfare and enhance the freedom of the individual citizen.

Byproducts of Mr. Perry's proposal would be a sharp increase in citizen participation in Government affairs through voting; a nationwide purging of voting

Daily Digest

HIGHLIGHTS

Senate continued on safe streets and crime control bill and passed 10 measures on calendar call.

House passed Higher Education Act amendments and a bill regarding uniform annual observances of certain legal public holidays on Monday. Adopted conference report on Arms Control and Disarmament Act amendments.

Conferees reached agreement on proposed revenue and expenditures control.

Senate

Chamber Action

Routine Proceedings, pages S 5251–S 5274

Bills Introduced: Five bills and two resolutions were introduced, as follows: S. 3466–3470; and S.J. Res. 169–170. Page S 5251

Bill Reported: Report was made as follows: S. 3159, authorizing construction of an additional building for the National Gallery of Art (S. Rept. 1114). Page S 5251

Call of Calendar: On call of calendar, 10 measures were passed as follows:

Without amendment and cleared for President:

Boston Inner Harbor: H.R. 14681, declaring a portion of Boston Inner Harbor and Fort Point Channel non-navigable.

Resolutions adopted without amendment:

Committee funds: S. Res. 276, authorizing an additional $20,000 for expenses of the Committee on Labor and Public Welfare;

Printing: H. Con. Res. 770, to print an updated pocket-size U.S. Constitution for congressional distribution;

Printing: S. Con. Res. 68, to print additional copies of hearings on proposed amendments to the Federal Firearms Act;

Printing: S. Res. 277, to print additional copies of Government Operations subcommittee hearings on "Riots, Civil and Criminal Disorders";

Printing: S. Res. 279, to print as a Senate document a report entitled "Mineral and Water Resources of Montana";

Printing: S. Res. 280, to print additional copies of a committee print entitled "Planning-Programing-Budgeting: Selected Comment";

Printing: S. Res. 282, to print as a Senate document report by Senator Ellender entitled "Review of U.S. Government Operations in South Asia";

Printing: S. Res. 285, to print as a Senate document annual report of the National Forest Reservation Commission; and

Gratuity: S. Res. 287, to pay a gratuity to survivor of a deceased employee of the Office of the Architect of the Capitol. Page S 5190

Safe Streets and Crime: Senate continued its consideration of S. 917, proposed Safe Streets and Crime Control Act.

It was ordered that when Senate completes its business on Friday, May 10, it will meet again at 10 a.m. Monday, May 13, in the further consideration of this bill.

In this connection, majority leader read a letter of May 8 addressed to him by the President urging action on S. 917. The majority leader urged the Senate Members to make every effort to bring debate on the bill to a head, begin voting on amendments, and dispose of the bill. Pages S 5190–S 5198, S 5203–S 5251

Treaty Reported: Convention on the International Hydrographic Organization, done at Monaco, May 3, 1967, and signed for U.S. September 13, 1967 (Ex. O, 90th Cong., first sess.) was reported (Ex. Rept. 3). Page S 5251

Treaty Reported: Six amendments to the International Convention for Safety of Life at Sea, 1960, adopted October 25, 1967, in London (Ex. C, 90th Cong., second sess.), reported (Ex. Rept. 4). Page S 5251

Confirmations: The following nominations were confirmed: Wilbur J. Cohen, of Michigan, to be Secretary of Health, Education, and Welfare; John R. Petty, of New York, to be an Assistant Secretary of the Treasury; William M. Drennen, of West Virginia, William M. Fay, of Pennsylvania, C. Moxley Featherston, of Virginia, and Charles R. Simpson, of Illinois, each to be a judge of the U.S. Tax Court; Frank E. McKinney, of

Indiana, to be Ambassador to Spain; and numerous nominations in the Diplomatic and Foreign Service.

Page S 5274

Nominations: Numerous postmaster nominations were received. Page S 5274

Program for Friday: Senate met at 11 a.m. and adjourned at 5:39 p.m. until noon Friday, May 10, when it will continue on its unfinished business, S. 917, safe streets and crime control. Pages S 5197, S 5274

Committee Meetings

(*Committees not listed did not meet*)

NASA AUTHORIZATIONS

Committee on Aeronautical and Space Sciences: Committee met in executive session for the consideration of S. 2918, fiscal 1969 authorizations for the National Aeronautics and Space Administration, but did not conclude action thereon, and will meet again sometime next week.

REDUCTION OF FEDERAL EXPENDITURES, AND SUPPLEMENTAL APPROPRIATIONS

Committee on Appropriations: Committee met in executive session to hear chairman of the Senate Committee on Finance Senator Long (Louisiana) explain agreement to reduce Federal expenditures by $6 billion, which agreement was reached by the conferees on Wednesday, May 8, in connection with H.R. 15414, proposed Revenue and Expenditure Control Act of 1968.

Also, committee approved H.J. Res. 1268, making supplemental appropriations for fiscal year 1968 for highways and certain claims.

APPROPRIATIONS—DEFENSE

Committee on Appropriations: Subcommittee continued its executive hearings on proposed fiscal 1969 budget estimates for the Defense Establishment, having as its witnesses Secretary of the Army Stanley R. Resor and Army Chief of Staff Gen. Harold K. Johnson.

Hearings continue tomorrow with testimony from other Army officials.

APPROPRIATIONS—PUBLIC WORKS

Committee on Appropriations: Subcommittee continued its hearings on proposed fiscal 1969 budget estimates for public works, with testimony on Army civil functions items from Senator Holland, in behalf of himself and Senator Smathers, on funds for various projects in Florida; Representative Pepper and Gov. Claude R. Kirk, Jr., also on Florida projects; Senator Bartlett, on behalf of himself and Senator Gruening, on funds for projects in Alaska; and Senators Ervin and Jordan of North Carolina, in behalf of funds for projects in their State.

Hearings were recessed subject to call.

APPROPRIATIONS—HEW

Committee on Appropriations: Subcommittee continued its hearings on proposed fiscal 1969 budget estimates for the Departments of Labor and Health, Education, and Welfare, receiving testimony from the following HEW officials: James F. Kelly, Assistant Secretary (Comptroller); Donald F. Simpson, Assistant Secretary for Administration; Alanson W. Willcox, General Counsel; Dean W. Coston, Deputy Under Secretary; and Paul A. Miller, Assistant Secretary (Education).

Hearings continue tomorrow with testimony on funds for special institutions.

RADIATION

Committee on Commerce: Committee continued hearings on S. 2067, S. 3211, and H.R. 10790, to provide for the protection of the public health from radiation emissions, receiving testimony from Howard L. Goldman, division of preventive services, New York State Department of Health; Bernard H. Falk, National Electrical Manufacturers Association, New York City; Harvey Picker, chairman of board of directors, Picker Corp., White Plains, N.Y.; and J. Edward Day, Electronic Industries Association, Washington, D.C.

Hearings continue on Monday, May 13.

NOMINATION

Committee on Commerce: Committee approved the nomination of Frederic G. Donner, of New York, to be a member of the board of directors of the Communications Satellite Corp., prior to which action, in open hearings, Mr. Donner was present to testify and answer questions on his own behalf.

DEFENSE RESEARCH ACTIVITIES

Committee on Foreign Relations: Committee met in executive session to hear Director of Defense Research and Engineering Dr. John S. Foster, Jr., testify and answer questions with regard to research activities of the Defense Department and certain foreign policy matters.

INTERGOVERNMENTAL COOPERATION

Committee on Government Operations: Subcommittee on Intergovernmental Relations began a series of hearings on S. 698, proposed Intergovernmental Cooperation Act, and other pending related legislation, having as its witnesses Phillip S. Hughes, Deputy Director, and James Frey, Office of the General Counsel, both of the Bureau of the Budget.

Hearings continue tomorrow.

INTERNAL SECURITY

Committee on the Judiciary: Internal Security Subcommittee concluded its hearings on S. 2988, proposed Internal Security Act of 1968, after receiving testimony from Lawrence Speiser, American Civil Liberties Union

Subcommittee on Compensation and Pension met in executive session and approved for full committee action H.R. 16027, amended, compensation increase for service-connected disabled veterans.

Joint Committee Meetings

MONETARY MANAGEMENT

Joint Economic Committee: Committee continued its series of hearings on the operational aspects of monetary management, having as its witnesses Carl F. Christ, professor, department of political economy, Johns Hopkins University; William G. Dewald, professor of economics, Ohio State University; and Richard T. Selden, professor of economics, Cornell University.

Hearings continue on Wednesday, May 15.

TAXATION

Conferees, in executive session, agreed to file a conference report on the differences between the Senate- and House-passed versions of H.R. 15414, proposed Revenue and Expenditure Control Act of 1968. Included in agreements of the conferees are provisions to (1) provide a reduction of $6 billion in Federal expenditures for fiscal year 1969, and (2) impose a 10-percent income tax surcharge on individuals (effective from April 1, 1968, through June 30, 1969), and on corporations (effective from January 1, 1968, through June 30, 1969).

D.C. POLICEMEN, FIREMEN, AND TEACHERS' SALARIES

Conferees met in executive session to consider the differences between the Senate- and House-passed versions of H.R. 15131, providing salary increases for D.C. policemen, firemen, and teachers, and agreed to establish a minimum base salary for policemen and firemen of $7,800, retroactive to October 1, 1967, and increase such base to $8,000, effective July 1, 1968.

Agreement was also reached to establish minimum base salary for schoolteachers at $6,400, retroactive to October 1, 1967, and increase such base to $7,000, effective July 1, 1968. It was also agreed that the salary of the Superintendent of Schools be set at $29,000, retroactive to October 1, 1967, with an increase to $30,000 effective July 1, 1968; and that the salary of the Deputy Superintendent of Schools be set at $25,000, retroactive to October 1, 1967, with an increase to $26,000 effective July 1, 1968.

Conferees recessed pending settlement of details respecting teachers salaries.

BILL SIGNED BY THE PRESIDENT

New Law

(*For last listing of public laws, see* DIGEST, *p. D402, May 7, 1968*)

H.R. 15398, to extend and expand food service programs for schoolchildren. Signed May 8, 1968 (P.L. 90–302).

COMMITTEE MEETINGS FOR FRIDAY, MAY 10

(*All meetings are open unless otherwise designated*)

Senate

Committee on Appropriations, subcommittee, on fiscal 1969 budget estimates for the Bureau of Reclamation and Interior power activities, 10 a.m., 1223 New Senate Office Building.

Subcommittee, executive, on fiscal 1969 budget estimates for the Defense Establishment, on funds for the Army, 10:30 a.m., 1114 New Senate Office Building.

Subcommittee, on fiscal 1969 budget estimates for Labor-HEW, on funds for special institutions, 10:30 a.m., 1224 New Senate Office Building.

Committee on Armed Services, Preparedness Investigating Subcommittee, executive, on strategic weapons and weapons delivery systems, to hear Army Chief of Staff General Johnson, 10 a.m., 224 Old Senate Office Building.

Committee on Government Operations, Intergovernmental Relations Subcommittee, to continue hearings on S. 698, proposed Intergovernmental Cooperation Act, and related legislation, 10 a.m., 3302 New Senate Office Building.

Committee on the Judiciary, Subcommittee on Separation of Powers, to resume hearings on relationship of administrative agencies with the Congress, on powers of the NLRB, 10 a.m., 2228 New Senate Office Building.

Committee on Labor and Public Welfare, Subcommittee on Employment, Manpower, and Poverty, to continue hearings on S. 3063, 3249, and 2938, bills dealing with manpower training and development, 10 a.m., 4232 New Senate Office Building.

House

Committee on Appropriations, Subcommittee on Foreign Operations, executive, pending business, 10 a.m., H–309, Capitol.

Committee on Education and Labor, Select Subcommittee on Labor, executive, to continue consideration of occupational health and safety, 9:45 a.m., 2261 Rayburn House Office Building.

Committee on Interior and Insular Affairs, Subcommittee on Indian Affairs, executive, to continue consideration of Indian affairs bills, 9:45 a.m., 1324 Longworth House Office Building.

Committee on Interstate and Foreign Commerce, Special Subcommittee on Investigations, to continue hearings on TV program "Pot Party at a University," 10 a.m., 2123 Rayburn House Office Building.

Next meeting of the SENATE
12:00 noon, Friday, May 10

Next meeting of the HOUSE OF REPRESENTATIVES
12:00 noon, Friday, May 10

Extensions of Remarks of the following Members appear in this issue

Annunzio, Frank, Ill., E4023
Bray, William G., Ind., E3996, E3997, E4044
Brinkley, Jack, Ga., E4040
Broomfield, William S., Mich., E4026
Brown, Clarence J., Jr., Ohio, E4028
Brown, George E., Jr., Calif., E4023
Cohelan, Jeffery, Calif., E4025
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Curtis Thomas B., Mo., E4027, E4042
Derwinski, Edward J., Ill., E4025
Downing, Thomas N., Va., E3991
Fannin, Paul J., Ariz., E3988
Findley, Paul, Ill., E4043
Gross, H. R., Iowa, E3990
Hechler, Ken, W. Va., E4016
Hutchinson, Edward, Mich., E4007
Ichord, Richard (Dick), Mo., E4007
Jarman, John, Okla., E4000
Leggett, Robert L., Calif., E3996
Metcalf, Lee, Mont., E3984, E3994
Mondale, Walter F., Minn., E3987
Moss, John E., Calif., E4016
Nix, Robert N. C., Pa., E3996
O'Konski, Alvin E., Wis., E3999
Ottinger, Richard L., N.Y., E4022
Price, Melvin, Ill., E4027
Quillen, James H. (Jimmy), Tenn., E4043
Rarick, John R., La., E3985, E3995, E4008
Roudebush, Richard L., Ind., E3997
Ruppe, Philip E., Mich., E4027
St Germain, Fernand J., R.I., E4008
Scherle, William J., Iowa, E4029
Spong, William B., Jr., Va., E3981, E3995
Thompson, Frank, Jr., N.J., E4040
Tower, John G., Tex., E3990
Utt, James B., Calif., E3983
Vigorito, Joseph P., Pa., E4007, E4042
Wampler, William C., Va., E4000
Watson, Albert W., S.C., E4026
Wilson, Bob, Calif., E3988
Wilson, Charles H., Calif., E4000

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House of Representatives

THURSDAY, MAY 9, 1968

The House met at 12 o'clock noon.

His Holiness Vasken I, Supreme Patriarch and Catholicos of all Armenians, Etchmiadzin, Armenia, offered the following prayer:

In the name of the Father and of the Son and of the Holy Spirit. Amen.

We thank You, O Lord, our God, for granting us the opportunity of standing at this time in the midst of this venerable legislative assembly, as the humble spiritual head of the Armenians and a servant of Your church.

As we visit this wonderful land, we offer You our gratitude for the peace and prosperity that the children of our church, the descendants of the world's most ancient Christian state, have found in this hospitable country.

We fervently implore, O Lord, that You guide the minds and wills of all legislators everywhere, to bring about justice and peace, love, and happiness in this strife-torn and restless world of ours.

You, O Lord, who are the true destiny of men and of nations, grant, we beseech You, Your wisdom and guidance to these distinguished Representatives of the people of the United States of America that they may lead this country with courage and compassion toward purposes pleasing to You. We ask Your blessings in Christ's name and we glorify Him together with You and the Holy Spirit now and forever. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Arrington, one of its clerks, announced that the Senate had passed without amendment a joint resolution of the House of the following title:

H.J. Res. 1234. Joint resolution to provide for the issuance of a gold medal to the widow of the late Walt Disney and for the issuance of bronze medals to the California Institute of the Arts in recognition of the distinguished public service and the outstanding contributions of Walt Disney to the United States and to the world.

The message also announced that the Senate agrees to the amendments of the House to a bill and joint resolution of the Senate of the following titles:

S. 1909. An act to provide for the striking of medals in commemoration of the 100th anniversary of the completion of the first transcontinental railroad; and

S.J. Res. 129. Joint resolution to authorize the Secretary of Transportation to conduct a comprehensive study and investigation of the existing compensation system for motor vehicle accident losses, and for other purposes.

The message also announced that the Senate insists upon its amendments to the bill (H.R. 12639) entitled "An act to remove certain limitations on ocean cruises," disagreed to by the House; agrees to the conference asked by the House on the disagreeing votes of the two Houses thereon, and appoints Mr. MAGNUSON, Mr. BARTLETT, Mr. BREWSTER, Mr. COTTON, and Mr. GRIFFIN to be the conferees on the part of the Senate.

THE CARMEL, N.Y., HIGH SCHOOL BAND

(Mr. OTTINGER asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. OTTINGER. Mr. Speaker, the marvelous music that my colleagues heard as they entered the Capitol today was presented by the Carmel, N.Y., High School band, led by band director, Dan Mooney, and band president, Nick Chapis. I think everyone will agree that they gave a superior and exciting performance.

Seventy-six members of the 85-member band came to Washington from Putnam County. This fine musical organization was formed in 1960 and has given 10 concerts each year since then. They performed at the New York State Teachers Association Conference and at the New York State World's Fair in 1964 and 1965. The band toured upstate New York, Canada, and New England, also.

The band's performance today opened with a very thrilling rendition of the "Star Spangled Banner" and continued with selections by George Gershwin and a march composed by Dan Mooney.

It was my very great privilege to have arranged this concert. Here is a group of young people who typify the very best in America's youth. They are proud of their country and proud to display their talents at the Nation's Capitol. We all join in welcoming them.

THE POOR PEOPLE'S CAMPAIGN

(Mr. RYAN asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. RYAN. Mr. Speaker, next Monday some one thousand participants in the Poor People's Campaign are expected to be in Washington. I have been distressed by the reaction of many Members to that campaign.

The Constitution expressly guarantees the right of petition and peaceably to assemble. Judging by the reports issued by the National Advisory Commission on Civil Disorders, the Citizens' Board of Inquiry into Hunger and Malnutrition, and the President's Advisory Council on Public Welfare, and a host of other studies dealing with the plight of the poor in America, and the impact of existing Federal Government programs on their conditions, the poor have ample reason to petition and to assemble.

About 66 Members have introduced legislation designed to impede their campaign by restricting the right to peaceably assembly. The Public Works Committee has ordered reported H.R. 16981, as amended, which restricts camping and requires the posting of a surety bond for the use of public property. To attach a financial condition to the right of assembly is of doubtful constitutionality.

Congress regularly accepts and welcomes lobbyists and spokesmen for various interests—so long as they are wearing suits and ties. But let grassroots lobbyists arrive in dungarees and in mule carts, representing the downtrodden and oppressed of America, let them come and try to open hearts and minds, and the response is repressive.

The other day a young lady was told by a Capitol Guard that she could not set foot on the Capitol Grounds unless she removed a button honoring the late Martin Luther King.

Let us greet the representatives of the Poor People's Campaign as citizens exercising constitutionally protected rights, seeking to redress longstanding and proven grievances, and let us listen carefully to what they have to say.

SURTAX PROPOSAL

(Mr. VANIK asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. VANIK. Mr. Speaker, I am shocked to learn that the House-Senate conferees are demanding an unholy ransom for the surtax proposal.

This action completely disregards the overwhelming vote in the Ways and Means Committee of last Monday, which rejected the $6 billion budget cut as a condition for the surtax.

The Nation cannot suffer the emasculation of vital programs such as education, health, and welfare, as well as programs directed toward the solution of critical urban needs.

I recognize the need for a surtax, but not at this price.

CORRECTION OF VOTE

Mr. GARMATZ. Mr. Speaker, on rollcall No. 122 I am recorded as not voting. I was present and voted "nay." I ask

unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Maryland?

There was no objection.

(Mr. FEIGHAN asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

[Mr. FEIGHAN addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

CORRECTION OF THE RECORD

Mr. JONAS. Mr. Speaker, I ask unanimous consent that a mistake made in comments to the Committee of the Whole House yesterday on H.R. 1164 be corrected by substituting the following paragraph for what was said in the last paragraph in column 1, page H3470 of the RECORD for May 8, 1968:

It is also interesting to note that the Department of Housing and Urban Development will have on hand at the beginning of fiscal year 1969 a total of $21,709,540,000 in unspent funds; $15,512,556,000 of this money is unobligated and $10,186,013,000 is unreserved.

The SPEAKER. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

LEGISLATIVE PROGRAM FOR REMAINDER OF THIS WEEK

(Mr. ARENDS asked and was given permission to address the House for 1 minute.)

Mr. ARENDS. Mr. Speaker, I take this time to ask the distinguished majority leader if he has an announcement to make relative to the program for the remainder of today and possibly tomorrow.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. ARENDS. I yield to the gentleman.

Mr. ALBERT. Mr. Speaker, in response to the inquiry of the distinguished minority whip, the first order of business today will be a conference report, which the gentleman from Pennsylvania is about ready to call up.

The second order of business will be the Higher Education Act Amendments. The third order of business will be H.R. 15951, uniform annual observance of certain legal holidays on Monday, and the fourth will be H.R. 16911, the Special Drawing Rights Act.

It is hoped these bills will be finished today, but in any event it is planned that they will be finished this week, which means meeting tomorrow if they are not finished today.

SUBCOMMITTEE ON INVESTIGATIONS, COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE—PERMISSION TO SIT

Mr. ALBERT. Mr. Speaker, I ask unanimous consent that the Subcommittee on Investigations of the Committee on Interstate and Foreign Commerce may sit today during general debate.

The SPEAKER. Is there objection to the request of the gentleman from Oklahoma?

There was no objection.

ARMS CONTROL AND DISARMAMENT ACT AMENDMENTS—CONFERENCE REPORT

Mr. MORGAN. Mr. Speaker, I call up the conference report on the bill (H.R. 14940) to amend the Arms Control and Disarmament Act, as amended, in order to extend the authorization for appropriations, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

CALL OF THE HOUSE

Mr. GROSS. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 124]

Andrews, Ala.	Green, Oreg.	Matsunaga
Ashmore	Gubser	Miller, Calif.
Bevill	Hagan	Mize
Bolton	Halleck	Moore
Brown, Calif.	Hanna	Morse, Mass.
Buchanan	Hansen, Idaho	Nichols
Carter	Hansen, Wash.	O'Hara, Ill.
Casey	Hardy	O'Hara, Mich.
Corman	Harrison	Olsen
Cunningham	Harsha	Pryor
Dickinson	Hawkins	Reifel
Dingell	Hays	Resnick
Dowdy	Holland	Rivers
Dwyer	Jarman	Selden
Edwards, Ala.	Jones, Ala.	Stubblefield
Eilberg	Karsten	Teague, Tex.
Flood	Kornegay	Thompson, Ga.
Frelinghuysen	Landrum	Tunney
Gardner	Lukens	Watts
Gettys	MacGregor	Wyatt

The SPEAKER. On this rollcall 375 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

ARMS CONTROL AND DISARMAMENT ACT AMENDMENTS—CONFERENCE REPORT

The SPEAKER. The Clerk will read the statement of the managers on the part of the House.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of May 2, 1968.)

The SPEAKER. The gentleman from Pennsylvania [Mr. MORGAN] is recognized for 1 hour.

Mr. MORGAN. Mr. Speaker, there were two differences between the House and Senate bills.

The bill passed by the House authorized $20,000,000 for the 2-year period including the fiscal years 1969 and 1970.

The Senate amended the House bill by reducing the authorization for the same 2-year period to $17,000,000.

The conference committee agreed to split the difference between the House and Senate amounts and accepted a figure of $18,500,000.

The other difference was a limitation of $7,000,000 on the use of funds for external research, not including funds for field testing, imposed by the Senate.

The House bill did not contain such a limitation.

The House conferees accepted the Senate provision.

The Executive had programed $11,872,000 for external research, of which $3,378,000 was for field testing.

The Senate limitation of $7 million, plus the $3,378,000 for field tests make a total of $10,378,000 for external research, including field tests for the 2-year period.

This would mean a cut of $1,494,000 in the external research program requested by the Executive.

The House conferees believe that a cut of this amount would not do any serious harm.

Mr. Speaker, I wish that all of our conferences were as simple as this. I do not believe that anyone can have serious objection to what the managers on the part of the House have done, and I urge the approval of the conference report.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. MORGAN. I yield to the gentleman from Iowa.

Mr. GROSS. Is the $7 million for research per year, or is that a total amount?

Mr. MORGAN. It is the total for the 2-year period.

Mr. GROSS. Total for the 2-year period?

Mr. MORGAN. That is correct.

Mr. GROSS. The House, I believe the gentleman said, passed a bill for $20 million?

Mr. MORGAN. Yes; for a 2-year period.

Mr. GROSS. The other body passed a bill for $17 million?

Mr. MORGAN. That is correct.

Mr. GROSS. In view of the financial crisis that faces this country, is there any valid reason why the House did not accept the Senate version of $17 million, with a consequent $3 million cut in this program?

Mr. MORGAN. Of course, the gentleman knows that the original request was for $33 million for a 3-year period. This was debated and the House approved a motion to recommit with instructions to reduce the authorization to $20 million for a 2-year period.

It was the obligation of the House conferees to defend the $20 million which was approved by the House in conference, and we did our best.

Mr. GROSS. You did your best, I would say to the gentleman, by failing to adopt the Senate version and thus save the taxpayers $3 million.

Mr. MORGAN. I will say to the gentleman, I am one who does not very often agree with the position taken by the Senate, and I did not think the gentleman

Sen. Percy expressed disappointment that committees of both Houses "postponed the consideration of the International Development Association - IDA - authorization bill." pp. S6680-1

11. ARTS AND HUMANITIES. Agreed to the conference report on H. R. 11308, to amend the National Foundation on the Arts and Humanities Act to authorize funding through fiscal year 1970 and make certain other changes of a technical nature. pp. S6658-9

12. CONGRESS. Sen. Mansfield assessed the progress of Congress this session and itemized "that which we must do before adjourning sine die." pp. S6660-6

13. WEATHER. Concurred in the House amendment to S. Con. Res. 67, to provide that the U. S. shall participate in the world weather program and that the President shall transmit to the Congress before March 1 of each year a statement of the proposed participation. p. S6668

14. HOUSING. Sen. Stennis explained his reason for voting against the housing bill. pp. S6668-9

15. LEGISLATIVE PROGRAM. Sen. Mansfield announced that when the Senate returns next week they will consider the Export-Import Bank loan bill, NASA authorization bill and the "special drawing rights measure." p. S6666

HOUSE

16. GRAIN. Passed as reported H. R. 15794, to provide for U. S. standards and a national inspection system for grain (pp. H4435-41). The rule under which the bill was considered was adopted earlier (p. H4434).

17. WILDLIFE. The Merchant Marine and Fisheries Committee reported with amendment H. R. 11026, to amend section 3 of the Act of September 15, 1960, for the purpose of facilitating the conduct of the fish and wildlife conservation and rehabilitation program authorized by that act (H. Rept. 1508). p. H4454

18. TAXATION; EXPENDITURES. Rejected, 136-259, a motion by Rep. Burke, Mass., to instruct the House conferees on H. R. 15414, the tax adjustment bill, to insist on an expenditure reduction of $4 billion for fiscal year 1969 instead of the $6 billion cut voted by the Senate. pp. H4421-34

19. HEALTH; SAFETY. A subcommittee of the Education and Labor Committee approved for full committee consideration H. R. 14816, amended, the occupational health and safety bill. p. D499

20. MEAT INSPECTION. Rep. Dole alleged that USDA used underhanded tactics to collect data presented to the Agriculture Committee during hearings on the Federal Meat Inspection Act of 1967 and said "Today I have requested hearings by the Departmental Oversight Subcommittee of the House Agriculture Committee, of which I am the ranking minority member. The entire procedure used by the Department of Agriculture in collecting data used as evidence before Congress must be investigated." pp. H4449-50

21. LUMBER STANDARDS. Rep. Dingell inserted his press conference statement regarding lumber standards in which he stated it is his intention to hold hearings at which time he will ask the Department to explain its role in connection with lumber standards. pp. H4447-8

22. PERSONNEL. Rep. Reinecke summarized the provisions of his bill H. R. 460, to improve labor-management relations of the Federal service. p. H4449

23. HOUSING. Rep. Ryan spoke in support of his proposed legislation to aid persons displaced by Federally assisted programs and called on the Banking and Currency Committee to hold hearings on this subject. pp. H4451-2

24. TRADE; TRAVEL. Rep. Rooney, N. Y., called for creation of a trade-travel center in New York City. p. H4453

25. LEGISLATIVE PROGRAM. Rep. Albert announced the legislative program for the week of June 3, and listed items to be considered, including S. 1028, Federal employment conditions for former employees of agricultural county committees, with an open rule and 1 hour of debate; and H. R. 16363, the poultry products inspection bill, with an open rule and 2 hours of debate; and Rep. Mills said that the tax increase-expenditure reduction bill will not be considered before June 12. pp. H4420, H4442

26. ADJOURNMENT. Pursuant to H. Con. Res. 782, both Houses adjourned until Mon., June 3.

EXTENSION OF REMARKS

27. HUNGER. Rep. Ryan stated that the CBS documentary on hunger "showed and emphasized American poverty side by side with the enormous wealth that so many take for granted", and inserted an article giving a description both of the CBS program and its implications. pp. E4782-3

Rep. Cohelan inserted an article, "Is the Answer More Public Spending?", which concludes that this country must invest more in human capital. pp. E4794-5

Rep. Conte inserted an article, "If Speeches Could Feed the Hungry." p. E4816

Rep. Bob Wilson inserted an article, "Malnutrition and National Development." pp. E4860-3

28. WATER POLLUTION. Rep. Dingell commended Secretary Udall's "effective" job of implementing the water quality standards program. p. E4797

29. RURAL AREAS. Rep. Morris, N. Mex., praised Federal State, and local agencies in their efforts to "lift employment prospects of rural Americans." pp. E4811-3

30. COMMISSIONS; REPORTS. Rep. Curtis stated that executive commission studies serve admirably as a taking off point for public congressional studies, and that there is also reason for congressional committees to hold hearings on executive commission reports. pp. E4820-3

Speaker's table the bill (H.R. 5037) to assist State and local governments in reducing the incidence of crime, to increase the effectiveness, fairness, and coordination of law enforcement and criminal justice systems at all levels of government, and for other purposes, with a Senate amendment thereto, disagree to the Senate amendment and request a conference with the Senate thereon.

The Clerk read the title of the bill.

The SPEAKER. Is there objection to the request of the gentleman from New York?

Mr. POFF. Mr. Speaker, reserving the right to object, in order that the House may be fully advised as to the procedural options and alternatives I propose to propound under my reservation a series of parliamentary inquiries.

Mr. Speaker, a parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. POFF. If objection is registered to the unanimous-consent request, will the effect be to send the bill either to the Committee on Rules or to the Committe on the Judiciary for a resolution instructing the chairman of the Committee on the Judiciary to make a motion that the bill go to conference?

The SPEAKER. In response the Chair will say if objection is made to the unanimous-consent request the bill will remain on the Speaker's desk. The Committee on the Judiciary could take action to authorize the chairman or any Member to make a motion to take the bill from the Speaker's desk for the purpose of sending it to conference.

Mr. POFF. A further parliamentary inquiry, Mr. Speaker.

The SPEAKER. The gentleman will state it.

Mr. POFF. If the Committee on the Judiciary adopts a resolution instructing its chairman to move that the bill go to conference and if that motion is made on the floor and is adopted on the floor, will it then be in order to make a motion to instruct the House conferees?

The SPEAKER. Before the appointment of the conferees such a motion would be in order.

Mr. POFF. A further parliamentary inquiry, Mr. Speaker.

The SPEAKER. The gentleman will state his inquiry.

Mr. POFF. Am I correct in assuming that only one such motion to instruct would at that time be in order?

The SPEAKER. The gentleman's assumption is correct.

Mr. POFF. A further parliamentary inquiry, Mr. Speaker.

The SPEAKER. The gentleman will state it.

Mr. POFF. If the motion to go to conference is not adopted by the House, in such case would it be in order for the Committee on Rules to report a resolution making it in order to move to recede and concur?

The SPEAKER. Under the rules of the House, it is within the authority and jurisdiction of the Committee on Rules to report a resolution providing for the disposition of the Senate amendments.

Mr. POFF. A further parliamentary inquiry, Mr. Speaker.

The SPEAKER. The gentleman will state it.

Mr. POFF. If the motion to instruct the conferees is adopted, is that instruction binding upon the House conferees, or is it in the nature of an advisory instruction only?

The SPEAKER. The construction is that it is in the nature of an advisory instruction, because the House cannot instruct the managers on the part of the Senate.

Mr. POFF. Mr. Speaker, a further parliamentary inquiry.

The SPEAKER. The gentleman will state it.

Mr. POFF. If the conference is appointed and has not agreed within a 21-day period, will it then be in order to move to discharge the House conferees?

The SPEAKER. Under rule XXVIII, it would be in order to move either to discharge or to instruct the managers on the part of the House after 20 days.

Mr. POFF. A further final parliamentary inquiry, Mr. Speaker.

The SPEAKER. The gentleman will state it.

Mr. POFF. In the event a motion to discharge is adopted, in such case would it then be in order for the Committee on Rules to report a resolution making in order a motion to recede and concur?

The SPEAKER. The Chair will state that that is a matter that would be within the jurisdiction of the Committee on Rules.

Mr. POFF. Mr. Speaker, further under my reservation, I wish to state—and I will be brief—that I will readily concede there are imperfections in the structure of the Senate version of the bill and I am dissatisfied with several of its provisions, including specifically the gun title. Yet, Mr. Speaker, I am persuaded that the Senate version contains so much good and the need for prompt action is so imperative that the proper approach here is not to go to conference but to recede and concur.

Mr. CELLER. Mr. Speaker, I ask for regular order.

The SPEAKER. Regular order is demanded

Is there objection to the request of the gentleman from New York?

Mr. WAGGONNER. Mr. Speaker, I object.

Mr. ASHBROOK. Mr. Speaker, I object.

The SPEAKER. Objection is heard.

CORRECTION OF THE RECORD

Mrs. SULLIVAN. Mr. Speaker, I ask unanimous consent to correct the permanent RECORD of May 22 as follows:

My remarks in the House on May 22 on the Consumer Credit Protection Act relating to the Cahill amendments should be corrected in the permanent RECORD so as to change the word "creditor" to "debtor." This occurs on page H4118, column 3. The sentence beginning on line 18, should read as follows: "When the debtor gives notice of intention to rescind, that voids the mortgage absolutely and unconditionally, regardless of whether either the debtor or the creditor does any of the things that section 125 requires be done subsequent to the giving of notice of intention to rescind."

As it appeared originally in the RECORD, it stated "When the creditor gives notice of intention to rescind," and so forth, whereas, it is only the debtor who has this right.

The SPEAKER. Is there objection to the request of the gentlewoman from Missouri?

There was no objection.

MOTION TO INSTRUCT HOUSE MANAGERS ON CONFERENCE ON H.R. 15414

The SPEAKER. The Chair recognizes the gentleman from Massachusetts [Mr. BURKE].

Mr. BURKE of Massachusetts. Mr. Speaker, I offer a motion.

The SPEAKER. The Clerk will report the motion.

The Clerk read as follows:

Mr. BURKE of Massachusetts moves that the managers on the part of the House, at the conference on the disagreeing votes of the two Houses on the bill H.R. 15414, be instructed not to agree to any limitation on budget outlays (expenditures and net lending) during the fiscal year ending June 30, 1969, below $182,100,000,000 increased by budget outlays in excess of the amounts estimated therefor in the budget for (1) special support of Vietnam operations, (2) interest, (3) veterans' benefits and services, and (4) payments from trust funds established by the Social Security Act.

(Mr. BURKE of Massachusetts asked and was given permission to revise and extend his remarks.)

Mr. BURKE of Massachusetts. Mr. Speaker, 1 week ago today, I served notice on the floor of this House that I would offer a motion to instruct the managers on the part of the House in conference on the bill, H.R. 15414, to insist on an expenditure reduction of $4 billion for fiscal year 1969 instead of the $6 billion cut voted by the Senate.

I can assure the House that my announcement was the culmination and result of very, very serious and deliberative study over a considerable period of time. It was not a spur-of-the-moment decision on my part to bring this exceedingly important matter here to the floor.

Mr. Speaker, the gravity of the present fiscal situation in this country is widely recognized and highly publicized, both here and abroad. Its domestic and foreign implications are of a magnitude and seriousness such as I have never before experienced in the nearly 10 years that I have had the honor of serving in this great body.

We have a responsibility to shoulder, and I am convinced that the task we have to perform and the decision we have to make regarding the depth of the proposed expenditure cut in H.R. 15414 demands an expression of this whole House. It is not a responsibility that really can be delegated to any committee—no matter how responsible its composition or how profound the wisdom of its individual Members.

Mr. Speaker, Members of the House know the importance of the issues involved in the tax surcharge-expenditure cut package in H.R. 15414. They realize

the implications that it holds for domestic fiscal policy; its potential influence on monetary policy; its hoped-for effect on our balance of payments and on the strength of the dollar; and they know its portent for the future course of the vital and worthwhile programs that have been initiated and advanced by this administration.

To remind Members of the House, let me call the roll of just some of the wise and influential voices that have been raised in warning against the dangers of the $6 billion cut that has been proposed by the conferees for fiscal year 1969. The first of the highly respected voices to which I would call specific attention is the proper and jurisdictional committee in the House of Representatives, the Committee on Appropriations, that great committee that is chaired by the distinguished gentleman from Texas, Congressman GEORGE H. MAHON.

The Committee on Appropriations on the first day of this month rejected the $6 billion proposal and instead approved a resolution calling for, among other things, a reduction of not less than $4 billion in budget outlays for fiscal 1969. Chairman MAHON in announcing to the House this action of the Committee on Appropriations advised that it had been taken after the committee had received presentations from the Chairman of the Federal Reserve Board, the Secretary of the Treasury, and the Director of the Bureau of the Budget.

It cannot be emphasized too strongly, Mr. Speaker, that the decision of the Appropriations Committee, after due deliberation, on the issue before the House was to reject the proposed $6 billion cut. We cannot afford to cavalierly disregard this advice from the jurisdictional committee in the House, for it represents the well-reasoned decision of the congressional experts in the field of Federal outlays and expenditures. To go contrary to this determination will surely bring about very serious consequences and possible disruption in the proper functioning of vital Government programs.

We have a decision of the Committee on Appropriations, therefore, which is substantively consonant with the motion now before the House. But this is not all the committee support we have, Mr. Speaker. We also have notable action within the Committee on Ways and Means against the proposed $6 billion. I refer to the committee's votes on the sixth day of this month when we rejected the $6 billion reduction proposal and adopted a motion offered by the gentleman from Florida, Congressman A. SYDNEY HERLONG. The adoption of the Herlong motion was a clear-cut endorsement of a spending cut of $4 billion and a flat rejection of the $6 billion cut.

Let me just read a pertinent portion of the Herlong motion adopted by the Committee on Ways and Means on May 6:

> I move that the Committee on Ways and Means advise the Chairman to advise the Committee on Conference between the House and the Senate on H.R. 15414 that the Committee on Ways and Means has studied the resolution adopted by the Committee on Appropriations calling for a reduction of not less than $4 billion in expenditures for the fiscal year ending June 30, 1969, with the exceptions enumerated therein, and that the Committee on Ways and Means, in the light of the existing critical domestic and international fiscal situation, adopts the following position:
>
> (1) That it is the view of the Committee on Ways and Means that budget expenditures for the fiscal year ending June 30, 1969, should be reduced by at least $4 billion (excepting special Vietnam costs, interest on the debt, veterans' benefits, and Social Security Trust Funds, in excess of amounts estimated in the budget).

Now, Mr. Speaker, I have heard the President criticized unjustly for not specifically endorsing the $6 billion cut in H.R. 15414, but who can in good conscience fault the President on this score when the two great committees of the House who control fiscal legislation, both on the spending and taxation sides, have gone even further and affirmatively rejected it. The President has stated his position and he makes no apology for it—nor should he. In his letter of May 4 to the Speaker, the President stated his position, as follows:

> The $186 billion budget I submitted in January was tight. It was tailored to finance responsibility the urgent work we must pursue in our cities, to help the poor and to protect our national security.
>
> * * * * *
>
> The House Appropriations Committee late last week approved a formula which included a $4 billion reduction in expenditures for fiscal 1969.
>
> To accept reductions any deeper than this in an already lean budget—designed to meet the urgent needs of our people at home and abroad—is unwise.
>
> As Secretary Fowler stated, the reduction formula voted out by the House Appropriations Committee will be approved by me, although I know it will require great sacrifices. I think it would be a serious mistake to go beyond that formula.

The situation is very serious, Mr. Speaker, and I agree with the President that we will be compounding its seriousness by approving a $6 billion cut in expenditures for the coming fiscal year. Our action here today, if the motion before the House is defeated, could result in severe crippling of vital governmental functions. We know that under the terms of the bill certain programs are placed in a special category and expenditures for these programs are not to be taken into account for purposes of the proposed expenditure limitation. These expenditures that are excepted are, first, those for special support of Vietnam operations; second, interest on the national debt; third, veterans' benefits, and, fourth, social security trust fund payments.

The total of these four exceptions aggregate over $84 billion out of a total budget of $186.1 billion. These expenditures are exempted from the ceiling in recognition that they are uncontrollable. I should like to point out that there are certain other uncontrollable expenditures—for instance, public assistance grants to States and Commodity Credit Corporation farm price supports—that are not exempted, and unanticipated increases—and anticipated increases because of inflation—in these uncontrollable expenditures would require even further cuts in other programs which are classified as controllable. In practical effect then, Mr. Speaker, what will happen is that the reduction will be made from the remaining programs falling outside the exceptions. The cutbacks will have to come from such fields as education, health, housing, community development, pollution control, postal services, to name but a few. Programs such as I have just named—programs vital to our cities—will bear the brunt of the reductions.

The short-term savings, if any, to be derived from a $6 billion cut, as opposed to the more reasonable $4 billion cut I propose, will simply result in compounded and increased long-term costs. I do not need to dwell on this point. We all know it is true from experience. With price increases running at the rate of around 4 percent annually, it is indisputable.

Moreover, I agree with the Director of the Bureau of the Budget when he said last week:

> The real effect of the proposed absolute ceiling on expenditures would transfer most of Congress powers of the purse to the President by giving him carte blanche authority to reserve funds made available by Congress.

Now, Mr. Speaker, I do not believe the people of this country elected us to Congress to abdicate our authority and responsibility. The fact of the matter is that we do not even know who will be President next January. Yet, if we vote down this motion before the House today, we will not only be abdicating our responsibility, but we will be vesting an unknown entity with these powers that have been entrusted to us by the people to assume and exercise.

Even the senior Senator from Delaware, one of the authors of the $6 billion cut, admitted that it carries with it potential Presidential life-and-death decisions over Federal programs that the Congress has enacted. On Tuesday of last week on the Senate floor, the Senator stated as follows:

> Certainly the Budget Bureau, operating under instructions of the President, could if it so desired practically destroy any Government function and use the $6 billion budget cut as an excuse.

I ask the Members of this House in all seriousness: Is that what we want to happen? Is this the kind of authority that we want to vest in an unknown person, the President in 1969, whoever that may be? I do not think it is the desire of the House to do this, and that is why I have made this motion today.

This could be your only opportunity to register your objection to this meat-ax approach. Make no mistake about the potential effects of the proposed $6 billion cut. Programs you have supported will be placed in jeopardy. Normal and orderly congressional appropriation procedures will be undermined.

I most respectfully ask the Members of this House not to just take my recommendation. Instead, with the greatest measure of urgency, I ask you to take the recommendation of the Committee on Appropriations, the Committee on Ways and Means, and the President of the United States, and reject the $6 billion cut. Vote for my motion. A $4 billion

cut is reasonable. It is attainable by Congress alone without such a very real and pronounced danger of erosion of congressional authority, and it will not imperil the very existence of some of our most vitally important and necessary Federal programs.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. BURKE of Massachusetts. I am happy to yield to the distinguished majority leader.

Mr. ALBERT. I commend the distinguished gentleman from Massachusetts [Mr. BURKE] on the statement he is making and I commend him for offering this motion.

Mr. Speaker, I think the President's budget was a tight budget and in the national interest. However, I am realistic enough to know that without some reductions in expenditures we will not be able to pass a tax bill, and I think the enactment of the President's tax bill is the most important issue before the Congress.

Mr. Speaker, I believe this motion represents the best possible compromise between the advocates of heavy cutbacks in Federal expenditures and those who are opposed to any cutbacks.

In my opinion, the adoption of this motion will speed the day toward the passage of the vital tax proposal—a proposal that will insure the continued economic stability of the United States at home and abroad.

There is no more urgent matter before the Congress than the tax proposal—and the gentleman's statement bears that out, and points up in detail why that is true.

I think we all realize that time is running out for positive and decisive action that will strengthen the dollar and lessen the dangers of serious inflation and recession.

The motion made by the gentleman in my view would be a significant step toward the passage of the tax bill. I think we can all be assured that its passage will be a responsible act—and most important—one that will not impair existing programs dealing with the security and welfare of the American people. In my opinion, the motion offered by my friend from Massachusetts is in the national interest. I sincerely hope the House will accept it.

Mr. BURKE of Massachusetts. I thank the distinguished majority leader.

Mr. GILBERT. Mr. Speaker, will the gentleman yield?

Mr. BURKE of Massachusetts. I yield to the gentleman from New York.

(Mr. GILBERT asked and was given permission to revise and extend his remarks.)

Mr. GILBERT. Mr. Speaker, I congratulate the gentleman for offering this motion today. I wholeheartedly support his motion.

Mrs. SULLIVAN. Mr. Speaker, will the gentleman yield?

Mr. BURKE of Massachusetts. I am happy to yield to the distinguished gentlewoman from Missouri.

Mrs. SULLIVAN. Mr. Speaker, I rise in support of the motion of the gentleman from Massachusetts. Personally, as much as I dislike voting for a tax increase, I feel, as a responsible Member of the Congress, that we must have a tax increase immediately, at least on a temporary basis. I also believe that a $4 billion cut in appropriations is necessary. However, if this motion is defeated, I feel a $6 billion cut, made as it would have to be done by the Bureau of the Budget, would cripple many necessary domestic programs.

Can the gentleman from Massachusetts tell the House what would happen if this motion is defeated and then also a motion for a $6 billion cut is defeated? What would happen then?

Mr. BURKE of Massachusetts. As I stated during my remarks, if my motion is defeated and then a $6 billion expenditure reduction is defeated in the surtax measure, it is my opinion that the only thing that will be left, since we are getting close to the end of the year, is that this will be thrown back on the President and on the new President coming in after January 1, and with a back-to-back deficit of $22 or $23 billion on one side and a $30 billion deficit coming up next year, it is my opinion that the Executive of this Nation would be faced with a reality and would have to come in with at least a $15 billion deficit expenditure cut. This will leave to the Members of Congress the responsibility of either voting for the $4 billion cut or the $6 billion cut. If they vote against both of them, then actually they are voting for at least a $15 billion cut that would have to take place in order to get the country on a sound fiscal basis.

Mrs. SULLIVAN. I thank the gentleman.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CONABLE. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from New York.

(Mr. CONABLE asked and was given permission to revise and extend his remarks.)

Mr. CONABLE. Mr. Speaker, I realize that the strategy of this motion lies in its possibly assuaging the conscience of the worried Congressman who fears a $6 billion cutback may have an impact on some constituent's favorite program. As such, it is part of the intricate dance of politics, a perfectly accepted means of communication between this body and the outside world, and I do not belittle it. I hope, however, that a majority of the House will not take it so seriously as to vote for it. That, Mr. Speaker, would be a vote for paralysis, for impasse between the two Houses of the Congress, a condition we cannot afford at this critical point in our Nation's economic life.

It is possible to find fault with any combination of tax increase and spending cut which the mind of man can conceive. Nobody likes the ingredients to begin with: How can we find pleasure either in raising the tax burdens of the American people or in voting for expenditure reductions inevitably affecting programs which, standing by themselves, are directed at our national problems? In our country, the basic vehicle for improving the lot of our people is not government, but our remarkable economic system, and the system is in trouble according to those who understand it. They tell us that what is most important is that we get on with the work of providing some fiscal discipline before our economy tears itself apart by excessive monetary restraint or no restraint at all. We cannot provide fiscal restraint by quibbling or temporizing or seeking to assess the blame. Our duty should be clear to us unless we deliberately avert our faces, and I have enough confidence in the collective wisdom and responsibility of this body to know we will not do that.

Mr. Speaker, the American people are the best informed and wisest people on earth and they are willing to have us do what is necessary. They know we cannot correct the results of fiscal excess with mirrors, and I think they have heard enough of debate. Further discussion on the campaign trail this fall is inevitable and proper as we set our course for the future, but here and now are the place and time for action.

Mr. CURTIS. Mr. Speaker, I rise in opposition to this resolution. On May 14, on pages H3748 to H3754 of the CONGRESSIONAL RECORD, are my remarks under a special order that I made before the House, pointing out the reasons why I have not signed the conference report on the $6 billion package. Both the $4 billion and the $6 billion, with a tax increase, are too little and too late. Inflation has already provided what amounts to a meat-ax cut on all the poverty programs, on the war in Vietnam and, I might say, on the pocketbooks of the lower income groups, by over 4 percent.

The administration in its testimony before the Ways and Means Committee this year said that even if we passed the tax package as they requested, inflation would be over 3 percent. This is entirely too much. We are too little; we are too late. We are seeing what is happening now with imports which results from domestic inflation and, in fact, in March we had a negative balance of trade for the first time in many years and the worst month in 30 years.

This is too little and too late. The question is not whether the House would be so foolish, in my judgment, as to cut down the $6 billion cut to a $4 billion cut. I say this in behalf of all of our poverty programs, as well as all our programs. The question is whether or not the $6 billion would be an adequate package cut. I would vote for the $6 billion package, and I would have signed the conference report—even though that is too little and too late, because at least it helps some—if the President of the United States had spoken up or even now if he were to speak up and say, "Yes, this is what is necessary, and I will cooperate with the leaders of the Congress in spelling out the line item cuts."

It is necessary to understand where we are cutting to find out what that economic impact is in order to figure out the future course.

We have horsed around to the point where we are no longer talking about fiscal year 1968. We have only one month left of fiscal year 1968, and we have not done what is necessary for fiscal year

1968. All we are talking about now is fiscal year 1969. Six months of fiscal year 1969 will not be under this particular administration. This administration, without the cooperation we seek even in a general way, let alone the line item cuts, could continue spending at the present level, which would do no good then as far as hitting at these inflationary forces.

It would be simply transferring purchasing power from the people to the Government, with the Government continuing to spend at these levels. This is why I have urged our side not to vote for even the $6 billion until the President of the United States speaks up.

Instead, we have the opposite going on. Every time we try to cut here in the House or in the Senate, the President has his lobbyists trying to fight these cuts, trying to have the amounts put back in. He is still telling the people of this country falsely that a cut of $6 billion has to do with poverty. It does not have to.

I listed $15 billions of cuts without even mentioning education and welfare—not that we could not spend those dollars better, but I did this to try to get away from the demagogic appeal. We could cut out, and I say we start with the troops in Europe, and then we go to foreign aid, and then we come back to research and development, the $17 billion should be cut back to $14 billion. And yes, public works. We would all have to tighten our belt, and we could cut from $5 billion to $2 billion. We can and should cut this.

This fiscal year we are spending $142 billion on a $135 billion level projected in the budget. Fiscal year 1969 administrative budget expenditure is projected at $152 billion. Fiscal year 1967 expenditures were $115 billion. In 1960 we were spending at a level of $77 billion.

Clearly, we have permitted Federal expenditures to exceed the considerable increases in our Federal incomes and economic growth. We are in serious fiscal trouble. I urge that the $4 billion cut be voted down. Even the $6 billion cut is too little and too late and, I add, meaningless unless the President speaks up and agrees to cooperate with the Congress in spelling out how and when the $6 billion cut is to be effected.

(Mr. CURTIS asked and was given permission to revise and extend his remarks.)

Mr. BURKE of Massachusetts. Mr. Speaker, I yield 5 minutes to the gentleman from South Carolina [Mr. JONAS] for purposes of debate.

Mr. JONAS. Mr. Speaker, I concur in the views expressed by the gentleman from Missouri. We are in a fiscal crisis today, not because the Government has been collecting too little in income, but because the Government has been spending too much money. It has spent more money than it has taken in every year since 1960. This excess in spending over receipts had to be borrowed. So national debt has gone up, up, up, and up. Today it is $355 billion—up $66 billion since 1960. This money has been used for operating expenses of the Government.

I contend that any government is subject to censure if it spends more money than it takes in during periods of high prosperity. The administration should have been balancing the budget during these years of high prosperity. It should have been putting aside something for a rainy day. But instead of doing that, the administration has spent all of the money the Government could take in through taxes. But that was not sufficient to satisfy the appetite of the planners and the spenders, and they have spent all they could borrow in addition to all they collected in taxes.

I do not believe we will curb inflation by increasing taxes. It might have some slight effect, but not a measurable effect, because when taxes are increased the money is merely tranfered from individuals and business enterprises to the Government. This does not reduce spending. The money flows right back into the economic stream. The only difference is the Government is spending it instead of individuals and business enterprises.

The most effective way to curb inflation and restore confidence in the dollar, is to reduce spending drastically, because it is the spending side of this ledger that has gotten the Government into trouble, not the receipts side. We do not need to produce more income for the Government. That will not get us out of this economic crisis. The only thing that will do it, in my judgment, is to reduce spending, and I do not believe it would be enough to reduce spending next year by $4 billion.

Let me give some facts. So far this year the House has approved and passed five regular appropriation bills out of the 13 that we will consider before the year is over. The total amount of funds considered in those five bills, in new obligational authority, is roughly $30 billion. That leaves us approximately $112 billion still to consider.

Out of that $30 billion we have considered so far the House has reduced new obligational authority requested by the President by $4.7 billion. But when that is reflected into reduced spending the result is quite different. The result is that with the action taken yesterday on the fifth bill, by actions taken in this body so far on the 1969 budget we will have reduced spending authority below the budget figures by $1,125,900,000.

This indicates that we can reach a figure of $6 billion in spending reductions when considering the remaining 13 bills that have not even cleared the committee yet. If we can cut $1,125,000,000 from the budget figures for spending out of a total of $30 billion considered, surely we will not have any difficulty, if we have the courage and the will to do it, to cut spending by an additional $5 billion in order to come up with the $6 billion that has already been approved by the Senate and has already been approved in conference.

What are we trying to do here today, march back down the hill? It is difficult enough to get up. Let is not march down. I urge defeat of the pending motion.

Mr. BURKE of Massachusetts. Mr. Speaker, for the purpose of debate I yield 5 minutes to the gentleman from Texas [Mr. TEAGUE].

Mr. TEAGUE of Texas. Mr. Speaker, I take this time to ask some member of the committee what effect this conference report has on our veterans' programs.

First, it is very difficult to learn anything from the committee as to what is in the conference report, and we are told not to worry, but if I know what is going on and if my staff is accurate in what they have figured out, this conference report will mean the closing of up to 30 VA hospitals in this country. I know this House does not want to do anything like that.

I would like for some member of the committee to tell me what the true story is so far as this conference report is concerned.

Mr. HERLONG. I would be glad to discuss it with the gentleman. I am the only member of the committee here who is familiar at all with this.

The conference report has not yet been filed, and I have not seen it. I think it would be best to ask some member of the conference committee to discuss that. Would the gentleman from Wisconsin answer that question?

Mr. BYRNES of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. TEAGUE of Texas. I am glad to yield to the gentleman.

Mr. BYRNES of Wisconsin. I want to make it clear that there is a member of the conference committee present.

Mr. TEAGUE of Texas. It is amazing to me that they are not all here.

Mr. BYRNES of Wisconsin. But I will say this to the gentleman, if the gentleman will yield further to me.

Mr. HERLONG. If the gentleman from Texas will yield, I apologize. I meant a member from our side.

Mr. TEAGUE of Texas. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. In the first place, let me say to the gentleman that the conference report is not here in issue. The conference report has not been filed. The conference report, if it had been filed, as I understand this motion, would not be in order. I understand it was held back so that this procedure could be undertaken.

Now, as to the veteran situation, we do exclude veterans' benefits programs completely from any operation under the ceiling. It is a completely separate exemption from any effect of the ceiling.

Mr. TEAGUE of Texas. I would like to say to the gentleman that we do not agree with that. I would like to say to the gentleman that from what we can get from the Bureau of the Budget and the Veterans' Administrator and my staff that that is not an accurate statement.

Mr. BYRNES of Wisconsin. Well, you are saying that you have not seen the conference report and you are asking a conferee as to his understanding of what will be in the conference report, and I am just trying to tell you. I suggest that if you have information as to what is in it, you do not have to ask me what it does.

Mr. TEAGUE of Texas. I want to ask the gentleman a question and ask him if it is accurate. The information I have is it was agreed with respect to the permanent full-time employees of the executive branch of the Government that one vacancy in four in each department or

agency is not to be filled until such time as the overall number of employees reaches the level of June 30, 1966. Is that accurate?

Mr. BYRNES of Wisconsin. That is right. Let me point out that is not part of the issue of the $4 billion and $6 billion. That has to do with the item adopted by the Senate to the bill which restrains and restricts rehiring or filling of job vacancies which the conferees liberalized as far as that is concerned over what the Senate had. We liberalized it from the Senate bill. We also gave complete discretion. It is up to the Bureau of the Budget as to where these particular job vacancies will be filled. So the Bureau of the Budget is given great latitude in the determination of what are essential jobs that have to be filled.

Mr. TEAGUE of Texas. Three years ago the Bureau of the Budget tried to close 15 Veterans' Administration hospitals. The gentleman from Texas is not stupid enough to leave this in the hands of the Bureau of the Budget.

Mr. BYRNES of Wisconsin. In other words, the gentleman from Texas has no confidence in his own administration, and I cannot be expected to stand here and defend them. Please.

Mr. TEAGUE of Texas. But the gentleman from Wisconsin is willing to turn it over to them to do whatever they want to.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. TEAGUE of Texas. I will be glad to yield to the gentleman from Arkansas.

Mr. MILLS. Mr. Speaker, I know of the gentleman's interest in this matter and his concern, because we have talked about it many times. As the gentleman from Wisconsin points out, the proposition is probably about half as bad from the point of view raised by the gentleman from Texas as it was when it passed the Senate. The question which the gentleman raises is one of whether or not after an agency has been reduced in personnel to the level it had on June 30, 1966, in order to accomplish the overall reduction in personnel to that level, that particular agency will be forced to reduce personnel further to accomplish the overall objectives throughout the Government.

Let me say this: It is my intention, and there is every intention in the conference statement, that the VA personnel will not be reduced below the June 30, 1966, level. I will spell this out, because I do not want the Director of the Bureau of the Budget to get the idea that the Congress intends that to happen. I know my friend does not want it to happen and wants the record clear. We were provided a specific exemption under the dollar limitations for the Veterans' Administration——

The SPEAKER. The time of the gentleman has expired.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield 1 additional minute to the gentleman from Texas.

The SPEAKER. The gentleman from Texas is recognized for 1 additional minute.

Mr. MILLS. Will the gentleman yield further?

Mr. TEAGUE of Texas. I yield to the gentleman from Arkansas.

Mr. MILLS. Both for benefits and services, I repeat, both for benefits and services, indicating we wanted all benefits and all services as determined by the Congress to be carried out.

That is clearly the intention.

Mr. Speaker, second, obviously personnel are required to administer benefits and services and it is the very clear intent in the conference report to have that personnel to do that. However, there is a certain point which has not as yet been cited, one that concerns me; this, plus one other point involved in the conference report probably had more to do in the delay of the filing of the conference report than probably anything else. It is still being worked on. It takes time.

I wish to congratulate the gentleman from Texas for calling this to our attention. I share his point of view that we do not want to diminish the services and care of our veterans as a result of the reduction of personnel in the Veterans' Administration below the minimum required level.

The SPEAKER. The time of the gentleman from Texas has again expired.

Mr. BURKE of Massachusetts. I yield the gentleman 1 additional minute.

Mr. TEAGUE of Texas. Would the gentleman answer this question?

Mr. MILLS. I shall be glad to do so if I can. I am told that there are two reductions involved. However, that has nothing to do with this problem.

Mr. TEAGUE of Texas. If this motion is adopted would that action result in sending it back to conference?

Mr. MILLS. This is still subject to consideration because the conference report has not been filed.

Mr. TEAGUE of Texas. Will the gentleman say, if he can say, that this is correct?

The gentleman has been propounding these questions in an effort to make this point crystal clear, because 90 percent of all of the employees of the Veterans' Administration are employed in hospitals and I am sure that the conferees do not wish to close these hospitals, such hospitals and facilities as Walter Reed Hospital, Bethesda Hospital and many other Veterans' Administration hospitals around the country.

Mr. MILLS. We certainly would not want, and it is not our intent, to impair the efficiency and effectiveness of the treatment accorded our veterans.

Mr. WHITTEN. Mr. Speaker, will the gentleman yield?

Mr. TEAGUE of Texas. I yield to the gentleman from Mississippi.

Mr. WHITTEN. May I say to the gentleman from Texas that this is a significant point and there may be a good reason for not filing the report. But if it is sound I can see no reason for what is contained in the conference report to be kept secret. The fact that it is secret is significant. There is nothing to indicate that the Commodity Credit Corporation or the Tennessee Valley Authority would be able to operate and if not, great damage would be done to the economy. It is my judgment that the essential operations of these corporations are intended to be exempt by law—but who can tell?

Recently our Appropriations Committee had before us Secretary of the Treasury, Mr. Fowler; Mr. Martin, Chairman of the Federal Reserve Board; and the Director of the Budget Mr. Zwick. Though they advocated a $4 billion cut, each refused to make a single recommendation as to where we should make cuts or give any idea as to where they would cut. The hearings were released on May 15.

Mr. Speaker, we need to make reductions in expenditures. We did so in the bill I handled, reducing obligations by $1.4 billion and expenditures by $414 million.

The Appropriations Committee needs to do its job so that those things essential to the economy will be taken care of. If the total isn't enough, we can look again and take appropriate action. We made such overall reduction last year. We can do it again.

By no means should we turn this job over to the whims of the Budget Bureau, which lists reserves for the FDIC as unobligated.

The SPEAKER. The time of the gentleman from Texas has again expired.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield for the purpose of debate only to the distinguished minority leader, the gentleman from Michigan [Mr. GERALD R. FORD], 5 minutes.

(Mr. GERALD R. FORD asked and was given permission to revise and extend his remarks.)

Mr. GERALD R. FORD. Mr. Speaker, I am strongly opposed to the $4 billion recommendation included in this motion. I strongly believe that the conference report, which will be filed if this motion does not prevail, should be approved. The conference report includes a $6 billion spending limitation.

Mr. Speaker, 3 months ago I would not have come to the floor and indicated my support for the President's 10-percent surcharge tax increase on both corporate and personal income. But for the reasons which I shall explain later, I shall support the conference report, primarily because of the inclusion of a $6 billion spending limitation.

Now, Mr. Speaker, since the word got out that the conference report includes the $6 billion spending limitation, we have had various vicious rumors that if this $6 billion spending limitation is imposed, the Federal programs and policies on the domestic side of the Government will be deferred, cut back, or ruined in one way or another.

I respectfully say that is not an accurate accusation. The change cannot be sustained. Let me tell you why. If you take the President's proposed spending for fiscal year 1969 of $186 billion, in round figures, it is in effect, a spending estimate of $10 billion more than the current fiscal year—on the domestic side, a $10 billion increase in spending in the next fiscal year vis-a-vis this fiscal year.

Now, no one—no one—in this body will allege that fiscal year 1968 is a year of austerity in Federal spending. Therefore it is just totally inaccurate to say that all programs in the Federal Government are

going to be mutilated by a $6 billion spending limitation because if you do impose such a spending limitation the domestic programs in the Federal Government will still have between $3 billion and $4 billion more to spend next year than they are spending this year.

And let me point out, if I might, from the President's budget, as actually submitted for fiscal year 1969, page 147, and I read from the budget itself:

> In fiscal year 1969, Federal outlays which aid persons below the poverty line (for example, a family of four with an annual income under $3,335) are estimated to total $27.7 billion. This represents an increase of $3.1 billion over fiscal year 1968 and $15.2 billion over 1963.

So by no stretch of the imagination can the allegation validly be made that a $6 billion reduction in expenditures will hurt or harm going programs, and specifically programs involving the so-called poverty area.

Now, second, just yesterday it was announced by the Bureau of Labor Statistics that the cost of living had gone up 0.3 percent in the month of April. The Bureau also released the fact that in the previous 12 months the cost of living had gone up 4 percent. It announced that the rate of increase in the cost of living for the current 12-month period now is close to 4.5 percent.

The American people are concerned about what has happened in the past with the inflation we already have had, and they are deeply concerned today about the prospects of more inflation in the future. A $6 billion cutback in expenditures with the President's tax increase will help to alleviate this condition.

The President a few weeks ago said we in the Congress—on your side and on our side—should bite the bullet.

The SPEAKER. The time of the gentleman from Michigan has expired.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield 1 additional minute to the gentleman from Michigan.

Mr. GERALD R. FORD. I believe the Congress, by approving the President's tax increase and by approving of a $6 billion spending limitation, will bite the bullet.

But let me point out that the American people in the State of Oregon yesterday, on both sides, did bite the bullet, and they told the Members of the Congress, the ones here and the ones that are seeking reelection, that we had better bite the bullet and vote for some economy in Congress, and dig ourselves out of the fiscal mess that we are in. And we—all of us—ought to get the warning right now, and similarly I believe it ought to be a warning to the President of the United States and the executive branch of the Government.

Mr. CEDERBERG. Mr. Speaker, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Michigan.

Mr. CEDERBERG. I cannot understand why the conference report has not been brought up a long time ago, if the situation is as serious as we all know it is. I believe I understand what has happened today—I would call this operation today "Operation Get Off the Hook," because a lot of the people on the other side are going to vote for the resolution, then when the conference report comes in they will vote against the other one, and then be off the hook, and I do not believe we ought to buy it.

Mr. GERALD R. FORD. Mr. Speaker, will the gentleman from Massachusetts [Mr. BURKE] yield me 1 additional minute?

Mr. BURKE of Massachusetts. I am happy to yield the 1 minute to the gentleman, but we will have to take it from the gentleman's side.

Mr. GERALD R. FORD. I thank the gentleman and I appreciate it.

The SPEAKER. The gentleman from Michigan is recognized for 1 additional minute.

Mr. GERALD R. FORD. Mr. Speaker, in conclusion let me say that a $4 billion reduction is just insufficient to meet the crisis the Nation faces. If we do not approve the conference report with a $6 billion spending limitation, then all of the evils that have been forecast by the experts in the field of economics will come to pass. Practically everybody in this room has lived through and suffered under the chaos of the thirties, and not one of us, certainly, wants that to happen again.

So if you are going to avoid the catastrophe of the thirties, you should reject this $4 billion spending limitation, which is insufficient. You should approve the $6 billion spending limitation so that we can restore some stability to the American dollar at home and so that we can restore confidence in the American dollar abroad.

I hope the motion is defeated.

Mr. BURKE of Massachusetts. Mr. Speaker, for purposes of debate I yield 2 minutes to the distinguished gentleman from Florida [Mr. PEPPER].

Mr. PEPPER. Mr. Speaker, yesterday the Director of the Bureau of the Budget told me that if a $6 billion cut were enacted, there would be substantial personnel cuts in every veterans' hospital in the country and it would materially affect, of course, the operation of those hospitals.

Furthermore, Mr. Speaker, he said it was expected that probably the thinking in the White House now was, so far as they could presently reveal it, that the proposed cuts would be about equally divided between the Defense Department and the civilian economy.

Mr. Speaker, a few days ago one of the President's economic advisers, Mr. James S. Duesenberry, stated that if the proposed tax increase were enacted and the $6 billion cut were enacted, the principal effect of the tax increase would be in this half year of 1968—and the principal effect of the expenditure cut would be in the first half year of 1969.

He said that the two together in view of the retroactive character of the tax increase and the increase of $3 billion in social security taxes January 1 were too much and would produce unemployment in the country in the first 6 months after the first of the year.

So I propose, and I think our distinguished friend, the gentleman from Massachusetts, has given us the rationale of the desirable course to follow—let us enact the tax increase and get the effect of it in the last half of this year along with a $4 billion cut in spending. That will curb inflation. If another $2 billion cut should be necessary in the view of the new President and the new Congress at the beginning of next year, the President could easily effect the additional $2 billion cut or whatever amount should be possible or desirable in the interest of the public welfare of our country by not spending such amount.

Mr. Speaker, I think the gentleman from Massachusetts has done a commendable job and I shall strongly support this motion.

Mr. BURKE of Massachusetts. Mr. Speaker, for purposes of debate, I yield 3 minutes to the distinguished gentleman from Illinois [Mr. COLLIER].

Mr. COLLIER. Mr. Speaker, as I have watched proceedings of this body in considering appropriation bills this year, and after having listened to lengthy testimony before the House Ways and Means Committee from Secretary Fowler, Chairman, of the Federal Reserve Board Martin, and fiscal economists, it is seemingly impossible to believe that most of the Members of this House really realize how serious a fiscal mess this country is in today. The fact is that we are about as sick financially as we have ever been in the past 35 years.

Paradoxically, the chaotic situation comes at a time when tax revenues have been the highest in our history. And even those who nurture a desire to spread the tentacles of the Federal Government farther and farther into every area of our national life, can not afford to be so oblivious that they would send this country down the drain for expediency's sake.

During the 89th Congress when new programs and big spending bills were rammed through with little regard for the war in Vietnam and the inevitable fiscal crisis deficit spending would create, there were many of us who warned right on the Floor of this House that the chickens would come home to roost within a year or two. And that is just where we find ourselves today.

There has been a lot of lip-service given to austerity. Although there has been a sort of token action in this direction, just pure and simple mathematics establishes the fact that the proposed $4 billion cut is not going to do the job. We have talked of priorities, and yet I have seen funds appropriated for desirable yet certainly nonpriority programs.

And the ironical thing is that there are probably more people back at the grass roots level who are more deeply worried and concerned with the situation than some folks around Washington.

I can only suggest that we now take a good, hard look at the facts of life. It is the responsibility of every member of this Congress and the administration to see that we do not slip farther into the morass of this fiscal mess because short-term thinking today may result in greater deprivation in the years ahead as this country moves from crises to crises. The day is gone when we can

afford to indulge in the folly of GNP and deficit ratio theories.

I fully realize that warnings of this nature, no matter how mathematically logical they may be, are easy to scorn in the face of political pressures in an election year.

But as one Member of this body, I say today that unless we face the responsibility of the situation, no matter how distasteful it may be, the consequences will be far more dangerous.

I do not think a $6 billion cut in expenditures is enough, and certainly a reduction of only $4 billion will be far too little—too late.

So please let us accept the proposal agreed to by the House-Senate conferees, and proceed from there in trying to do the job which the vast majority of American people have the right to expect us to do. To do anything less at this juncture would not only be irresponsible, but indeed dangerous to the future of this country.

Mr. BURKE of Massachusetts. Mr. Speaker, for the purposes of debate, I yield 4 minutes to the gentleman from Florida [Mr. HERLONG].

(Mr. HERLONG asked and was given permission to revise and extend his remarks.)

Mr. HERLONG. Mr. Speaker, I hope that we will not get carried away with collateral issues. The only issue involved at this time is whether we will have a $6 billion or a $4 billion cut in spending for fiscal 1969.

I am surprised that the Director of the Bureau of the Budget would say that if we had a $6 billion rather than a $4 billion cut, the personnel loss to the Veterans' Administration would cause the closedown of hospitals. The part of the conference report dealing with personnel is an entirely different section, I say to my distinguished colleague and friend from Florida, and whether we have a $6 billion or a $4 billion cut has nothing to do with personnel. This problem will have to be taken care of in some other way. I do say there is a problem there, and I hope it will be taken care of. But it is not before us at this time, nor are any of the other collateral issues which have been brought up before us at this time. I repeat, we are deciding today whether to cut $4 billion or $6 billion.

My motion in the Ways and Means Committee that sprung this tax bill stated that budget expenditures for fiscal 1967 should be reduced by at least $4 billion in expenditures for the fiscal year ending June 30, 1969—with certain exceptions, of course, as are also included in the motion of the gentleman from Massachusetts [Mr. BURKE]. The motion then went on to say:

> The chairman and the House conferees are requested to negotiate within the conference on an appropriate limitation on expenditures for the fiscal year ending June 30, 1969.

This meant that the conferees could go for a $4 billion cut or for a $6 billion cut or for anything in between. We thought we did the right thing to give the conferees this much latitude.

The Appropriations Committee passed a resolution which said in part:

> Budget outlays (expenditures and net lending) during fiscal year 1969 should be reduced by not less than $4 billion.

I submit that the action that we hear reported as having been taken by the conferees, of cutting to $6 billion, is within the ballpark. It is not inconsistent with either the motion passed by the Committee on Ways and Means and the resolution passed by the Committee on Appropriations.

Mr. Speaker, in 1967 the Joint Economic Committee reported—and I quote from the report:

> Federal expenditures that are not absolutely essential to national defense or our economic growth or welfare must be sharply reduced. Congress must find ways to reduce expenditures for fiscal year 1968 by at least $5 billion or $6 billion per year.

That was 1968. We did not do it. We had a $22 billion deficit. The problem is even worse now. Secretary Fowler says we will have a deficit of approximately $31 billion if we do not do something.

So we have to pass a bill. The Senate conferees have indicated that they cannot go back to the Senate with anything less than that which they voted for the first time, which is a $6 billion cut. They yielded, I understand, to the House on practically everything else except this amount of cut.

I think, for my part, we have to get a bill passed or we are going to be headed down the same road that Great Britain has been headed down for all these years, with the only exception being we do not have the United States to bail us out, as they did.

Mr. BURKE of Massachusetts. Mr. Speaker, at this time for purposes of debate, I yield 5 minutes to the gentleman from Wisconsin [Mr. BYRNES].

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, I must say that I debated with myself as a member of the conference committee as to whether I should speak on this matter. I come here not to defend what the conferees did. I think the conferees did a good job. But as I debated whether I should speak, it seemed to me there were some points I should make.

First, the issue before us goes far beyond the normal issue we face when we talk about the desirable or undersirable level of Federal spending. Under normal circumstances maybe we can enjoy the luxury of examining whether a certain level of spending or whether certain programs are needed or desirable. Today, however, we cannot consider these questions in that relaxed manner. Today we face a fiscal crisis.

That is a factor that should be uppermost in our minds as we discuss and debate this issue. Make no mistakes about it: The dollar, our medium of exchange, is in serious trouble. It is in serious trouble at home, and it is in serious trouble abroad. Involved, Mr. Speaker, is not just the question of certain Government programs and whether they will be cut back or postponed or eliminated. Involved is our capacity to carry out even the very basic functions of government, because if the dollar goes down the drain, our fundamental capacity as a government is jeopardized.

Certainly the continuation of Government services at the current projected level is involved in the question before us, but also involved—and here is the point I would ask the Members to consider as they vote on this—is the value of the wages of our people, their savings, their insurance, their pensions, their retirement, and, yes, their veterans' benefit checks, and, yes, the value of the welfare checks, whether those checks come from Federal, State, or local sources, the value of these checks on which our poor rely.

Mr. Speaker, this is not my conclusion alone. This is what the Secretary of the Treasury has been saying for months. This is what the Chairman of the Federal Reserve Board has been saying for months. This is really what the economic advisers have been saying for months. It is not just my conclusion that involved here is the value of our money. All responsible opinion in this country points a finger of "beware"—that is what we had better be concerned about today.

Unless we come to the defense of the dollar, its value and its integrity, we will be asking for trouble far greater, frankly, than that involved in the reduction or deferral of approximately $6 billion out of almost $190 billion of projected Federal expenditures. If the dollar is to be defended, we must substantially reduce the anticipated $25 to $30 billion deficit projected for 1969.

Inherent in any solution is bringing the explosion in Federal expenditures under control. We have got to start establishing some priorities around here. Yes, and they have got to start establishing some priorities downtown. And high on that priority list, my friends, must be—must be the defense of the dollar, our currency, our medium of exchange.

As you consider the issue before you, ask yourself what is more important, the value of the dollar or some service that might be cut under a $6 billion retrenchment? What is more important? I believe you will have to agree that more important is the integrity of our money.

The first point I would make is that we must face up to and establish priorities. Defense of the dollar is of the highest priority.

The second point I would make is that the estalishment of a spending ceiling and cutback in expenditures as is proposed both by this motion and by the conference report is at best a crude tool, and retrenchment is not going to be without anguish and difficulty. But, in view of the seriousness of the situation, it is our only tool and at this late date we had better seize it and use it in spite of its imperfections.

We heard a lot about the problems and difficulties involved in a cutback in planned expenditures. I in no way underestimate those difficulties. The point I would make, however, and which we must all realize is that unless we are successful in a defense of the dollar the problems which we will face will be far more difficult and far more distasteful than the problems entailed in a $6 billion retrenchment.

My third point is that the issue before us today is intimately tied up with the proposal of the administration to increase taxes. The conference committee

report would provide a tax increase of some $14 billion in a full year of operation.

I believe a tax increase is necessary. I have been saying so for over a year. However, let me make it perfectly clear that a tax increase by itself, a tax increase that merely invites another round of expenditure increases, will leave the budget deficit where it is and accomplish little toward a solution of the problem.

Increased taxes means that the private citizen must reassess his spending pattern and reduce or eliminate low priority items. Is it not only reasonable that the Federal Government do the same? It is not only reasonable, it is essential. I am convinced the American people will accept any sacrifice in time of need, but they insist that the Government set an example. This Congress will not enact, and I am convinced the people will not accept, a tax increase unless it is accompanied by a meaningful cutback and restraint on Government spending plans.

My last and final point is that the conferees have reached an agreement. It is a good agreement. It is an agreement that I am convinced will be accepted by the Senate. It is an agreement that should be accepted by the House. The conference committee has produced a package that will make a frontal attack on the deficit and it will shore up our sick and tottering dollar.

It raises taxes but, at the same time, it puts a ceiling on expenditures and cuts back obligational authority. I remind you that the Secretary of the Treasury has urged this adoption.

If this House today passes the motion offered by the gentleman from Massachusetts [Mr. BURKE], it will knock the conference report into a cocked hat. I believe it will kill the chances of reaching an agreement with the U.S. Senate on this most important issue.

Your conferees have labored long and hard. We have reached an agreement. Instructions to go back and hold further conferences under limitations, in my judgment, create an impossible situation.

Rather than raise havoc with the conference report, it is time, Mr. Speaker, that the President and the Congress give their support to the work of the conferees.

Unless the President and the Congress give full support to the conference report, it will be clear that neither the Congress nor the President has the will or the competence to make the difficult decisions essential to the defense of the dollar at home and abroad.

It is essential to the welfare and the security of this Nation that we get on with the job and approve the conference report. The mischievous motion before us should be rejected.

Mr. BURKE of Massachusetts. Mr. Speaker, for the purpose of debate I yield 3 minutes to the distinguished gentleman from Texas [Mr. PATMAN].

(Mr. PATMAN asked and was given permission to revise and extend his remarks and to include tables and other extraneous matter.)

Mr. PATMAN. Mr. Speaker, the way I view it, the reason why we are in this difficult situation is twofold.

One relates to high interest rates. We are paying $7.5 billion a year this year on the national debt in excess of reasonable and traditional rates of the past. That is absolutely unnecessary. It is exorbitant and should not be paid. That is one of the main causes.

The Members who have been talking on this subject have failed to state that we are paying twice as much interest as we should pay according to our experience as a Government in the past.

Furthermore, we are paying a large part of our Federal debt twice. We have paid for $50 billion in Government bonds with Government money. We have paid for it once, and every informed person knows that. Those bonds have not been canceled. We have not had a bond burning. They are still charged against our national debt. And on those bonds we are paying $2 billion a year interest, which should not be paid. It is as simple as that.

I congratulate the gentleman from Massachusetts for making his motion. I am glad to support it, because it is the right thing to do.

But, however, we have not given consideration to the causes of our plight. We can correct this. Where is the blame? That will become an issue in this campaign now. This will force the issue. People will be looking for the party which is most responsible for these high-interest rates, for not canceling our bonds when they have been paid for once. They want to stop paying our debts more than once, sometimes two or three times.

We do not even require an audit of the Federal Reserve. We have no audit. We do not know whether the bonds actually are there. I assume that they are. The first thing we should do is to have the General Accounting Office audit the Federal Reserve, including the Open Market Committee, and the Federal Reserve banks. It is possible we will find some things that will open our eyes. We know now that they have $50 billion in bonds that have been paid for once, that we are paying $2 billion a year interest on, that should not be paid.

Mr. ROSTENKOWSKI. Mr. Speaker, I rise in support of the motion to send the conference report on the Tax Adjustment Act of 1968, back with instructions to limit expenditure cuts to no more than $4 billion. On May 6, 1968, I voted with the majority of the Ways and Means Committee to advise the chairman to advise the committee of conference between the House and the Senate on H.R. 15414 that budget expenditures for the fiscal year ending June 30, 1969, "should be reduced by at least $4 billion—excepting special Vietnam costs, interest on the debt, veterans' benefits, and social security trust funds, in excess of amounts estimated in the budget."

I voted for this on the strength of the President's message that he would agree to $4 billion expenditure cuts in order that a tax increase might be enacted. It does not take a great deal of imagination to realize that expenditure cuts of the magnitude of $6 billion are going to play havoc with many of our domestic programs. The space program, medical research, grants to education, urban problems, veterans benefits and hospitalization, and employment in the Federal Government.

I will realize that no one likes to take a backward step and relinquish the good and beneficial programs that the Johnson administration has put in motion but at the same time, I also realize that something must be done to change the direction in which our fiscal policies are taking us. We have been running at a deficit for 16 out of the last 17 years. Our balance of payments has been running at a deficit due to our vast foreign investments, our military commitments, and our far-flung tourist travel. Our gold reserves have declined to about $11 billion.

The devaluation of the pound last fall and the run on the gold markets made the desirability of holding dollars by the central banks less attractive. Our allies have been patient but they look with growing concern on America's reluctance to put her house in order.

Whether you call it a "cost push" or a "demand pull" inflation, every housewife knows that food prices are becoming ridiculous. The cost of living has risen to a record 4 percent in the last year and its on a one-way street toward outer space.

We have been told by the administration that the tax increase will provide a psychological lift and restoration of confidence in the dollar. I think we must take action now. I support the motion to instruct the conferees on expenditure cuts of $4 billion because I think we should not destroy all our worthwhile domestic programs to achieve the first step toward responsibility. Like violent exercise, it should not be ventured into so vigorously that we will have a national heart attack.

I support a tax increase with expenditure cuts of $4 billion. I only hope its enactment will not be too late.

Mr. ECKHARDT. Mr. Speaker, we face today probably the most pressing issue to come before this Congress. The outcome of this debate will go very far in determining the economic future and well-being of our Nation. It would be far better if the tax question were considered alone so that it would be decided on purely economic issues. These clearly militate in favor of the tax.

But the situation is otherwise: The tax debate of 1968 is inextricably tied to the fate of vital social legislation, to political maneuvering respecting the national debt ceiling, and to the conduct of the war in Vietnam and its cost.

I support the 10-percent surtax even when linked to a mandated expenditure cut of no more than $4 billion. I do this only with the assurances of the administration that a cut of this size will not affect the really important domestic programs; that is, the war on poverty, the rebuilding of the cities, education, and so forth. I am sad that this tax, this most necessary tax, could not be debated on its own merits. There can be no doubt of the economic validity of this fiscal policy. We have a duty to the American poeple to stop inflation, to curb interest rates, to put our international accounts in balance, and to restore confidence in the dollar.

But a cut beyond a $4-billion expenditure is risky to our economy and cruel to our needy and disadvantaged people.

At a time when we should be devoting more resources to our most pressing domestic problems, it is difficult, in good conscience, to cut costs of programs calculated to solve them.

This is the dilemma—there are two grab bags: One contains a curb for inflation and high-interest rates and a cure for an unfavorable balance of payments. But it also contains an abandonment of the Nation's poor, disregard for the decay of the cities, and a retreat in our battle for equal opportunity for all.

The other grab bag contains fiscal irresponsibility but no retreat, at least in principle, from the needed humane programs. But is there, perhaps a retreat in fact?

If we fail to pass any kind of tax legislation, there can be no doubt that Treasury financing of the ensuing deficit will push the national debt beyond the legal ceiling. If my colleagues are as recalcitrant as they were last year, and balk at raising that ceiling, the expenditure cuts can be forced upon us without the therapeutic effects of the tax. The Treasury Department tells me that the debt over ceiling will be at least as great as the much discussed $6-billion figure.

But there is an overriding consideration that may determine at least my one vote. If we do not vote a tax plus the excessive and cruel cut of $6 billion, the economy may swing wildly on its hinges, but I do not think it will swing off. Because of what I have said about the debt ceiling we will probably not get the needed remedies for the sickness of the cities, either—and this is more dangerous but likely not fatal.

But if we agree to tax, and then we destroy the anti-inflationary effect of the tax by expending an additional $3.9 billion in Vietnam—the President's requested deficiency appropriation—we are fiscally at about the place we started. And we will have cut expenditures by $6 billion, 2 billion of which has not been responsibly accounted for in any way other than through cuts in the humane programs that we used to call, proudly, the Great Society.

If the motion to instruct the conference committee to compromise on a $4 billion cut along with the 10-percent surtax were passed, we would be relieved of a hard choice.

The acceptance of the conference report, requiring its $6 billion cuts, would almost undoubtedly cause a retrenchment in the progressive and humane programs designed to meet our most serious domestic ills. First, it would incline the Congress toward lesser appropriations in programs having to do with housing for the poor, relief for the cities, and equality of opportunity for the disadvantaged. To take care of the amount of required cut then remaining it would require the administration to make line item vetoes and reduce existing programs—like the closing of some veterans' hospitals and the withdrawal of funds from many projects meeting crying needs of local people throughout the land.

On the other hand, the $4 billion cut envisages only such reductions as these: A cut of $2 billion in the military budget and another $2 billion which would come from Agriculture, the Corps of Engineers, and HEW—higher education only. Admittedly this calls for belt tightening, but it does not call for the crippling of the various social and humane programs.

But if the motion on the floor today fails, we will be faced with the package, containing the $6 billion cuts and the tax, which must be bought or rejected. If we reject it, as I have said, we do not thus save the various social and humane programs. We do not assure sympathetic response to the problems of the cities, because we are even more acutely limited by the debt ceiling—and by the danger of my falsely frugal colleagues irresponsibly slamming the door on the poor and on the cities' ills by refusing to lift it—without the tax.

I am frank to say that I do not know how I will vote if we are faced with the conference committee report to be voted up or down. It is like being given the choice to be hanged or drowned. To vote against it is to risk economic chaos and to reject necessary tax resources which may eventually help solve our very serious domestic problems. But to vote for it is to give a kind of sanction for more war and less domestic tranquility, unless one speaks out with the clearest possible voice against a policy which channels a substantial amount from new taxes into war and which closes the door for these new tax funds to be used to meet the crying human needs of our own people.

Mr. OTTINGER. Mr. Speaker, I rise in opposition to the motion of my good friend, the gentleman from Massachusetts [Mr. BURKE]. I oppose instructing the House conferees on H.R. 15414 to insist on a $4 billion cut in expenditures for fiscal year 1969, rather than the $6 billion cut contained in the bill as it passed the Senate.

In support of the motion limiting cuts to $4 billion, it has been argued that if the $6 billion cut is retained, the extra $2 billion cut will be taken from vital social programs such as education, job training, housing, and health. I cannot accept this argument.

I see no reason why $6 billion cannot be taken comfortably from such nonessential programs as public works, highways, agricultural, and other special interest subsidies, space, and the SST.

In the 89th Congress I voted in total against $27 billion spending for such nonessential pork barrel and special interest spending. Already in this Congress, I have voted against more than $20 billion in this category. Just yesterday I voted for a successful motion to recommit appropriations for the Departments of State, Commerce, Justice, and the judiciary resulting in a 3.2-percent reduction. There should be no difficulty finding the $6 billion cuts to which this motion is directed from such fat in the Federal budget.

I have also introduced legislation to set up another Hoover Commission to go through the existing Federal establishment with a fine-tooth comb, recommend elimination of nonessential activities and establish national spending priorities. If such a commission had been established, I do not think Congress would be confronted today with any uncertainty about our ability to cut $6 billion from nonessential activities.

Furthermore, I cannot believe that the President, when the chips are down, will damage the essential social programs to which he is so strongly committed, particularly not when there are so many available nonessential alternatives.

Let us not fool ourselves. The country is in financial jeopardy. Inflation is rapidly eating away at the average American's paper prosperity. The cost of living is going up at a dangerous 4½-percent annual rate. Our national debt is at a record level of $353 billion, resulting in interest costs of more than $16 billion per year. Credit is getting threateningly tight, endangering many segments of our business, most seriously the housing, real estate, and related industries. The dollar is in jeopardy internationally.

In response to these severe financial problems, the Federal Government simply must put its fiscal house in order. We have to take our belts in somewhere if we are to be able to afford to support our essential domestic programs and the costs of the Vietnam war until it can be terminated. The most propitious means of attacking inflation and balancing the Federal budget is through drastic cuts in nonessential spending programs. In my opinion, we shall have to cut far more than $6 billion in these programs to restore our economy to a condition of reasonable stability and health.

Reductions in spending are by far the most effective means of curbing our present inflation. Even a sound increase in taxes—which I do not consider the administration's proposed 10-percent surcharge to be—is not an effective inflation curb. A tax increase will not stop money from being poured into the economy—it will just increase the ability of the Government to spend while it takes a comparable amount from private sector spending. The only way to effectively decrease the amount of money going into the economy is to reduce the amount the Government spends.

It is time for drastic action to save the dollar. We have to put our money where our mouths are. A mandated reduction of spending from $6 billion to $4 billion simply does not seem justified at this time. I therefore urge my colleagues to join me in opposing the Burke motion.

Mr. DORN. Mr. Speaker, I favor the $6 billion cut in Federal spending and bitterly oppose this motion to reduce $6 billion to $4 billion.

The question before the House is the stability, integrity and purchasing power of the American dollar. Wild Federal spending programs are the principal cause of inflation. Excessive Government spending bears down most heavily on the American housewife, the elderly, those with annuities and the American wage earner. With a cut in Federal spending we can provide for the American people the equivalent of a wage increase by giving them a sound dollar with more purchasing power.

The greatest threat to any nation is paper money with little value. We are on that road today. It is no too late to prevent our Nation going the route of the Weimer Republic in Germany. In the

1920's it took the German housewives a basket of money to buy a loaf of bread. This tragic state of affairs followed, of course, by Adolf Hitler and his dictatorship.

We must cut every nonessential expenditure of the Federal Government and save the American dollar.

Mr. GILBERT. Mr. Speaker, I will support the Burke motion for an expenditure reduction of $4 billion. In spite of that, however, I am not sure that I would support a 10-percent surtax in the event this motion is adopted to hold expenditure reductions to $4 billion. If we do not adopt the $4 billion motion, then I certainly cannot support the surtax at this point. As I have said before, Mr. Speaker, I am deeply concerned that any cutback in expenditures of more than $4 billion will disable our important and urgently needed domestic programs and will lead to chaos.

Mr. Speaker, I commend the gentleman from Massachusetts [Mr. BURKE] for his motion.

Mr. MONAGAN. Mr. Speaker, I am voting not to restrict expenditure reductions to $4 billion. If a larger cut can be made, I favor it.

The principal reason for my vote is the inability of anyone at this time to say with authority what governmental programs would be affected by a $6 billion cut that would not be affected by a $4 billion cut. I believe that the need is strong to protect the integrity of our fiscal system and to insure the soundness of the dollar. Without this basis, as has been demonstrated in England, the most liberal social programs will be set on a weak foundation and will eventually be undermined.

With a prospective deficit of $30 billion and budget requests of $182 billion, somebody has to take a stand for fiscal responsibility.

Some Members of Congress have asserted that the entire amount of the $6 billion cut could be taken from the Defense Department without damage. If this were so, surely there would be a consensus that this should be done. At the same time, there is no indication that vitally important programs would be sacrificed in any cut. As a matter of fact, one of the great difficulties in talking about this whole matter is the lack of definiteness as to where the cuts would come, when they would come, and who would make them.

Incidentally, the other body has already voted to recommend a $6 billion cut by a vote of 57 to 31.

Accordingly, and until it can be more clearly shown what programs will be affected, I support the principle of the more substantial cut in spending.

Mr. DANIELS. Mr. Speaker, I rise in support of the Burke motion to instruct the House conferees to the effect that H.R. 15414, provide a cut in expenditures of $4 billion rather than $6 billion in fiscal year 1969.

Mr. Speaker, I cannot support the proposition that the problems of our Nation and especially of our urban areas ought to be ignored and for this reason I strongly support the motion of my good friend, the very distinguished gentleman from Massachusetts [Mr. BURKE].

Further, as a responsible Member of this House, I resent the alternatives given us by the Ways and Means Committee. In substance they have given us a choice between voting to increase taxes on our already hard-pressed middle-income taxpayers on the one hand or voting against a tax increase or voting to further damage the American dollar and worsen the already serious inflation which has hit this Nation.

Mr. Speaker, if there were not an alternative I would not be as angry as I am but I know that there is an alternative and all Members of this House know this as well.

Almost a year ago, I introduced H.R. 12681, a tax reform bill which would enable us to avoid a surcharge if we were willing to close the loopholes in our present inequitable tax code, a step that we have not been willing to take.

Mr. Speaker, I said then and I repeat now, I think a system where an underemployed person in Jersey City pays 14 percent of his net income on the one hand and oil companies which in 1965 earned $6 billion in profits paid only a tax of 6.3 percent of their profits is inherently wrong.

Mr. Speaker, I include my remarks, delivered on August 29, 1967, in support of H.R. 12681 at this point in the RECORD:

REMARKS BY MR. DANIELS

Mr. Speaker, on August 7th of this year, President Johnson proposed a 10 percent surtax on Federal Income Taxes. One of the most important results of this proposal is that it has stimulated great discussion on our existing tax structure and, in my view, increased the possibilities for tax reform.

I have received hundreds of letters from citizens of the 14th Congressional District of New Jersey, who feel as I feel that this additional tax burden should not be imposed until we have a system whereby the tax load is shared on a basis of relative equality.

Mr. Speaker, I am appalled by a tax system where an underemployed person in Jersey City pays 14 percent of his net income and on the other hand, oil companies who in 1965 earned almost $6 billion in profits, payed only 6.3 percent in taxes. Surely there is something inherently wrong about this kind of a system.

Mr. Speaker, while the oil depletion allowance is the most glaring weakness in the Internal Revenue Code there are others too which, while smaller, deserve equally to be plugged up.

As a responsible Member of this Congress, I cannot vote for governmental programs without voting to raise the revenue. And, with domestic programs already cut to the quick, the only other possibility is to deny our fighting sons in Vietnam the supplies they need to sustain themselves or for this government to renege upon obligations it has assumed either for our veterans of earlier wars or the debt which has accrued from these wars. None of these courses is acceptable for me.

Thus, I have posed a nine-plank program which I think will raise enough revenue to obviate the necessity for imposing new personal income taxes.

According to the very knowledgeable gentleman from Wisconsin, my good friend and colleague (Mr. REUSS) these nine steps would enable this government to raise $4.3 billion with no new taxes. Surely, Mr. Speaker, the bill I have introduced today deserves a good hard look by this Congress.

I would like at this time to explain the major provisions of my bill to all Members of the House.

Mr. Speaker, the single loophole in the law which screams to heaven for adjustment is the oil depletion allowance which allows oil companies to deduct 27.5 percent of their income before they even start to pay taxes. The apologists for this loophole would have us believe that this deduction is necessary to enable the small wildcat driller to obtain the oil which is necessary to keep this nation functioning. In practice, however, it has enabled the largest oil companies in the world to avoid paying their fair share of the tax load.

Mr. Speaker, consider these figures. In 1965, the twenty largest oil companies paid corporate taxes of 6.3 percent on earnings. Other less favored corporations paid the corporate tax of 48 percent. The largest oil company, Standard of New Jersey, paid $82 million or a rate of less than 5 percent. The poorest taxpayer in the 14th District of New Jersey or anywhere else in America paid at a rate of 14 percent or more. Surely before we saddle the small taxpayer with an additional burden we have a duty to go after the big fellows who are getting off so lightly.

Mr. Speaker, the mineral depletion allowance gambit has gone on too long and now is a time for this House and the other Body too, to take a hard look at the whole Internal Revenue Code.

Mr. Speaker, I do not come before this Body as a great tax expert, but my years as an attorney and as a Magistrate have equipped me to seek for equity and it is for this reason that I have drafted a bill which I think will serve a rough guideline for action along these lines by the Congress to raise needed revenue without imposing the 10 percent surtax on our middle income citizens.

Section 2 of the bill would enable the government to realize $2.5 billion by closing up the capital gains loophole. Under present law, if a person sells a capital asset, he is taxed at 25 percent, the capital gains rate. Yet, if he dies before selling or transferring the asset his estate pays no tax at all. This section would permit the taxation of such property at the standard capital gains rate.

Section 3 of my bill would end the unlimited charities deductions which permits millionaires to deduct up to 90 percent of their income for charitable donations while the ordinary taxpayer is limited to 30 percent of his income. How this works is that there is a special provision in the Code which permits a taxpayer who has given away or paid in state and local income taxes 90 percent of his taxable income in 8 out of 10 years. This loophole permits the man with a large income from municipal bonds or through capital gains to pay virtually no tax at all. Secondly, I might point out at this point that the present tax law allows another little gimmick designed to aid our rich taxpayers. The United Auto Workers Report in its July 17, 1967, edition points out that a person wishing to give away a work of art valued at $50,000 can have a straw man offer him $150,000 for it. After turning down the "offer" he then gives it away and deducts the puffed up price of $150,000.

Section 4, Mr. Speaker, would end the stock portion provision in the Code which permits highly paid corporate executives to exercise an option to buy tomorrow at today's prices, large chunks of their companies' stocks and thus pay taxes at a rate of 25 percent rather than the steeper rates which they would normally have to pay.

Section 5 would repeal the $100 dividend exclusion which permits a taxpayer to pay no taxes on the first $100 of dividends at a cost of the Treasury and to the six out of seven taxpayers who do not have dividend income, of some $200 million annually.

Section 6 deals with the multiple corporate dodge which permits the division of a single business entity into several units permitting the separate units to be taxed at the rate of 22 percent which is assessed against

the first $25,000 of corporate income rather than the 48 percent which is assessed after the first $25,000 of income.

Section 7 would forbid the financing of plants owned by private industry by municipal governments who are able in this way to aid the corporations by financing this plant by tax free municipal bonds. This provision in the Code ostensibly written into the law to aid depressed areas has resulted in great abuses. Ending this device would bring in $50 million a year.

Section 8 would lower the oil depletion to 15 percent. Very frankly, I would prefer a lower figure but I think 15 percent would be a start in the right direction. In this section the depletion allowance for other minerals which is presently 23 percent would be cut to 15 percent as well.

Section 9 would establish the same rate for gift and estate taxes. Under present statutes, $3,000 a year can be given to a single individual with no imposition of a gift tax. Beyond this, $30,000 can be given away during a person's lifetime without any gift tax being imposed. In addition, any taxable gift is assessed at a rate ¾ of that for the prevailing estate tax. This action of my bill would set a rate of 25 percent for both taxable gifts and property which pass as a result of death.

Mr. Speaker, under present law estate taxes may be paid in government bonds which are redeemed at par value. This loophole costs the government not less than $50 million a year, a not insigificant sum. Section 10 of the bill I have introduced today would end this device frequently employed by the very wealthy to avoid payment of taxes.

Mr. Speaker, I do not think this bill is the final word but it is my hope that it will provide a rallying symbol for those Members of this House who share my reluctance to further tax our middle and lower income citizens who, as I see it, are paying more than their share of the total tax load of this nation, federal, state and local.

I have read very carefully the superb material put forth by my capable colleagues, Congressman Reuss and my good neighbor from New York (Mr. Tenzer) from whom I have drawn heavily for their good ideas expressed in recent weeks on this House Floor. It is my hope that we can produce an alternative to the plan suggested by President Johnson, which will meet the very elementary test of fairness to all.

Mr. Speaker, as I said a few minutes ago, out of the fiscal crisis of 1967 may come something more important than just raising needed revenue, a tax code which is fair to all.

The people of the 14th Congressional District of New Jersey like taxes no better than other people in these United States but they recognize, as do all sensible people, the inevitability of the taxation process. When all is said and done the people of Hudson County are willing to do their share of the responsiblities that go with citizenship. Yet, to ask these people to bear an extra load in order to permit those more financially capable to escape their share is a policy which cannot be supported at any time.

I am not sure my bill is the final answer or whether it is an answer at all, but I do know that it is a possibility and it is a possibility worth considering. And if in any way it has helped this nation to move toward tax reform, then I feel satisfied that I have served my people and all the over-burdened middle income taxpayers of America as I would wish to do so.

As a people, we admire justice and fair play and it is my belief that our tax laws should reflect these principles.

Mr. Speaker, let me again reiterate without taking the time of this House that these alternatives are wrong. The House is being forced into a position where conscientious Members will have to vote for a highly unpopular—and deservedly so—tax increase on the premise that there is no alternative short of destroying the economy of this Nation.

Mr. Speaker, I urge the House conferees and all Members of this body and the other body, too, to do what is right—right for our economy, but above all for the middle-income taxpayers who are the very backbone of this Nation.

As I see it, a tax increase should not be enacted until we have tax reform.

GENERAL LEAVE

Mr. BURKE of Massachusetts. Mr. Speaker, I ask unanimous consent that all Members may have 5 legislative days in which to revise and extend their remarks at this point in the RECORD and to include extraneous matter.

The SPEAKER. Is there objection to the request of the gentleman from Massachusetts?

There was no objection.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield the remaining time to the distinguished lady Member from the State of Michigan [Mrs. GRIFFITHS].

The SPEAKER. The gentlewoman from Michigan is recognized for 5 minutes.

Mrs. GRIFFITHS. Mr. Speaker, I support the motion of the gentleman from Massachusetts. I would support any motion which attempted to make the tax conference report less mischievous. Throughout my years in Congress I have opposed a line item veto for the President, because I feel that it gives him an unwarranted and oppressive power over the Congress; that is, he can say, "You vote for what I want or I will cut out of this budget what you want." In this case I oppose this power now.

But how will this Congress make these cuts and deny him the power that is given him in the conference report? On what cuts does Congress have a majority? Well, we have a majority to cut $7 million from the use of the EEOC and a majority to pass a bill which will ultimately require $25 billion to develop the Colorado River. There is a majority to authorize $80 billion for the use of the Defense Department and a majority to make a mockery of the Renegotiation Board—the last clear chance we have to recover the excess profits and to push down the exorbitant and silly prices paid for the armaments of war.

I ask you, where is our majority and which cuts will be made in these appropriations and for what does our majority stand? In this year, if the tax conference report passes as written, there is every danger that a majority can sustain the bridge for Clim's Gulch at Podunk Center and cut the programs which have as their purpose the upgrading of our labor force and the education of our children.

This conference report is in effect an attempt to balance the economy with 30 million people outside of it. It is our announcement to the world that we cannot afford full employment. How does the tax conference report approach this problem? Why, by attempting to build a road to yesterday.

This report seeks to hold Federal employment to the 1966 level. Just how this is to be done is beyond me. Are you going to ask new subdevelopments of America to call at the post office for their mail? Will you cut down those who send out social security checks or cut the number of inspectors who guard the border against the importation of drugs?

I object also to that beautiful tax loophole for the rich welded into this report. I mean the right to issue $1 million in tax-free bonds for industry. Will this help to solve the problems of our cities? Will it aid the unskilled? It will not. It will put small factories into the highest trained labor market that management can find.

I support the motion of the gentleman from Massachusetts. It has been made clear in this debate that there exists no majority in this body to make proper cuts. It is obvious that there is already concern that the essential services will be cut.

Mr. Speaker, I represent the looted and burned city of Detroit. Even with the best of will the conferees can build no road to yesterday, but they may succeed in paving the road to hell.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield half a minute to the gentleman from New York [Mr. RYAN].

(Mr. RYAN asked and was given permission to revise and extend his remarks.)

Mr. RYAN. Mr. Speaker, I have listened carefully to the debate but have heard no mention of the basic reason why the Nation faces a fiscal crisis. It is the fundamental fact that some $30 billion a year is being spent on the war in Vietnam.

We are about to be faced with a request for $3.9 billion in a supplemental appropriation bill for fiscal year 1968 for military operations in Southeast Asia. If we want to reduce spending by $4 billion, the place to start is by voting that down. Instead the motion before us would instruct the conferees to insist on an expenditure reduction of $4 billion, while specifically exempting funds for Vietnam operations. It is tantamount to a transfer of $4 billion from non-Vietnam programs to the war. As long as Vietnam expenditures are uncontrolled, the principal cause of the Federal deficit remains.

The failure to establish priorities has caused the present difficulty which will not be resolved by imposing an absolute ceiling on expenditures—whether it be $182.1 billion or $180.1 billion.

The conferees on H.R. 15414 would deal with inflation by restraining private and public spending through imposing a 10 percent income tax surcharge coupled with a mandatory reduction in expenditures for fiscal year 1969 of $6 billion from the level of $186.1 billion estimated in the budget to $180.1 billion.

The motion offered by the gentleman from Massachusetts [Mr. BURKE] adopts the same approach, reducing expenditures by $4 billion to an absolute ceiling of $182.1 billion.

To the extent that Congress does not reduce appropriations for current expenditures, the President would be required to further reduce actual spending to reach the limit.

I am not prepared to accept either limitation, nor for that matter the basic

approach which has serious shortcomings.

In the first place, both the 10-percent income tax surcharge and the expenditure limitation, as well as other items, were never considered or debated in the House.

Second, the Congress would be abdicating to the Executive its responsibility to determine spending levels through the appropriation process.

Ironically, the most vocal advocates of the proposal are usually the most jealous guardians of the prerogatives of the House.

Neither the administration nor the Congress has yet faced the need to establish priorities. The administration blandly assured the Nation that it could afford both guns and butter. But guns and butter was a myth. Within the next week or two Congress will be asked to approve the tax conference report reducing spending by $4 billion or $6 billion and in a separate action to increase Vietnam spending by $3.9 billion. In other words, $4 billion will be transferred from domestic programs to the war. It is predictable that Congress will approve both and thus divert to the war funds urgently needed for domestic programs.

For those who have called for greater escalation in Vietnam, this should produce satisfaction. For those who have sought to reduce the Federal commitment to programs in education, housing, jobs, health, and other social needs in committee and on the floor through gutting amendments and recommital motions, this should produce satisfaction.

If the budget-cutters were serious about effecting economy without injury to critical domestic programs, then they would spell out where the $4 billion or $6 billion reduction should be made. The military budget of approximately $80 billion could easily absorb such a reduction.

It is obvious that the price for bailing the administration out of an economic crisis of its own making is the gutting of domestic programs through the back door, and I do not intend to sanction it by voting for either the $6 billion or $4 billion reduction on the basis presented.

The deepening domestic crisis—the plight of the poor in the urban ghettoes and in the backwaters of America—requires new, bold programs of massive Federal assistance to create jobs, decent housing, a minimum level of income maintenance, and decent education for all.

Approval of the package will foreclose efforts in all of these areas, while placing no limit on escalation of war. To those who say that domestic needs must await the conclusion of the war, I say let the war wait. We will always have ample opportunities to blunder into war, but we are fast losing the chance to redeem the promise of this Nation.

According to the testimony of Secretary of the Treasury Fowler, before the House Appropriations Committee:

> The total rise of $10.4 billion (in the fiscal year 1969 budget) is completely accounted for by higher expenditures for defense, obligatory interest on the public debt, and mandatory payments required by recently enacted legislation dealing with social security, public assistance, veterans benefits, and Federal pay increases.

In other words, budgeted expenditures for "controllable" domestic programs have not increased since fiscal year 1968, yet Congress is about to decrease them either by $6 billion or $4 billion. In practice, these cuts would have to come out of the roughly $20 billion to $30 billion of domestic spending which the Budget Bureau considers "controllable." The imposition of a ceiling on such expenditures will foreclose any effective response to the domestic crisis.

For fiscal year 1968 administration requests for funding of these programs were $4.5 billion below authorized levels. In addition, the Congress further reduced them by some $2.5 billion through the appropriation process. Then the administration reduced fiscal year 1968 expenditures in these nonmilitary domestic programs by another $2 billion pursuant to House Resolution 888 of last session. In other words, reductions in domestic programs for fiscal year 1968 totaled some $9 or $10 billion.

As far as the 10-percent income tax surcharge is concerned, it aggravates existing inequities. A program of tax reform could raise $10 billion by correcting existing inequities and closing loopholes like the oil depletion allowance.

According to the Internal Revenue Service, in calendar 1964 there were 35 individual returns filed with adjusted gross incomes of $500,000 and over, and on which no Federal income tax was paid—24,084 individuals filed tax returns with adjusted gross incomes in excess of $10,000 and paid no taxes.

The proposed tax package involves a regressive surtax, with no semblance of tax reform, and accepts the principle of an expenditure ceiling at a time of unparalleled domestic need.

As long as this measure includes a ceiling on domestic expenditures with no ceiling on war, it is unacceptable. Let us not take the bait of believing that it is somehow acceptable if the ceiling on domestic expenditures is a little bit higher.

Those of us who have fought to make the Nation face up to its domestic responsibilities should not give legitimacy to a freeze on domestic efforts. Let us not be led into supporting this motion on the pretext that it will make a bad bargin slightly better. Until our Nation's priorities are reordered, until there is meaningful and equitable tax reform, then we will not begin to meet the crisis which confronts our Nation.

I regret that, under the parliamentary situation, it is not in order to offer an amendment to the pending motion unless the gentleman from Massachusetts yields for that purpose. However, if the previous question is voted down, an amendment will be in order. Therefore, I intend to oppose the previous question. If it is voted down, I will offer the following motion:

> Mr. Speaker, I move that the managers on the part of the House, at the conference on the disagreeing votes of the two Houses on the bill H.R. 15414, be instructed not to agree to any limitation on budget outlays (expenditures and net lending) during the fiscal year ending June 30, 1969.

Yesterday 10 Members of the House joined in a statement which summed up our views on the proposed tax package. I include it at this point in the RECORD:

JOINT STATEMENT OF OPPOSITION TO THE CONFERENCE TAX PACKAGE, MAY 28, 1968

At this time of domestic crisis, we cannot support any absolute ceiling on budgetary expenditures. Therefore, we are opposed to the proposed Conference Report on the Revenue and Expenditure Control Act of 1968, on the following grounds:

The Tax is a war tax;

The limit on expenditures cripples existing social programs, and forecloses any new efforts to meet the grave social and economic crises facing America;

The $10 billion tax increase and the $6 billion spending cut total $16 billion, and constitute an excessive response to inflation;

The surtax, far from being equitable, exaggerates the inequities in our present tax structure. Tax reform is needed instead.

1. *A war tax:* As the Vietnam war has become less and less supportable, the Administration has shifted its arguments justifying the surtax from a strong emphasis on paying the cost of the war to an emphasis on the need to control inflation. Nevertheless, this would be a war tax. The present fiscal crisis has been created by the war.

If Congress accepts the proposed Conference Report, it continues to accept false priorities. Military policies, no matter how wrong, will continue to receive full support, while domestic needs, no matter how pressing, will be shunted aside or ignored.

2. *A foreclosure on meeting the domestic crises:* The Conference Report proposes a $6 billion reduction in Federal expenditures by imposing an absolute ceiling on expenditures in Fiscal 1969 or $180.1 billion. A $4 billion cut would establish the ceiling at $182.1 billion.

The Bureau of the Budget has stated roughly $150 billion are "relatively uncontrollable expenditures." Of these, military spending would account for more than $80 billion. Even though the Administration might decide to allocate a portion of the reduction to non-Vietnam military spending, the recent request for a $3.9 billion Vietnam supplemental appropriation renders the prospects for any overall reduction totally illusory.

Thus, the specific cuts would have to come from the remaining portion of the budget for domestic expenditures, about $35 billion. Education, health, housing and job programs are already short of funds. These are precisely the areas where further cuts would be made.

3. *An excessive response to inflation:* It is questionable whether the combination of a tax increase and spending cut is a desirable weapon to use against the present inflation. Since the current inflation is not characterized by an excessive growth rate, over-full employment and the full use of industrial capacity, a $16 billion reduction in public and private spending would surely have two negative effects. It would increase unemployment, especially among Negroes and other minorities, and the decline in production would raise the specter of recession.

4. *An exaggeration of present tax inequities; tax reform is needed:* The war in Vietnam has made many of our rich richer, and our powerful corporations more powerful. Yet, under the guise of equal sacrifice from all, we are being asked to support another regressive tax scheme. The "simple" 10% tax surcharge appears to maintain everyone's relative position, but in fact it exaggerates existing tax inequities.

It is claimed that tax reform must be postponed until we get by the present fiscal

crisis. But no study is needed to change the most outrageous inequities. There are millionaires who pay absolutely no taxes, and new millionaires are being created by the unholy alliance of war profits and tax loopholes. This is happening while citizens across the country are struggling to care for their families symbolized by these poor camping beneath the Capitol. This is happening while the Citizens Board of Inquiry into Hunger and Malnutrition finds that ten million Americans are suffering from hunger, and twenty million more lack adequate diets.

We would accept a program if it increased revenue through tax reform and allocated it to urgent domestic needs. This could be done by closing major loop holes, imposing a minimum tax on the wealthy, and taxing excess corporate war profits.

We cannot support a tax package that continues the imbalance in our national priorities. The Conference Report says "Yes" to the war in Vietnam, and "No" to America's problems at home.

George E. Brown, Jr. (California), Phillip Burton (California), John Conyers, Jr. (Michigan), John G. Dow (New York), Don Edwards (California), Augustus F. Hawkins (California), Henry Helstoski (New Jersey), Robert W. Kastenmeier (Wisconsin), Benjamin S. Rosenthal (New York), William F. Ryan (New York).

Mr. BURKE of Massachusetts. Mr. Speaker, I move the previous question on the motion.

The SPEAKER. The gentleman from Massachusetts moves the previous question.

Mr. RYAN. Mr. Speaker.

The SPEAKER. As many as are in favor let it be known by saying "aye." As many as are opposed "no." In the opinion of the Chair, the "ayes" have it.

Mr. GERALD R. FORD. Mr. Speaker, a parliamentary inquiry.

The SPEAKER. The gentleman from Michigan will state it.

Mr. GERALD R. FORD. Mr. Speaker, I was not entirely clear. Was that vote on the previous question or on the motion?

The SPEAKER. We are voting now on ordering the previous question. The "ayes" appear to have it.

The previous question was ordered.

The SPEAKER. For what purpose does the gentleman from New York rise?

Mr. RYAN. Mr. Speaker, I was on my feet and seeking recognition.

The SPEAKER. The Chair is recognizing the gentleman.

Mr. RYAN. To propound a parliamentary inquiry.

The SPEAKER. The gentleman will state his parliamentary inquiry.

Mr. RYAN. Mr. Speaker, if the previous question is voted down would it be in order to move that the managers on the part of the House, at the conference on the disagreeing votes of the two Houses on the bill H.R. 15414, be instructed not to agree to any limitation on budget outlays—expenditures and net lending—during the fiscal year ending June 30, 1969?

The SPEAKER. The Chair will state to the gentleman from New York in response to his parliamentary inquiry that if the previous question had been voted down any motion that is germane would be in order.

Mr. WAGGONNER. Mr. Speaker, a parliamentary inquiry.

The SPEAKER. The gentleman from Louisiana will state his parliamentary inquiry.

Mr. WAGGONNER. Mr. Speaker, should the previous question be voted down would the motion be open to a preferential motion to amend and would of necessity the time be controlled by those in opposition to the previous question?

The SPEAKER. The previous question has already been ordered. If it had not been ordered and voted down, the answer to the parliamentary inquiry of the gentleman from Louisiana would be in the affirmative.

Mr. WAGGONNER. I thank the distinguished Speaker.

The SPEAKER. The question in on the motion.

Mr. GERALD R. FORD. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 137, nays 259, not voting 37, as follows:

[Roll No. 159]

YEAS—137

Adams	Garmatz	Nedzi
Addabbo	Giaimo	Nix
Albert	Gilbert	O'Hara, Mich.
Annunzio	Gonzalez	O'Konski
Ashley	Gray	O'Neill, Mass.
Barrett	Green, Pa.	Patman
Bingham	Griffiths	Patten
Boggs	Halpern	Pepper
Boland	Hansen, Wash.	Perkins
Bolling	Hathaway	Philbin
Brademas	Hays	Pickle
Brasco	Hechler, W. Va.	Podell
Brooks	Helstoski	Price, Ill.
Burke, Mass.	Hicks	Pucinski
Burton, Calif.	Holifield	Reid, N.Y.
Button	Holland	Resnick
Byrne, Pa.	Howard	Reuss
Carey	Irwin	Rhodes, Pa.
Casey	Jacobs	Rodino
Celler	Joelson	Ronan
Clark	Johnson, Calif.	Rooney, N.Y.
Cohelan	Jones, Ala.	Rooney, Pa.
Conte	Karsten	Rosenthal
Corman	Karth	Rostenkowski
Daddario	Kazen	Roush
Daniels	Kee	Ruppe
Dawson	Kelly	St Germain
de la Garza	King, Calif.	St. Onge
Dent	Kirwan	Scheuer
Diggs	Kluczynski	Sisk
Dingell	Kyros	Smith, Iowa
Donohue	Leggett	Staggers
Dulski	Long, Md.	Steed
Eckhardt	McCarthy	Sullivan
Edmondson	McFall	Teague, Tex.
Eilberg	Madden	Tenzer
Evans, Colo.	Mahon	Thompson, N.J.
Fallon	Matsunaga	Tiernan
Farbstein	Minish	Udall
Feighan	Mink	Van Deerlin
Flood	Moorhead	Vanik
Ford, William D.	Morgan	Vigorito
	Moss	Wright
Fraser	Murphy, Ill.	Yates
Friedel	Murphy, N.Y.	Young
Gallagher	Natcher	Zablocki

NAYS—259

Abbitt	Blanton	Clancy
Abernethy	Bolton	Clausen, Don H.
Adair	Bray	Cleveland
Anderson, Ill.	Brinkley	Collier
Anderson, Tenn.	Brock	Colmer
	Broomfield	Conable
Andrews, N. Dak.	Brotzman	Conyers
	Brown, Mich.	Corbett
Arends	Brown, Ohio	Cramer
Ashbrook	Broyhill, N.C.	Cunningham
Aspinall	Broyhill, Va.	Curtis
Ayres	Buchanan	Davis, Ga.
Baring	Burke, Fla.	Davis, Wis.
Bates	Burleson	Delaney
Battin	Burton, Utah	Dellenback
Belcher	Bush	Denney
Bennett	Byrnes, Wis.	Derwinski
Betts	Cabell	Devine
Bevill	Cahill	Dickinson
Biester	Cederberg	Dole
Blackburn	Chamberlain	Dorn
Dow	Kupferman	Rogers, Colo.
Dowdy	Kuykendall	Rogers, Fla.
Downing	Kyl	Roth
Duncan	Laird	Roudebush
Edwards, Ala.	Landrum	Rumsfeld
Edwards, La.	Langen	Ryan
Erlenborn	Latta	Sandman
Esch	Lennon	Satterfield
Eshleman	Lipscomb	Saylor
Everett	Lloyd	Schadeberg
Fascell	Long, La.	Scherle
Findley	McClory	Schneebeli
Fino	McCloskey	Schweiker
Fisher	McCulloch	Schwengel
Flynt	McDade	Scott
Foley	McDonald, Mich.	Shipley
Ford, Gerald R.	McEwen	Shriver
Fountain	Macdonald, Mass.	Sikes
Frelinghuysen	MacGregor	Skubitz
Fulton, Pa.	Machen	Slack
Fulton, Tenn.	Mailliard	Smith, Calif.
Fuqua	Marsh	Smith, N.Y.
Galifianakis	Martin	Smith, Okla.
Gardner	Mathias, Calif.	Snyder
Gathings	Mathias, Md.	Springer
Gettys	Mayne	Stafford
Gibbons	Meeds	Stanton
Goodell	Michel	Steiger, Ariz.
Goodling	Miller, Ohio	Steiger, Wis.
Griffin	Mills	Stephens
Gross	Minshall	Stratton
Grover	Mize	Stuckey
Gubser	Monagan	Taft
Gude	Montgomery	Talcott
Gurney	Morris, N. Mex.	Taylor
Hagan	Morton	Teague, Calif.
Haley	Mosher	Thompson, Ga.
Hall	Myers	Thomson, Wis.
Halleck	Nelsen	Tuck
Hamilton	Nichols	Ullman
Hammer-schmidt	O'Neal, Ga.	Vander Jagt
	Ottinger	Waggonner
Hanley	Passman	Waldie
Hanna	Pelly	Walker
Hansen, Idaho	Pettis	Wampler
Harrison	Pike	Watkins
Harsha	Pirnie	Watson
Harvey	Poage	Watts
Hébert	Poff	Whalen
Heckler, Mass.	Pollock	Whalley
Henderson	Pool	Whitener
Herlong	Price, Tex.	Whitten
Horton	Pryor	Widnall
Hosmer	Purcell	Wiggins
Hull	Quie	Williams, Pa.
Hungate	Quillen	Willis
Hunt	Railsback	Wilson, Bob
Hutchinson	Rarick	Winn
Ichord	Reid, Ill.	Wolff
Jarman	Reifel	Wyatt
Johnson, Pa.	Reinecke	Wydler
Jonas	Rhodes, Ariz.	Wylie
Jones, N.C.	Riegle	Wyman
Kastenmeier	Rivers	Zion
Keith	Roberts	Zwach
King, N.Y.		
Kleppe		

NOT VOTING—37

Andrews, Ala.	Evins, Tenn.	O'Hara, Ill.
Ashmore	Green, Oreg.	Olsen
Bell	Hardy	Randall
Berry	Hawkins	Rees
Blatnik	Jones, Mo.	Roybal
Bow	Lukens	Selden
Brown, Calif.	McClure	Stubblefield
Carter	McMillan	Tunney
Clawson, Del	May	Utt
Cowger	Meskill	White
Culver	Miller, Calif.	Wilson, Charles H.
Dwyer	Moore	
Edwards, Calif.	Morse, Mass.	

So the motion was rejected.

The Clerk announced the following pairs:

Mr. Blatnik for, with Mr. Bow against.

Mr. Roybal for, with Mr. White of Texas against.

Mr. Stubblefield for, with Mr. Hardy against.

Mr. Olsen for, with Mrs. May against.

Mr. Rees for, with Mr. Utt against.

Mr. Hawkins for, with Mr. Randall against.

Mr. Charles H. Wilson for, with Mr. Ashmore against.

Mr. Edwards of California for, with Mr. Evins of Tennessee against.

Mr. Brown of California for, with Mr. Andrews of Alabama against.

Mr. O'Hara of Illinois for, with Mr. Berry against.

Mr. Miller of California for, with Mr. McMillan against.
Mr. Culver for, with Mr. Del Clawson against.
Mr. Tunney for, with Mr. Meskill against.

Until further notice:
Mr. Selden with Mr. McClure.
Mr. Lukens with Mr. Moore.
Mrs. Dwyer with Mr. Cowger.
Mr. Morse of Massachusetts with Mr. Carter.

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

PROVIDING FOR CONSIDERATION OF H.R. 15794, U.S. GRAINS STANDARD ACT

Mr. YOUNG. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 1171 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 1171

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 15794) to provide for United States standards and a national inspection system for grain, and for other purposes. After general debate, which shall be confined to the bill and shall continue not to exceed one hour, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Agriculture, the bill shall be read for amendment under the five-minute rule. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

The SPEAKER. The gentleman from Texas is recognized for 1 hour.

Mr. YOUNG. Mr. Speaker, I yield 30 minutes to the distinguished gentleman from Ohio [Mr. LATTA], pending which I yield myself such time as I may consume.

(Mr. YOUNG asked and was given permission to revise and extend his remarks.)

Mr. YOUNG. Mr. Speaker, House Resolution 1171 provides an open rule with 1 hour of general debate for consideration of H.R. 15794 to provide for U.S. standards and a national inspection system for grain, and for other purposes.

H.R. 15794 would continue the present U.S. standards for grain, improve the national grain inspection system by authorizing additional inspection services under the act, eliminate certain requirements which appear to be a burden on interstate commerce and which are apparently no longer needed by the commercial grain trade, strengthen the requirements for export grain, and strengthen the prohibitions to further protect the integrity of the national grain inspection system. The bill would authorize the establishment of national standards similar to those established under the present act and would authorize the utilization of additional criteria in the standards for measuring characteristics of grain.

Mr. Speaker, I urge the adoption of House Resolution 1171 in order that H.R. 15794 may be considered.

(Mr. LATTA asked and was given permission to revise and extend his remarks.)

Mr. LATTA. Mr. Speaker, the purpose of the bill is to continue the present U.S. standards for grain, to improve the current national grain inspection system, which grades grain type and quality prior to shipment in interstate or foreign commerce, and generally to improve the system by removing some old requirements which are no longer applicable in today's market situation and to strengthen the prohibition against certain illegal acts relating to the incorrect labeling of grains for transit into the flow of commerce.

The Secretary of Agriculture is authorized to establish official grain standards. Any change proposed to such a standard after it is in effect will not take effect until 1 year after its adoption. All grain for export or moving in interstate commerce must be inspected for grade; this is done at the time of loading for shipment—not before. Inspection is to be made by persons licensed to do so by the Secretary. These may include State employees, employees of governmental agencies or of commercial enterprises. All must apply the standards promulgated by the Secretary. Licenses are for 3-year periods and at the expiration of such time a license must be reexamined to renew his license.

A list of prohibited acts is spelled out in section 13 of the bill. These include:

1. Knowingly mislabeling grain as to quality or forging an official inspection mark;
2. Knowingly use a false inspection mark;
3. Attempting to cause the issuance of a false inspection certificate;
4. Altering an official grain sample; or
5. Trying to improperly influence an inspector.

Penalties are imprisonment for up to 6 months or a fine of up to $5,000 or both for a first offense, up to a year in prison and up to a $5,000 fine for future offenses.

The authorization called for in the bill is for "such sums as are necessary." The Department of Agriculture estimates the annual cost at $2,900,000.

The Department of Agriculture and the Bureau of the Budget support the bill. There are no minority views.

The SPEAKER. The question is on the resolution.

The resolution was agreed to.

A motion to reconsider was laid on the table.

PROVIDING FOR CONSIDERATION OF H.R. 16127, INCREASE OF CEILING ON NUMBER OF COAST GUARD OFFICERS

Mr. O'NEILL of Massachusetts. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 1192 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 1192

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 16127) to increase the limitation on the number of officers of the Coast Guard. After general debate, which shall be confined to the bill and shall continue not to exceed one hour, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Merchant Marine and Fisheries, the bill shall be read for amendment under the five-minute rule. At the conclusion of the consideration of the bill for amendment, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and the previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit.

(Mr. O'NEILL of Massachusetts asked and was given permission to revise and extend his remarks.)

Mr. O'NEILL of Massachusetts. Mr. Speaker, House Resolution 1192 provides an open rule with 1 hour of general debate for consideration of H.R. 16127 to increase the limitation on the number of officers for the Coast Guard.

H.R. 16127 would authorize an increase in the ceiling on Coast Guard officers from 4,000 to 5,000 by amending section 42 of title 14, United States Code.

In 1966, the limitation of Coast Guard officers was increased from 3,500 to 4,000. Since that time, the Coast Guard has been transferred into the Department of Transportation from the Treasury Department and some 18 officers are serving in various capacities within the Department. Also, since that time, jurisdiction over all large icebreakers has been transferred from the Navy to the Coast Guard and it has been necesary to provide crews for these vessels.

In addition, our operations have been stepped up in the Southeast Asia area, with the result that additional officers have been required there.

With these additional requirements, the presently authorized ceiling will be insufficient to accommodate the commissioning of all the graduates of the Coast Guard Academy this year.

Mr. Speaker, I urge the adoption of House Resolution 1192 in order that H.R. 16127 may be considered.

Mr. LATTA. Mr. Speaker, I yield myself such time as I may consume.

(Mr. LATTA asked and was given permission to revise and extend his remarks.)

Mr. LATTA. Mr Speaker, I agree with the statements which have been made by my friend, the gentleman from Massachusetts [Mr. O'NEILL]. However, I wish to point out the fact that there are 80 Coast Guard cutters now being used to patrol the waters off Vietnam, which represents another reason for the passage of this legislation.

The purpose of the bill is to authorize an increase in the current ceiling on U.S. Coast Guard officers from 4,000 to 5,000.

In 1966, when the current ceiling was set, it was anticipated that it would be adequate for about 5 years. Since that time, however, several unforeseen events have necessitated an increase. The Coast Guard has been transferred into the Department of Transportation and about 18 officers are on shore duty in the Department. More immediate is the fact that the Navy has transferred jurisdic-

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued June 11, 1968
For actions of June 10, 1968
90th-2nd; No. 98

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HIGHLIGHTS: House committee reported second supplemental appropriation bill. House received conference report on tax-expenditure bill. Senate concurred in House amendment to D.C. extension service bill.

HOUSE

1. APPROPRIATIONS. The Appropriations Committee reported H. R. 17734, to provide supplemental appropriations for payment of salary increases for Federal employees (H. Rept. 1531) (p. H4798). Attached to this Digest is a table showing the committee action compared with the Budget request on items for this Department.

2. TAXATION; EXPENDITURES. Received the conference report on H. R. 15414, the tax adjustment bill (H. Rept. 1533). pp. H4677-701, ~~H4798~~
Rep. Gross asked for a bill of particulars as to where the $6 billion reduction in spending is to be made. p. H4701

3. TRANSPORTATION. Received the conference report on H. R. 15190, to provide for an investigation and study to determine a site for the construction of a sea-level canal connecting the Atlantic and Pacific Oceans (H. Rept. 1535). pp. H4702, H4798

4. LANDS. Passed with amendments S. 974, to authorize the Secretary of Agriculture to convey to the city of Glendale, Ariz., for public park purposes, approximately 20 acres of land which constitute the grounds of the Southwest Poultry Experiment Station which is no longer used by the Department for poultry research (pp. H4719-22). The rule under which the bill was considered was agreed to earlier (p. H4704).

5. FOREIGN AFFAIRS. Rep. Pirne, as president of the U. S. delegation to the Inter parliamentary Union reported to Congress on the international issues discussed at the spring conference. pp. H4725-32

6. BUILDINGS. The Public Works Committee reported with amendment H. R. 6589, to insure that public buildings financed with Federal funds are designed and constructed to accommodate the physically handicapped (H. Rept. 1532). p. H4798

7. HEALTH. The Interstate and Foreign Commerce Committee reported with amendment H. R. 15758, to amend the Public Health Service Act to extend and improve regional medical programs, to extend the authorization of grants for health of migratory agricultural workers, to provide for specialized facilities for alcoholics and narcotic addicts (H. Rept. 1536). p. H4798
Cahill
Rep. /spoke in favor of the proposed Health Manpower Act of 1968. pp. H4790-2).

Howard
8. POVERTY; UNEMPLOYMENT. Rep./spoke in favor of proposed legislation which he is cosponsoring with Rep. Bennett, to provide tax incentives to private employers to take on the hard-core unemployed. p. H4790
Rep. Patman commended the role which credit unions play in the war on poverty. pp. H4793-4

9. AIR POLLUTION. Received from HEW the first annual report on the progress in the prevention and control of air pollution; to Interstate and Foreign Commerce Committee. p. H4798

10. HUNGER. Received from HEW a report on the incidence of serious hunger and malnutrition and related health problems; to Interstate and Foreign Commerce Committee. p. H4798

90TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 1533

REVENUE AND EXPENDITURE CONTROL ACT OF 1968

JUNE 10, 1968.—Ordered to be printed

Mr. MILLS, from the committee of conference, submitted the following

CONFERENCE REPORT

[To accompany H.R. 15414]

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Revenue and Expenditure Control Act of 1968".

(b) TABLE OF CONTENTS.—

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

Sec. 101. Amendment of existing law.
Sec. 102. Imposition of tax surcharge.
Sec. 103. Payment of estimated tax by corporations.
Sec. 104. Special rules for application of sections 102 and 103.
Sec. 105. Continuation of excise taxes on communication services and on automobiles.
Sec. 106. Timely mailing of deposits.
Sec. 107. Industrial development bonds.
Sec. 108. Advertising in a political convention program.
Sec. 109. Tax-exempt status of certain hospital service organizations.
Sec. 110. Submission of proposals for tax reform.

TITLE II—EXPENDITURE AND RELATED CONTROLS

Sec. 201. Limitation on the number of civilian officers and employees in the executive branch.
Sec. 202. Reduction of $6 billion in expenditures during fiscal year 1969.
Sec. 203. Reduction of $10 billion in new obligational authority.
Sec. 204. Specific recommendations for $8 billion rescission in old obligational authority.
Sec. 205. Application of certain formulas.

85-006 O—68——1

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Sec. 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children.
Sec. 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation.
Sec. 303. Federal payments under medical assistance program for certain services includible under supplementary medical insurance program.

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

SEC. 101. AMENDMENT OF EXISTING LAW.

Except as otherwise expressly provided, whenever in this title an amendmen or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 102. IMPOSITION OF TAX SURCHARGE.

(a) IMPOSITION OF TAX.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEARS.—

"(A) INDIVIDUALS (OTHER THAN ESTATES AND TRUSTS).—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every individual (other than an estate or trust) whose taxable year is the calendar year a tax as follows:

CALENDAR YEAR 1968

TABLE 1.—Single person (other than head of household) and married person filing separate return

If the adjusted tax is:		*The tax is—*	*If the adjusted tax is:*		*The tax is—*	*If the adjusted tax is:*		*The tax is—*
At least	*But less than*		*At least*	*But less than*		*At least*	*But less than*	
0	*$148*	*0*	*$275*	*$282*	*$20*	*$527*	*$540*	*$40*
$148	*155*	*$1*	*282*	*288*	*21*	*540*	*553*	*41*
155	*162*	*2*	*288*	*298*	*22*	*553*	*567*	*42*
162	*168*	*3*	*298*	*313*	*23*	*567*	*580*	*43*
168	*175*	*4*	*313*	*327*	*24*	*580*	*593*	*44*
175	*182*	*5*	*327*	*340*	*25*	*593*	*607*	*45*
182	*188*	*6*	*340*	*353*	*26*	*607*	*620*	*46*
188	*195*	*7*	*353*	*367*	*27*	*620*	*633*	*47*
195	*202*	*8*	*367*	*380*	*28*	*633*	*647*	*48*
202	*208*	*9*	*380*	*393*	*29*	*647*	*660*	*49*
208	*215*	*10*	*393*	*407*	*30*	*660*	*673*	*50*
215	*222*	*11*	*407*	*420*	*31*	*673*	*687*	*51*
222	*228*	*12*	*420*	*433*	*32*	*687*	*700*	*52*
228	*235*	*13*	*433*	*447*	*33*	*700*	*713*	*53*
235	*242*	*14*	*447*	*460*	*34*	*713*	*727*	*54*
242	*248*	*15*	*460*	*473*	*35*	*727*	*734*	*55*
248	*255*	*16*	*473*	*487*	*36*	*734 and over, 7.5% of the adjusted tax*		
255	*262*	*17*	*487*	*500*	*37*			
262	*268*	*18*	*500*	*513*	*38*			
268	*275*	*19*	*513*	*527*	*39*			

TABLE 2.—Head of household

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$223	0	$350	$357	$20	$527	$540	$40
$223	230	$1	357	363	21	540	553	41
230	237	2	363	370	22	553	567	42
237	243	3	370	377	23	567	580	43
243	250	4	377	383	24	580	593	44
250	257	5	383	390	25	593	607	45
257	263	6	390	397	26	607	620	46
263	270	7	397	403	27	620	633	47
270	277	8	403	410	28	633	647	48
277	283	9	410	417	29	647	660	49
283	290	10	417	423	30	660	673	50
290	297	11	423	430	31	673	687	51
297	303	12	430	437	32	687	700	52
303	310	13	437	447	33	700	713	53
310	317	14	447	460	34	713	727	54
317	323	15	460	473	35	727	734	55
323	330	16	473	487	36	734 and over, 7.5% of the adjusted tax		
330	337	17	487	500	37			
337	343	18	500	513	38			
343	350	19	513	527	39			

TABLE 3.—Married persons or surviving spouse filing joint return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$293	0	$420	$427	$20	$553	$560	$40
$293	300	$1	427	433	21	560	567	41
300	307	2	433	440	22	567	573	42
307	313	3	440	447	23	573	580	43
313	320	4	447	453	24	580	593	44
320	327	5	453	460	25	593	607	45
327	333	6	460	467	26	607	620	46
333	340	7	467	473	27	620	633	47
340	347	8	473	480	28	633	647	48
347	353	9	480	487	29	647	660	49
353	360	10	487	493	30	660	673	50
360	367	11	493	500	31	673	687	51
367	373	12	500	507	32	687	700	52
373	380	13	507	513	33	700	713	53
380	387	14	513	520	34	713	727	54
387	393	15	520	527	35	727	734	55
393	400	16	527	533	36	734 and over, 7.5% of the adjusted tax		
400	407	17	533	540	37			
407	413	18	540	547	38			
413	420	19	547	553	39			

CALENDAR YEAR 1969

TABLE 1.—Single person (other than head of household) and married person filing separate return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$150	0	$270	$280	$13	$510	$530	$26
$150	160	$1	280	290	14	530	550	27
160	170	2	290	310	15	550	570	28
170	180	3	310	330	16	570	590	29
180	190	4	330	350	17	590	610	30
190	200	5	350	370	18	610	630	31
200	210	6	370	390	19	630	650	32
210	220	7	390	410	20	650	670	33
220	230	8	410	430	21	670	690	34
230	240	9	430	450	22	690	710	35
240	250	10	450	470	23	710	730	36
250	260	11	470	490	24	730 and over, 5% of the adjusted tax		
260	270	12	490	510	25			

TABLE 2.—Head of household

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$225	0	$345	$355	$13	$510	$530	$26
$225	235	$1	355	365	14	530	550	27
235	245	2	365	375	15	550	570	28
245	255	3	375	385	16	570	590	29
255	265	4	385	395	17	590	610	30
265	275	5	395	405	18	610	630	31
275	285	6	405	415	19	630	650	32
285	295	7	415	425	20	650	670	33
295	305	8	425	435	21	670	690	34
305	315	9	435	450	22	690	710	35
315	325	10	450	470	23	710	730	36
325	335	11	470	490	24	730 and over, 5% of the adjusted tax		
335	345	12	490	510	25			

TABLE 3.—Married persons or surviving spouse filing joint return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$295	0	$415	$425	$13	$545	$555	$26
$295	305	$1	425	435	14	555	565	27
305	315	2	435	445	15	565	575	28
315	325	3	445	455	16	575	590	29
325	335	4	455	465	17	590	610	30
335	345	5	465	475	18	610	630	31
345	355	6	475	485	19	630	650	32
355	365	7	485	495	20	650	670	33
365	375	8	495	505	21	670	690	34
375	385	9	505	515	22	690	710	35
385	395	10	515	525	23	710	730	36
395	405	11	525	535	24	730 and over, 5% of the adjusted tax		
405	415	12	535	545	25			

"(B) OTHER PERSONS.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every corporation, and on the income of every estate and trust, whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (b)) for the taxable year specified in the following table:

Calendar year	Percent	
	Estates and trusts	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL AND SHORT TAXABLE YEARS.—

"(A) IN GENERAL.—In addition to the other taxes imposed by this chapter and except as provided in subparagraph (B), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(i) 10 percent of the adjusted tax for the taxable year, multiplied by

"(ii) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(B) LIMITATION.—In the case of—

"(i) a husband and wife (or surviving spouse) who file a joint return under section 6013 and whose adjusted tax for the taxable year is less than $580,

"(ii) an individual who is a head of a household to whom section 1(b) applies and whose adjusted tax for the taxable year is less than $440, and

"(iii) any other individual (other than an estate or trust) whose adjusted tax for the taxable year is less than $290,

the tax imposed by subparagraph (A) shall not be greater than an amount equal to twice the tax which would be imposed by subparagraph (A) if the tax were imposed on the amount by which the adjusted tax exceeds $290, $220, or $145, respectively.

"(C) EFFECTIVE DATE DEFINED.—For purposes of subparagraph (A), the term 'effective date of the surcharge' means—

"(i) January 1, 1968, in the case of a corporation, and

"(ii) April 1, 1968, in the case of any other taxpayer.

"(b) ADJUSTED TAX DEFINED.—For purposes of this section, the term 'adjusted tax' means, with respect to any taxable year, the tax imposed by this chapter for such taxable year, determined without regard to—

"(1) the taxes imposed by this section, section 871(a), and section 881; and

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation),

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"(c) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations, amended declarations, and payments of estimated tax the time prescribed for filing or payment of which is on or after—

"(1) in the case of an individual, September 15, 1968, or

"(2) in the case of a corporation, June 15, 1968,

sections 6654(d)(1) and 6655(d)(1) shall not apply with respect to any taxable year for which a tax is imposed by this section.

"(d) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(e) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a).

"(f) SPECIAL RULE.—For purposes of this title, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section."

(b) TECHNICAL AMENDMENT.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", and

(3) by adding after the table in paragraph (3) the following:

"In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

As used in this subsection, the term 'surcharge period' means the period beginning January 1, 1968, and ending June 30, 1969."

(c) WITHHOLDING ON WAGES.—

(1) PERCENTAGE METHOD OF WITHHOLDING.—Subsection (a) of section 3402 (relating to requirement of withholding) is amended—

(A) by inserting before table 1 therein the following:

"(1) In the case of wages paid on or before the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 or after June 30, 1969:"; and

(B) by adding at the end thereof the following:

"(2) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 and before July 1, 1969:

"Table 1—If the payroll period with respect to an employee is WEEKLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $4	*0.*
Over $4 but not over $13	*14% of excess over $4.*
Over $13 but not over $23	*$1.26 plus 15% of excess over $13.*
Over $23 but not over $85	*$2.76 plus 19% of excess over $23.*
Over $85 but not over $169	*$14.54 plus 22% of excess over $85.*
Over $169 but not over $212	*$33.02 plus 28% of excess over $169.*
Over $212	*$45.06 plus 33% of excess over $212.*

"(b) Married Person:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $4	*0.*
Over $4 but not over $23	*14% of excess over $4.*
Over $23 but not over $58	*$2.66 plus 15% of excess over $23.*
Over $58 but not over $169	*$7.91 plus 19% of excess over $58.*
Over $169 but not over $340	*$29.00 plus 22% of excess over $169.*
Over $340 but not over $423	*$66.62 plus 28% of excess over $340.*
Over $423	*$89.86 plus 33% of excess over $423.*

"Table 2—If the payroll period with respect to an employee is BIWEEKLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $8	*0.*
Over $8 but not over $27	*14% of excess over $8.*
Over $27 but not over $46	*$2.66 plus 15% of excess over $27.*
Over $46 but not over $169	*$5.51 plus 19% of excess over $46.*
Over $169 but not over $338	*$28.88 plus 22% of excess over $169.*
Over $338 but not over $423	*$66.06 plus 28% of excess over $338.*
Over $423	*$89.86 plus 33% of excess over $423.*

"(b) Married Person:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $8	*0.*
Over $8 but not over $46	*14% of excess over $8.*
Over $46 but not over $115	*$5.32 plus 15% of excess over $46.*
Over $115 but not over $338	*$15.67 plus 19% of excess over $115.*
Over $338 but not over $681	*$58.04 plus 22% of excess over $338.*
Over $681 but not over $846	*$133.50 plus 28% of excess over $681.*
Over $846	*$179.70 plus 33% of excess over $846.*

"Table 3—If the payroll period with respect to an employee is SEMIMONTHLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $8	*0.*
Over $8 but not over $29	*14% of excess over $8.*
Over $29 but not over $50	*$2.94 plus 15% of excess over $29.*
Over $50 but not over $183	*$6.09 plus 19% of excess over $50.*
Over $183 but not over $367	*$31.36 plus 22% of excess over $183.*
Over $367 but not over $458	*$71.84 plus 28% of excess over $367.*
Over $458	*$97.32 plus 33% of excess over $458.*

"(b) Married Person:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $8	*0.*
Over $8 but not over $50	*14% of excess over $8.*
Over $50 but not over $125	*$5.88 plus 15% of excess over $50.*
Over $125 but not over $367	*$17.13 plus 19% of excess over $125.*
Over $367 but not over $738	*$63.11 plus 22% of excess over $367.*
Over $738 but not over $917	*$144.73 plus 28% of excess over $738.*
Over $917	*$194.85 plus 33% of excess over $917.*

"Table 4—If the payroll period with respect to an employee is MONTHLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $17	*0.*
Over $17 but not over $58	*14% of excess over $17.*
Over $58 but not over $100	*$5.74 plus 15% of excess over $58.*
Over $100 but not over $367	*$12.04 plus 19% of excess over $100.*
Over $367 but not over $733	*$62.77 plus 22% of excess over $367.*
Over $733 but not over $917	*$143.29 plus 28% of excess over $733.*
Over $917	*$194.81 plus 33% of excess over $917.*

"(b) Married Person:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $17	*0.*
Over $17 but not over $100	*14% of excess over $17.*
Over $100 but not over $250	*$11.62 plus 15% of excess over $100.*
Over $250 but not over $733	*$34.12 plus 19% of excess over $250.*
Over $733 but not over $1475	*$125.89 plus 22% of excess over $733.*
Over $1475 but not over $1833	*$289.13 plus 28% of excess over $1475.*
Over $1833	*$389.37 plus 33% of excess over $1833.*

"Table 5.—If the payroll period with respect to an employee is QUARTERLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $50	*0.*
Over $50 but not over $175	*14% of excess over $50.*
Over $175 but not over $300	*$17.50 plus 15% of excess over $175.*
Over $300 but not over $1100	*$36.25 plus 19% of excess over $300.*
Over $1100 but not over $2200	*$188.25 plus 22% of excess over $1100.*
Over $2200 but not over $2750	*$430.25 plus 28% of excess over $2200.*
Over $2750	*$584.25 plus 33% of excess over $2750.*

"(b) Married Person:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $50	*0.*
Over $50 but not over $300	*14% of excess over $50.*
Over $300 but not over $750	*$35.00 plus 15% of excess over $300.*
Over $750 but not over $2200	*$102.50 plus 19% of excess over $750.*
Over $2200 but not over $4425	*$378.00 plus 22% of excess over $2200.*
Over $4425 but not over $5500	*$867.50 plus 28% of excess over $4425.*
Over $5500	*$1168.50 plus 33% of excess over $5500.*

"Table 6—If the payroll period with respect to an employee is SEMIANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:	*The amount of income tax to be withheld shall be:*
Not over $100	*0.*
Over $100 but not over $350	*14% of excess over $100.*
Over $350 but not over $600	*$35.00 plus 15% of excess over $350.*
Over $600 but not over $2200	*$72.50 plus 19% of excess over $600.*
Over $2200 but not over $4400	*$376.50 plus 22% of excess over $2200.*
Over $4400 but not over $5500	*$860.50 plus 28% of excess over $4400.*
Over $5500	*$1168.50 plus 33% of excess over $5500.*

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $100	0.
Over $100 but not over $600	14% of excess over $100.
Over $600 but not over $1500	$70.00 plus 15% of excess over $600.
Over $1500 but not over $4400	$205.00 plus 19% of excess over $1500.
Over $4400 but not over $8850	$756.00 plus 22% of excess over $4400.
Over $8850 but not over $11,000	$1735.00 plus 28% of excess over $8850.
Over $11,000	$2337.00 plus 33% of excess over $11,000.

"Table 7—If the payroll period with respect to an employee is ANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $700	14% of excess over $200.
Over $700 but not over $1200	$70 plus 15% of excess over $700.
Over $1200 but not over $4400	$145 plus 19% of excess over $1200.
Over $4400 but not over $8800	$753 plus 22% of excess over $4400.
Over $8800 but not over $11,000	$1,721 plus 28% of excess over $8800.
Over $11,000	$2,337 plus 33% of excess over $11,000.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $1200	14% of excess over $200.
Over $1200 but not over $3000	$140 plus 15% of excess over $1200.
Over $3000 but not over $8800	$410 plus 19% of excess over $3000.
Over $8800 but not over $17,700	$1,512 plus 22% of excess over $8800.
Over $17,700 but not over $22,000	$3,470 plus 28% of excess over $17,700.
Over $22,000	$4,674 plus 33% of excess over $22,000.

"Table 8—If the payroll period with respect to an employee is a DAILY payroll or a miscellaneous payroll period

"(a) Single Person—Including Head of Household:

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $1.90	14% of excess over $0.50.
Over $1.90 but not over $3.30	$0.20 plus 15% of excess over $1.90.
Over $3.30 but not over $12.10	$0.41 plus 19% of excess over $3.30.
Over $12.10 but not over $24.10	$2.08 plus 22% of excess over $12.10.
Over $24.10 but not over $30.10	$4.72 plus 28% of excess over $24.10.
Over $30.10	$6.40 plus 33% of excess over $30.10.

"(b) Married Person:

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $3.30	14% of excess over $0.50.
Over $3.30 but not over $8.20	$0.39 plus 15% of excess over $3.30.
Over $8.20 but not over $24.10	$1.13 plus 19% of excess over $8.20.
Over $24.10 but not over $48.50	$4.15 plus 22% of excess over $24.10.
Over $48.50 but not over $60.30	$9.52 plus 28% of excess over $48.50.
Over $60.30	$12.82 plus 33% of excess over $60.30."

(2) WAGE BRACKET WITHHOLDING.—Subsection (c) of section 3402 (relating to wage bracket withholding) is amended by adding at the end thereof the following new paragraph:

"(6) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968, and before July 1, 1969, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables contained in paragraph (1). The tables so prescribed shall be the same as the tables contained in paragraph (1), except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld shall be computed on the basis of table 7 contained in subsection (a) (2)."

(d) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax surcharge."

(e) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section (other than subsection (c)) shall apply—

(1) Insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

(2) Insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

SEC. 103. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be $40 or more.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TEMPORARY ESTIMATED TAX EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under subparagraph (B)) multiplied by the lesser of—

"(i) an amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for such year, or

"(ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(2), the applicable percentage is—

"In the case of a taxable year beginning in—	
1968, 1969, 1970, 1971, and 1972	100 percent
1973	80 percent
1974	60 percent
1975	40 percent
1976	20 percent.

"(3) TRANSITIONAL EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under subparagraph (B)) multiplied by the lesser of—

"(i) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"(ii) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"(B) EXCLUSION PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(3), the exclusion percentage is—

"In the case of a taxable year beginning in—	
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be) by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11."

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TEMPORARY ESTIMATED TAX EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under section 6154(c)(2)(B)) multiplied by the lesser of—

"(A) an amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for such year, or

"(B) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

"(3) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)(B)) multiplied by the lesser of—

"(A) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"(B) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"(4) SPECIAL RULE FOR SUBSECTION (d)(1) AND (2).—In applying this subsection for purposes of subsection (d) (1) and (2), the applicable percentage and the exclusion percentage shall be the percentage for the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $500.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"(1) The term 'income tax liability' means the excess of—

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of—

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"(v) surtax exemption, and one amount under sections 6154(c)(2) and (3) and sections 6655(e)(2) and (3), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax."

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "or section 6016".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 104. SPECIAL RULES FOR APPLICATION OF SECTIONS 102 AND 103.

(a) PAYMENT OF ESTIMATED TAX FOR TAXABLE YEARS BEGINNING BEFORE DATE OF ENACTMENT.—In determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103—

(1) such amendments shall apply (A) in the case of an individual, only if the taxable year ends on or after September 30, 1968, and (B) in the case of a corporation, only if the taxable year ends on or after June 30, 1968,

(2) in applying sections 6015, 6073, and 6654 of the Internal Revenue Code of 1954, such amendments shall first be taken into account as of September 1, 1968, and

(3) in applying sections 6016, 6074, 6154, and 6655 of such Code, such amendments shall first be taken into account as of May 31, 1968.

In the case of any amount or additional amount of estimated tax payable, by reason of such amendments, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of this Act, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of this Act) as the Secretary of the Treasury or his delegate shall prescribe.

(b) PAYMENT OF TAX SURCHARGE FOR TAXABLE YEARS ENDING BEFORE DATE OF ENACTMENT.—In the case of a taxable year ending before the date of the enactment of this Act, the time prescribed for payment of the tax imposed by section 51 of the Internal Revenue Code of 1954 shall not expire before September 15, 1968.

SEC. 105. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"If the article is sold—	*The tax rate is—*
Before January 1, 1970	*7 percent*
During 1970	*5 percent*
During 1971	*3 percent*
During 1972	*1 percent.*

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "May 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,".

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows:

"Amounts paid pursuant to bills first rendered—	*Percent—*
Before January 1, 1970	*10*
During 1970	*5*
During 1971	*3*
During 1972	*1."*

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows:

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar

year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as of April 30, 1968.

SEC. 106. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 107. INDUSTRIAL DEVELOPMENT BONDS.

(a) AMENDMENT OF SECTION 103.—Section 103 (relating to interest on certain governmental obligations) is amended by relettering subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"(c) INDUSTRIAL DEVELOPMENT BONDS.—

"(1) SUBSECTION (a)(1) NOT TO APPLY.—Except as otherwise provided in this subsection, any industrial development bond shall be treated as an obligation not described in subsection (a)(1).

"(2) INDUSTRIAL DEVELOPMENT BOND.—For purposes of this subsection, the term 'industrial development bond' means any obligation—

"(A) which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3)), and

"(B) the payment of the principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part—

"(i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or

"(ii) to be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

"(3) EXEMPT PERSON.—For purposes of paragraph (2) (A), the term 'exempt person' means—

"(A) a governmental unit, or

"(B) an organization described in section 501(c)(3) and exempt from tax under section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business, determined by applying section 513(a) to such organization).

"(4) CERTAIN EXEMPT ACTIVITIES.—Paragraph (1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide—

"(A) residential real property for family units,

"(B) sports facilities,

"(C) convention or trade show facilities,

"(D) airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to any of the foregoing,

"(E) sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy, gas, or water, or

"(F) air or water pollution control facilities.

"(5) INDUSTRIAL PARKS.—Paragraph (1) shall not apply to any obligation issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park. For purposes of the preceding sentence, the term 'development of land' includes the provision of water, sewage, drainage, or similar facilities, or of transportation, power, or communication facilities, which are incidental to use of the site as an industrial park, but, except with respect to such facilities, does not include the provision of structures or buildings.

"(6) EXEMPTION FOR CERTAIN SMALL ISSUES.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to any obligation issued as part of an issue the aggregate authorized face amount of which is $1,000,000 or less and substantially all of the proceeds of which are to be used (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation, or (ii) to redeem part or all of a prior issue which was issued for purposes described in clause (i) or this clause.

"(B) CERTAIN PRIOR ISSUES TAKEN INTO ACCOUNT.—If—

"(i) the proceeds of two or more issues of obligations (whether or not the issuer of each such issue is the same) are or will be used primarily with respect to facilities located in the same incorporated municipality or located

in the same county (but not in any incorporated municipality),

"(ii) the principal user of such facilities is or will be the same person or two or more related persons, and

"(iii) but for this subparagraph, subparagraph (A) would apply to each such issue,

then, for purposes of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues and outstanding at the time of such later issue (not including as outstanding any obligation which is to be redeemed from the proceeds of the later issue).

"(C) RELATED PERSONS.—For purposes of this paragraph and paragraph (7), a person is a related person to another person if—

"(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

"(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein).

"(7) EXCEPTION.—Paragraphs (4), (5), and (6) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person."

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided by paragraph (2), the amendment made by subsection (a) shall apply to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

(2) TRANSITIONAL PROVISIONS.—Section 103(c)(1) of the Internal Revenue Code of 1954, as amended by subsection (a), shall not apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968—

(A) the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit;

(B) in connection with the issuance of such obligation or with the use of the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds, a governmental unit has made a significant financial commitment;

(C) any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds has expended (or has entered into a binding contract to expend) for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds; or

(D) in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

SEC. 108. ADVERTISING IN A POLITICAL CONVENTION PROGRAM.

(a) ALLOWANCE OF DEDUCTION.—Section 276 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

"(c) ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive—

"(1) directly as a result of such advertising, or

"(2) as a result of the convention being held in an area in which the taxpayer has a principal place of business."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to amounts paid or incurred on or after January 1, 1968.

SEC. 109. TAX-EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS.

(a) EXEMPTION FROM TAX.—Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes, if—

"(1) such organization is organized and operated solely—

"(A) to perform, on a centralized basis, one or more of the following services which, if performed on its own behalf by a hospital which is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel (including selection, testing, training, and education of personnel) services; and

"(B) to perform such services solely for two or more hospitals each of which is—

"(i) an organization described in subsection (c)(3) which is exempt from taxation under subsection (a),

"(ii) a constituent part of an organization described in subsection (c)(3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c)(3), or

"(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

"(2) such organization is organized and operated on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5)."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 110. SUBMISSION OF PROPOSALS FOR TAX REFORM.

Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

TITLE II—EXPENDITURE AND RELATED CONTROLS

SEC. 201. LIMITATION ON THE NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) Except as otherwise provided in this section—

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966.

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

(b)(1) During any period when appointments are otherwise prohibited under subsection (a)(1), the head of any department or agency may, except as otherwise provided in this subsection, appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies

in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

(2) For purposes of paragraph (1), all agencies which, on the first day of any period when appointments are otherwise prohibited under subsection (a)(1), have 50 or fewer full-time civilian employees in permanent positions shall be treated as one agency, and the Director of the Bureau of the Budget (hereinafter in this section referred to as the "Director") shall determine the vacancies in each such agency which may be filled by reason of paragraph (1).

(3) For purposes of paragraph (1), the Director may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(4) If a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency—

(A) such transfer shall be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and

(B) subsection (a)(1) shall not apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy shall not be taken into account under paragraph (1).

(c) For purposes of subsection (a)(2), the Director may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(d) For purposes of this section, there shall not be taken into account—

(1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under subsection (a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time,

(2) casual employees or employees serving without compensation, and

(3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

(e) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(f) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(g) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of this section.

(h) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

(i) The Director shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.

(j) This section (other than subsection (i)) shall take effect on the first day of the first month which begins after the date of the enactment of this Act.

SEC. 202. REDUCTION OF $6 BILLION IN EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures and net lending during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as totaling $186,062,000,000), shall not exceed $180,062,000,000, except by expenditures and net lending—

(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,

(2) for interest in excess of the amounts estimated therefor in the Budget,

(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

(b) The President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a).

SEC. 203. REDUCTION OF $10 BILLION IN NEW OBLIGATIONAL AUTHORITY.

(a) The total new obligational authority and loan authority for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as $201,723,000,000) shall not exceed $191,723,000,000, except for new obligational authority and loan authority—

(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,

(2) for interest in excess of the amounts estimated therefor in the Budget,

(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

(b) In the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by subsection (a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of subsection (a). The amounts so reserved (other than any amounts reserved from trust funds) are hereby rescinded as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, shall make a report to the Congress identifying the amounts reserved pursuant to this paragraph.

SEC. 204. SPECIFIC RECOMMENDATIONS FOR $8 BILLION RESCISSION IN OLD OBLIGATIONAL AUTHORITY.

The President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress. Such report shall be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and shall include specific recommendations for legislation to rescind not less than $8,000,000,000 of such unobligated balances.

SEC. 205. APPLICATION OF CERTAIN FORMULAS.

In the administration of any program as to which—

(1) the amount of expenditures or obligations is limited pursuant to section 202 or 203, and

(2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

SEC. 301. LIMITATION ON NUMBER OF CHILDREN WITH RESPECT TO WHOM FEDERAL PAYMENTS MAY BE MADE UNDER PROGRAM OF AID TO FAMILIES WITH DEPENDENT CHILDREN.

Subsection (d) of section 403 of the Social Security Act is amended (1) by inserting "(1)" immediately after "(d)", (2) by inserting "(except the succeeding paragraphs of this subsection)" immediately after "Act", (3) by striking out "June 30, 1968" and inserting in lieu thereof "June 30, 1969", and (4) by adding at the end of such subsection the following new paragraphs:

"(2) In the case of any State which is determined by the Secretary to have effectuated, in compliance with or in reliance upon or in consideration of a judicial decision (as defined in paragraph (3)), a policy of providing aid to families with dependent children under its State plan approved under this part to or on behalf of individuals who, except for such policy, would not be eligible for such aid, the average monthly number of dependent children under the age of 18 who have been deprived of parental support or care by reason of the continued absence from the home of a parent with respect to whom payments under this section were made to the State for the calendar quarter beginning January 1, 1968, shall, for purposes of applying the provisions of paragraph (1), be increased by the average monthly number, in the calendar quarter beginning April 1, 1969, of children under the age of 18 who are deprived of parental support or care by reason of the continued absence from the home of a parent and who by reason of such policy began to receive such aid after March 1968 and received such aid during the calendar quarter beginning April 1, 1969.

"(3) As used in paragraph (2), the term 'judicial decision' means any decision by a court of the United States of competent jurisdiction in any case or controversy in which there is decided the issue of the validity, under the United States Constitution, of any law, rule, regulation, or policy of a State under which aid to families with dependent children is denied to individuals otherwise eligible therefor because of failure to meet duration of residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom such aid is sought."

SEC. 302. AID TO FAMILIES WITH DEPENDENT CHILDREN IN CASE OF UNEMPLOYED FATHERS RECEIVING UNEMPLOYMENT COMPENSATION.

Section 407(b)(2)(C) of the Social Security Act is amended to read as follows:

> *"(C) for the denial of aid to families with dependent children to any child or relative specified in subsection (a)—*
>
> > *"(i) if, and for so long as, such child's father is not currently registered with the public employment offices in the State, and*
> >
> > *"(ii) with respect to any week for which such child's father receives unemployment compensation under an unemployment compensation law of a State or of the United States."*

SEC. 303. FEDERAL PAYMENTS UNDER MEDICAL ASSISTANCE PROGRAM FOR CERTAIN SERVICES INCLUDIBLE UNDER SUPPLEMENTARY MEDICAL INSURANCE PROGRAM.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

(*b*) *The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.*

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same with an amendment as follows:

Amend the title so as to read: "An Act to increase revenues, to limit expenditures and new obligational authority, and for other purposes."

And the Senate agree to the same.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,
Managers on the Part of the House.

RUSSELL LONG,
GEO. A. SMATHERS,
CLINTON P. ANDERSON,
JOHN J. WILLIAMS,
FRANK CARLSON,
Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all after the enacting clause and inserted new text. Under the conference agreement, the House recedes with an amendment which substitutes new text explained below.

Section 1. Short title; table of contents

Section 1(a) of the conference substitute provides that the bill, when enacted, may be cited as the "Revenue and Expenditure Control Act of 1968." Section 1(a) of the bill as passed by the House provided as the short title the "Tax Adjustment Act of 1968." Section 1 of the Senate amendment provided as the short title the "Balance of Payments and Domestic Economy Act of 1968."

Section 1(b) of the conference substitute provides a table of contents which sets forth the titles and sections of the bill.

Title I—Internal Revenue Code Amendments

Section 101. Amendment of existing law

Section 101 of the conference substitute provides that, except as otherwise expressly provided, whenever in title I of the bill an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to be considered to be made to a section or other provision of the Internal Revenue Code of 1954. This corresponds to section 1(b) of the bill as passed by the House and to section 5 of the Senate amendment.

Section 102. Imposition of tax surcharge

Section 102 of the conference substitute corresponds in substance to section 17 of the Senate amendment. Subsection (a) of section 102 amends subchapter A of chapter 1 of the 1954 Code by adding at the end thereof a new part V, consisting of a new section 51 which imposes a 10 percent income tax surcharge for the period January 1, 1968, through June 30, 1969, in the case of corporations, and for the period April 1, 1968, through June 30, 1969, in the case of individuals.

Imposition of tax surcharge

Subsection (a) of the new section 51 imposes the tax surcharge. Paragraph (1) relates to calendar years. Subparagraph (A) imposes, in addition to the other taxes imposed by chapter 1 of the 1954 Code,

on the income of every individual (other than an estate or trust) whose taxable year is the calendar year, a tax which is shown in the applicable table in such subparagraph. For the calendar year 1968, the tables are based on a tax of 7.5 percent of the adjusted tax. For the calendar year 1969, the tables are based on a tax of 5 percent of the adjusted tax. The tables also are based on—

(1) An exemption from the tax surcharge for single persons (other than a head of household) whose adjusted tax does not exceed $145, heads of households whose adjusted tax does not exceed $220, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed $290; and

(2) A limitation on the tax surcharge applicable to single persons (other than a head of household) whose adjusted tax does not exceed $290, heads of households whose adjusted tax does not exceed $440, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed $580.

Subparagraph (B) imposes the tax surcharge on corporations, and on estates and trusts, whose taxable year is the calendar year. In the case of corporations, the tax for the calendar year 1968 is to be 10 percent of the adjusted tax, and the tax for the calendar year 1969 is to be 5 percent of the adjusted tax. In the case of estates and trusts, the rates are 7.5 percent for 1968 and 5 percent for 1969.

Paragraph (2) of subsection (a) imposes the tax surcharge in the case of taxpayers whose taxable year is a fiscal year or a short year. The tax is comparable to the tax for the calendar year and is determined, in general, by multiplying 10 percent of the adjusted tax for the taxable year by a fraction determined by the number of the days in the taxable year which are within the period during which the surcharge applies.

Adjusted tax defined

Subsection (b) of the new section 51 defines the term "adjusted tax" as meaning the tax imposed by chapter 1 of the 1954 Code for the taxable year, determined without regard to the taxes imposed by sections 51 (as added by the bill), 871(a), and 881 of such code and without regard to certain specified increases in tax, and reduced by an amount equal to the retirement income credit which would be allowable under section 37 of such code if no tax were imposed by section 51 for the taxable year. Except for this reduction for the retirement income credit, the amount of the surcharge is determined before credits (such as the foreign tax credit and the investment credit), but the credits provided by part IV of subchapter A of chapter 1 are allowed against the amount of the surcharge. In the case of an alternative tax computed by reference to a partial tax (such as sec. 1201, in the case of capital gains), the tax surcharge applies only to the alternative tax and is not taken into account in determining the partial tax.

Estimated tax

Subsection (c) of the new section 51 provides that with respect to declarations, amended declarations, and payments of estimated tax, the time prescribed for filing or payment of which is on or after September 15, 1968, in the case of an individual, or June 15, 1968, in the case of a corporation, the rules in section 6654(d)(1) and 6655(d)(1) of the Code (which permit taxpayers to base their estimated tax

payments for a taxable year on the tax liability shown on the return for the preceding year) are not to apply with respect to any taxable year for which a tax is imposed by the new section 51.

Technical amendments

The remaining subsections of the new section 51 contain technical and conforming provisions relating to (1) Western Hemisphere trade corporations and dividends on certain preferred stock of public utilities, (2) shareholders of regulated investment companies, and (3) the attribution of the tax surcharge to the section imposing the tax on which the surcharge is based.

Subsection (b) of section 102 of the bill as agreed to in conference is a technical amendment relating to the receipt of minimum distributions by domestic corporations from controlled foreign corporations.

Withholding on wages

Subsection (c) of section 102 of the bill as agreed to in conference relates to withholding on wages.

Paragraph (1) of subsection (c) sets forth new tables for the percentage method of withholding. These tables are to apply in the case of wages paid after the 15th day after the date of the enactment of the bill and before July 1, 1969. The tables provide for withholding amounts of tax including the 10-percent tax surcharge which is to be in effect during this period.

Paragraph (2) of subsection (c) relates to the wage bracket method of withholding on wages during the period referred to in paragraph (1). The amount deducted and withheld under this method is to be determined in accordance with tables prescribed by the Secretary of the Treasury or his delegate. The tables so prescribed are to be the same as the tables now in the law, except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld are to be computed on the basis of table 7 (percentage method of withholding if payroll period with respect to an employee is annual) set forth in the amendment made by paragraph (1) of subsection (c).

Subsection (d) of section 102 of the bill as agreed to in conference makes a clerical amendment to a table of parts.

Effective date

Subsection (e) of section 102 of the bill as agreed to in conference provides effective dates. The amendments made by section 102 (other than subsection (c), relating to withholding on wages) are to apply (1) insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and (2) insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

For explanation of special rules with respect to the application of the new section 51 of the 1954 Code in the case of (1) payments of estimated tax for taxable years beginning before the date of the enactment of the bill, and (2) payments of tax surcharge for taxable years ending before such date of enactment, see the explanation of section 104.

Section 103. Payment of estimated income tax by corporations

Section 103 of the conference substitute corresponds to section 3 of the bill as passed by the House and section 7 of the Senate amendment. Except for technical and conforming changes and as noted

below, the provisions of the bill as passed by the House, the Senate amendment, and the conference substitute are the same.

Under existing law, a corporation is required to make payments of estimated income tax to the extent its estimated income tax liability (after credits) exceeds $100,000. Under the bill as passed by the House, the $100,000 exemption is ultimately eliminated and a corporation is required to make payments if the tax liability can reasonably be expected to be $40 or more. Under the Senate amendment, the $100,000 exemption is ultimately reduced to an amount equal to 22 percent of its surtax exemption (this amount is $5,500 or, in the case of certain controlled groups of corporations, the portion thereof allocated to the corporation). Both the bill as passed by the House and the Senate amendment make their respective changes in the $100,000 exemption over a 5-year transitional period. Under the conference agreement, the $100,000 exemption is reduced in the manner provided by the Senate amendment in five annual stages, and is then eliminated in five additional annual stages. Payments of estimated tax are not required unless such estimated tax (tax liability, reduced by credits against tax and the exemptions) can reasonably be expected to be $40 or more.

Under the bill as passed by the House and under the Senate amendment, a corporation which overpays its estimated income tax may file an application for an adjustment ("quick refund") of the overpayment. Under the bill as passed by the House, the application may not be allowed unless the amount of the adjustment ("quick refund") equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200. The Senate amendment changed 5 percent to 10 percent, and changed the $200 amount to $500. The conference agreement accepts the changes made by the Senate amendment.

The bill as passed by the House, the Senate amendment, and the conference substitute provide that the amendments relating to the payment of estimated income tax by corporations are to apply with respect to taxable years beginning after December 31, 1967. The Senate amendment contained in addition, a special provision relating to the payment of estimated tax (attributable to the enactment of the bill) required of any corporation on April 15, 1968. Under the conference agreement, the special rules relating to the application of this section of the bill and section 102 (including its effect on declarations and payments of estimated tax) are contained in section 104.

Section 104. Special rules for applications of sections 102 and 103

Section 104 of the conference substitute provides certain special rules with regard to the due dates for additional payments of estimated tax attributable to sections 102 and 103 of the bill, and the due date for certain payments of the tax surcharge imposed by the new section 51 of the Code.

Payment of estimated tax for taxable years beginning before date of enactment

Subsection (a) of section 104 provides that in determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103, such amendments are to apply only if the taxable year ends on or after September 30, 1968, in the case of an individual, or on or after

June 30, 1968, in the case of a corporation. Subsection (a) further provides that with respect to estimated tax requirements, the amendments made by sections 102 and 103 of the bill are to be first taken into account as of September 1, 1968, for individuals, and May 31, 1968, for corporations. Thus, for example, in the case of a calendar year corporation the requirements of the amended section 6154 (installment payments of estimated tax by corporations) will be first applied as of May 31, 1968, and any increase in the amount of estimated tax resulting from the amendments made by sections 102 and 103 are to be reflected in the corporation's estimated tax installments beginning with the installment due June 15, 1968. In the case of an individual whose taxable year is the calendar year, any increase in the amount of estimated tax resulting from the tax surcharge is to be reflected in the individual's estimated tax installments beginning with the installment due September 15, 1968.

Subsection (a) also provides that in the case of any amount or additional amount of estimated tax payable, by reason of the amendments made by sections 102 and 103, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of the bill, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of the bill) as the Secretary of the Treasury or his delegate shall prescribe.

Payment of tax surcharge for taxable years ending before date of enactment

Subsection (b) of section 104 provides that in the case of a taxable year ending before the date of enactment of this bill, the time prescribed for payment of the surcharge imposed by new section 51 shall not expire before September 15, 1968. Since taxpayers whose taxable years ended during 1968 before the date of enactment of the surcharge may have filed their returns without taking any liability for the surcharge into account, the Internal Revenue Service may require a statement to be filed with the payment due on September 15. Such statement will not constitute a return for purposes of the Internal Revenue Code of 1954. Therefore, neither the period of limitations on assessment and collection nor the period of limitations on credit or refund, if otherwise measured from the time the return is filed, will be extended by the subsequent filing of such statement. In the case of any interest, penalty, or addition to tax, the period of underpayment will not begin with respect to the surcharge before September 15, 1968. Thus, for example, interest on an underpayment of surcharge due, under section 104(b), on September 15,1968, will be measured from such due date. This results from the application of section 6601 of the Internal Revenue Code which provides, generally, that interest will be measured on an underpayment from the last date prescribed for payment. Similarly, in the event of an overpayment of tax, interest on such overpayment attributable to a surcharge payment made on or before September 15, 1968, will not be allowable with respect to any period before September 15. This results from the application of sections 6611 and 6513 of the Internal Revenue Code which provide, generally, that interest shall be allowed on an overpayment of tax from the last day prescribed by law for payment of such tax, or, if later, from the date of such overpayment.

Under section 6152 of the Internal Revenue Code, a corporation may elect to pay its tax in two equal installments. If both installments are due before September 15, 1968, then the additional payment required to reflect the surcharge must be paid on or before September 15. If the first installment is due on or before September 15, but the second installment is due after that date, the corporation must pay one-half of the amount of the surcharge on or before September 15, 1968. The remaining half of the surcharge due will be paid as a part of the second installment on the due date for that installment.

Section 105. Continuation of excise taxes on communication services and on automobiles

Section 6 of the Senate amendment is identical to section 2 of the bill as passed by the House. These provisions are retained as section 105 of the conference substitute, except that the amendments are to take effect as of April 30, 1968, rather than March 31, 1968, in order to conform to the one month extension provided by Public Law 90–285, approved April 12, 1968.

Section 106. Timely mailing of deposits

Section 4 of the bill as passed by the House amends the Code to prescribe rules under which deposits delivered by United States mail to the bank or trust company authorized to receive the deposits are to be treated as timely deposited. Section 8 of the Senate amendment is identical to section 4 of the bill as passed by the House. These provisions are retained as section 106 of the conference substitute.

Section 107. Industrial development bonds

Sections 9 and 10 of the Senate amendment relate to industrial development bonds. In past years the Internal Revenue Service had ruled that the interest paid on obligations commonly known as industrial development bonds was exempt from income tax under section 103 of the Code (Rev. Rul. 54–106, Rev. Rul. 57–187, and Rev. Rul. 63–20). On March 23 of this year the Internal Revenue Service published proposed regulations providing that the interest paid on industrial development bonds described in the proposed regulations would no longer be considered to be exempt under section 103. The proposed regulations represented a change in the position previously taken by the Internal Revenue Service and were based on the theory that industrial development bonds described in the proposed regulations were not "obligations of a State * * * or any political subdivision" within the meaning of section 103 since the primary obligor was not a State or political subdivision. These proposed regulations also contained a series of rules to provide a transition from the prior rulings to the rules set forth in the new regulations applicable to those who had committed themselves in particular ways to projects in reliance on the Service's prior position.

Section 9 of the Senate amendment would have, in effect, suspended the application of the proposed regulations by requiring the continued application of the revenue rulings referred to above until Congress acted on the subject. Section 10 of the Senate amendment would have provided a specific rule for determining the tax status of industrial development bonds issued after January 1, 1969. In general, section 10 denied tax-exempt status to industrial development bonds described in such section issued after January 1, 1969. Section 10 also

provided specific exemptions to this rule. The effect of sections 9 and 10, taken together, would have been to extend the Internal Revenue Service's prior interpretation of the tax status of industrial development bonds until section 10 became effective.

The conferees, in agreeing to a substitute incorporating features of sections 9 and 10, have for the future provided exclusive rules for industrial development bonds essentially of the type referred to in the prior revenue rulings and within the definition contained in the substitute, specifying the types of such bonds which in the future are to be taxable and the types of such bonds which are to be tax exempt. Under the conference agreement, the substitute becomes effective on May 1, 1968, and there is a continuing exemption, in addition to the specific exemptions, for issues of under $1 million. The May 1, 1968, effective date does not apply with respect to obligations issued before January 1, 1969, if before May 1, 1968, any of the conditions specified in section 107(b) of the conference substitute are satisfied.

The conference substitute does not affect the tax status of any obligation which is not an industrial development bond as defined in the substitute.

(*a*) *Amendment of section 103.*—Section 107(a) of the conference substitute amends section 103 of the Code, relating to interest on certain governmental obligations, by relettering present section 103(c) as section 103(d) and by inserting after present section 103(b) a new subsection (c), relating to the tax treatment of interest paid on industrial development bonds.

Section 103(a)(1) not to apply

Paragraph (1) of new subsection (c) provides that, except as otherwise provided in new subsection (c), any industrial development bond (as defined in new subsection (c)(2)) shall be treated as an obligation which is not described in present section 103(a)(1) of the Code. The interest paid on any obligation which is an industrial development bond will, therefore, be taxable except as otherwise provided by the new subsection (c).

Industrial development bond defined

Paragraph (2) of new subsection (c) contains the definition of the term "industrial development bond" for purposes of new subsection (c). Any debt obligation which satisfies both the trade or business test (contained in new subsection (c)(2)(A)) and the security interest test (contained in new subsection (c)(2)(B)) is an industrial development bond.

Trade or business test

Subparagraph (A) of new subsection (c)(2) contains the trade or business test. This test is met by any obligation which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3) of the new subsection (c)). The term "obligation which is part of an issue" includes a single note issued in connection with a bank loan.

Security interest test

Subparagraph (B) of new subsection (c)(2) contains the security interest test. The test is met by any obligation the payment of the prin-

cipal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part, secured in the manner described in clauses (i) or (ii) of new subparagraph (B).

Clause (i) of new subsection (c)(2)(B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) secured either (1) by any interest in property used or to be used in a trade or business, or (2) by any interest in payments in respect of such property.

Clause (ii) of new subsection (c)(2)(B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) to be derived from payments to be made in respect of property, or borrowed money, used or to be used in a trade or business.

Exempt person

Paragraph (3) of new section 103(c) defines the term "exempt person" for purposes of paragraph (2)(A) to mean—

(1) a governmental unit (that is, a State, a territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia), or

(2) an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code (but only with respect to a trade or business which is not an unrelated trade or business).

In determining whether a trade or business is an unrelated trade or business, the definition of such term in section 513(a) of the Code is to be applied to the organization without regard to whether it is an organization subject to the tax imposed by section 511 of the Code.

Under paragraphs (2) and (3) of the new section 103(c), an obligation (1) which is issued as a part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, and (2) which meets the security interest test of paragraph (2)(B) is an industrial development bond. In determining whether all or a major portion of the proceeds of an issue are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the indirect, as well as the direct, use of the proceeds is to be taken into account. Thus, if all or a major portion of the proceeds of an issue are to be loaned by the issuer to one or more persons who are not exempt persons for use by such person or persons in trades or businesses carried on by them, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who is not an exempt person and who is to use such facilities in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who will in turn lease them to another person who is not an exempt person for use in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds.

Therefore, under paragraphs (2) and (3) of the new section 103(c), when all or a major portion of the proceeds of an issue which meets the security interest test of paragraph (2)(B) are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the obligations comprising such issue are industrial development bonds, unless all or a major portion of such proceeds are to be used directly or indirectly only in a trade or business carried on by a person who is an exempt person, and are not to be used in any trade or business carried on by any person who is not an exempt person. The fact that the governmental unit engages in a series of loan transactions of the types referred to above does not mean that the bonds relating to the loans in each case are not industrial development bonds so long as the other person uses the loans (for example, to acquire or construct property) in a trade or business carried on by a person who is not an exempt person.

Examples

The application of the rules contained in paragraphs (2) and (3) of new section 103(c) are illustrated by the following examples:

Example (1).—Governmental unit A and corporation X enter into an arrangement under which A is to provide a factory which X will lease for 20 years. The arrangement provides (1) that A will issue $10 million of bonds, (2) that the proceeds of the bond issue will be used to purchase land and to construct and equip a factory in accordance with X's specifications, (3) that X will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by X and the facility itself will be the security for the bonds. The bonds are industrial development bonds since they are part of an issue of obligations (1) all of the proceeds of which are to be used (by purchasing land and constructing and equipping the factory) in a trade or business by a person who is not an exempt person, and (2) the payment of the principal and interest on which is secured by a security interest in, and is to be derived from payments to be made in respect of, property to be used in a trade or business.

Example (2).—The facts are the same as in example (1) except that instead of providing that X will lease the facility for 20 years, the arrangement provides that (1) X will purchase the facility, and (2) annual payments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds will be made by X. The bonds are industrial development bonds for the reasons set forth in example (1).

Example (3).—Governmental unit B and corporation X enter into an arrangement under which the governmental unit is to lend $10 million to X. The arrangement provides that (1) B will issue $10 million of bonds, (2) the proceeds of the bond issue will be lent to X to provide additional working capital and to finance the acquisition of certain new machinery, (3) X will repay the loan in annual installments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) the payments on the loan and the machinery will be security for the bonds. The bonds are industrial development bonds since they are debt obligations part of an issue (1) all of the proceeds of which are to be used in a trade or business by a person who is not an exempt person, and (2) the payment

of the principal and interest on which is secured by payments to be made in respect of property to be used in a trade or business.

Example (4).—The facts are the same as in example (1), (2), or (3) except that the annual payments required to be made by corporation X exceed the amount necessary to amortize the principal and pay the interest on the outstanding bonds. The bonds are industrial development bonds for the reasons set forth in such examples. The fact that corporation X is required to pay an amount in excess of the amount necessary to pay the principal and interest on the bonds does not affect their status as industrial development bonds.

Example (5).—The facts are the same as in example (1), (2), (3), or (4) except that the bonds also are general obligation bonds and the governmental unit is required to pay principal and interest out of general revenues in the event of a default by corporation X. The bonds are industrial development bonds for the reasons set forth in such examples. Governmental unit A's arrangement to pay the principal and interest on the bonds out of its general revenues in the event of default is a guaranty of corporation X's primary obligation to make the necessary payments. Governmental unit A's guaranty does not affect the status of the bonds as industrial development bonds.

Example (6).—Governmental unit C issues its general obligation bonds to purchase land and build a housing project principally for residential purposes. The bond indenture provides (1) that C is to own and operate the project as a rental facility, and (2) that the project itself and the rental payments are the security for the bonds. The bonds are not industrial development bonds since the project is to be owned and operated by C (an exempt person) and a major part of the proceeds of the issue are not to be used indirectly by any other person in any trade or business.

Example (7).—Governmental unit D issues its obligations to finance the construction of dormitories for educational institution Y which is an organization described in section 501(c)(3) of the Code and exempt from tax under section 501 (a) of the Code. The dormitories are to be owned and operated by Y and do not constitute an unrelated trade or business. The bonds are not industrial development bonds since the proceeds are not to be used in a trade or business by a person who is not an exempt person.

Example (8).—Governmental unit E issues its obligations to finance the construction of various facilities that are to be leased to numerous unrelated corporations for use in their trades or businesses. The obligations are secured by revenues that governmental unit E will derive from such leases. The bonds will constitute industrial development bonds notwithstanding the fact that the activities of governmental unit E, an exempt person, may amount to a trade or business of leasing property, since the property involved will be used by each of the corporations in their respective trades or businesses.

Certain exempt activities

Paragraph (4) of new subsection (c) provides that new subsection (c)(1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide certain designated types of facilities. Obligations issued to finance such facilities may be industrial development bonds, but they are to be treated as obligations described in section 103(a)(1) of the Code.

Subparagraph (A) of new subsection (c)(4) applies in respect of obligations issued to provide residential real property for family units. A family unit is a building or portion thereof which contains complete living facilities which are to be used on other than a transient basis by only one family consisting of one or more persons. Thus, an apartment which is to be used on other than a transient basis by one family, which contains complete facilities for living, sleeping, eating, cooking, and sanitation constitutes a family unit. Hotels, motels, dormitories, fraternity and sorority houses, rooming houses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not constitute residential real property.

The term "residential real property for family units" includes land and facilities which are functionally related and subordinate to the space used for family units. In addition, it is not intended that the fact that a minor portion of the facility is used for other nonfamily unit purposes (such as for a drugstore or other retail establishment) would cause the project not to be within the term.

Subparagraph (B) of new subsection (c)(4) applies in respect of obligations issued to provide sports facilities. The term "sports facilities" includes facilities (such as stadiums) for watching baseball, football, and other sports events as well as facilities for the participation of the general public in sports activities such as golf, skiing, or swimming. Any other facility which is functionally related and subordinate to the sports facility such as a parking lot, club house, ski slope warming house, or bath house, is considered to be a part of the exempt sports facility. The portion of the proceeds of a borrowing which are expended in connection with any functionally related and subordinate facility are taken into account in determining whether substantially all of the proceeds of the borrowing are used to provide a sports facility. A facility which is primarily a hotel or motel but which includes facilities for sports, such as a golf course, swimming pool, or tennis courts, is not within the meaning of the term.

Subparagraph (C) of new subsection (c)(3) applies in respect of obligations issued to provide convention and trade show facilities. These facilities are the meeting halls, display areas, and facilities functionally related and subordinate to them, which are needed to house a convention or trade show. The term does not include hotel facilities available to the general public whether or not intended primarily to house persons attending or participating in a convention or a trade show.

Subparagraph (D) of new subsection (c)(4) applies in respect of obligations issued to provide airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to an airport, dock, wharf, mass commuting facility, or parking facility. For example, a grain elevator or warehouse which is on or adjoins a dock or wharf and which is directly related to it is an exempt storage facility. A facility located at an airport at which flight personnel are trained for their duties is an example of an exempt training facility.

Subparagraph (E) of new subsection (c)(4) applies in respect of obligations issued to provide (1) sewage or solid waste disposal facilities or (2) facilities for the local furnishing of electric energy, gas, or water. Solid waste disposal means the collection, storage, treatment, utilization, processing, or final disposal of solid waste (as defined in

the Solid Waste Disposal Act, 42 U.S.C. § 3252 (4)). Facilities for the local furnishing of electric energy, gas, or water do not include facilities for regional or broader transportation of gas or water by pipeline or long line transmission of electric energy.

Subparagraph (F) of new subsection (c)(4) applies in respect of obligations issued to provide air or water pollution control facilities, such as, for example, those described in subparagraphs (B)(i) and (C)(i) of section 48(h)(12) of the Code (relating to water and air pollution control facilities).

Industrial parks

Paragraph (5) of new subsection (c) provides that new subsection (c)(1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park. An industrial park, is, for purposes of new subsection (c)(5), a tract of land suitable for industrial, distribution, or wholesale use, the control and administration of which is usually vested in a governmental body. The uses of the tract are usually regulated by protective minimum restrictions, ordinarily including the size of sites, parking and loading regulations, and building set-back lines.

For purposes of paragraph (5), the term "development of land" includes the provision of water, sewer, drainage, or similar facilities, or of transportation, power, or communication facilities. Such facilities are, however, included within the meaning of the term only to the extent that they are incidental to the use of the site as an industrial park. A water pump house or a railroad siding might be incidental to the use of a site as an industrial park. Except with respect to such facilities, the term does not include the provision of structures or buildings.

Exemption for certain small issues

Paragraph (6) of new subsection (c) provides a special exemption for industrial development bond issues of $1 million or less. If the provisions of paragraph (6) are applicable to an issue of industrial development bonds, the interest on such bonds will be tax exempt notwithstanding new subsection (c)(1).

In general.—Subparagraph (A) of new subsection (c)(6) provides that new subsection (c)(1) shall not apply to any obligation issued as part of an issue if (1) the aggregate authorized face amount of such issue is $1 million or less and (2) substantially all of the proceeds of such issue are to be used either (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation under section 167 of the Code (relating to depreciation), or (ii) to redeem part or all of a prior issue which was issued for the purposes described in clauses (i) or (ii) of new subsection (c)(6)(A).

Substantially all of the proceeds of a $1 million or less issue must be used for the acquisition, construction, reconstruction, or improvement of land or of depreciable property if the obligations are to qualify for the small issue exemption. This $1 million exemption is not applicable if a substantial portion of the proceeds are loaned to a borrower for use as working capital or to finance inventory.

Under the refunding rule of clause (ii), all or a part of the proceeds of a new $1 million or less issue may be used to redeem either (1) part

or all of any prior issue which qualifies under clause (i), or (2) part or all of any prior issue which was used (either itself or one of its predecessor issues) to redeem an issue which qualified under clause (i). For example, a new $1 million issue of 4.5 percent obligations might in the future be used to redeem an outstanding $1 million issue of 6 percent obligations. In addition, if the outstanding issue was $700,000, a new issue of $1 million would be tax exempt if the $300,000 additional proceeds were used in the manner described in clause (i).

Certain prior issues taken into account.—Subparagraph (B) of new subsection (c)(6) provides rules for taking into account outstanding prior small issues in determining whether a subsequent $1 million or less issue qualifies for the special exception. Subparagraph (B) provides that if the requirements of clauses (i), (ii), and (iii) of subparagraph (B) with respect to a prior issue of obligations are applicable, then, for purposes of applying the special exemption of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues which are outstanding at the time of such later issue. The face amount of any outstanding obligation which is to be redeemed from the proceeds of the later issue is not, however, taken into account.

The requirement of clause (i) of new subsection (c)(6)(B) is that the proceeds of two or more issues of obligations (whether or not the governmental unit issuing such obligations is the same unit for each such issue) which qualify under new subsection (c)(6)(A) and which are issued after April 30, 1968, are or will be used primarily with respect to facilities located or to be located in the same incorporated municipality or located or to be located in the same county in an unincorporated area in such county.

The requirement of clause (ii) of new subsection (c)(6)(B) is that the principal user of such facilities is or will be the same person or two or more related persons (as defined in new subsection (c)(6)(C)).

The requirement of clause (iii) of new subsection (c)(6)(B) is that, but for subparagraph (B), new subsection (c)(6)(A) would apply to each such issue of obligations.

The application of the rules contained in subparagraphs (A) and (B) of new subsection (c)(6) are illustrated by the following example:

Example.—(a) County B and corporation Y enter into an arrangement under which the county is to provide a factory which Y will lease for 20 years. The arrangement provides (1) that B will issue $1 million of bonds on November 1, 1968, (2) that the proceeds of the bond issue will be used to purchase land in Town M and to construct and equip a factory in accordance with Y's specifications, (3) that Y will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by Y and the facility itself shall be the security for the bonds. Although the bonds issued are industrial development bonds within the meaning of new subsection (c)(2), by reason of the small issue exemption of subparagraph (A) of new subsection (c)(6), they are to be treated as obligations described in section 103(a)(1) of the Code.

(b) Subsequently, corporation Y proposes to Town M that the Town build a $400,000 warehouse in the Town for the use of corporation Y under terms similar to the factory arrangement. On the issue

date of the new bond issue, $750,000 of the first issue of bonds are outstanding. If M issues $400,000 of bonds for such purposes, the issue will not qualify under the small issue exemption since the prior outstanding issue of $750,000 must be taken into account, inasmuch as (1) the facilities under both issues are to be located in Town M, (2) the same taxpayer will be the principal user of the new warehouse, and (3) but for subparagraph (B) of new subsection (c)(6), subsection (c)(6)(A) would apply to the new bond issue.

Related persons.—Subparagraph (C) of new subsection (c)(6) defines the term "related person" for purposes of paragraphs (6) and (7) of new subsection (c).

Subparagraph (C) provides that a person is a "related person" to another person if—

(1) under clause (i), the relationship between such persons would result in a disallowance of losses under section 267 of the Code (relating to disallowance of losses, etc., between related taxpayers) and section 707(b) of the Code (relating to losses disallowed, etc., between partners and controlled partnerships), or

(2) such persons are members of the same controlled group of corporations, as defined in section 1563(a) of the Code, relating to definition of controlled group of corporations (except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a)).

Exception

Paragraph (7) of new subsection (c) provides that paragraphs (4), (5), and (6) of new subsection (c) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person (as defined in subparagraph (C) of new subsection (c)(6)). Thus, the interest paid on an obligation which is issued to provide certain facilities, issued to finance an industrial park, or issued under the small issue exemption, will be taxable while the obligation is held by a substantial user of the financed facilities or a related person. For example, if a baseball or football club held the bonds of a stadium in which it played its home games for the season, the bond interest would be taxable. Similarly, if the users of the sites in an industrial park hold the industrial park bonds, the interest would be taxable.

(*b*) *Effective date.*—

In general

Paragraph (1) of section 107(b) of the conference substitute provides that, except as provided by paragraph (2) of section 107(b), the amendment made by section 107(a) is to apply with respect to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

Transitional provisions

Paragraph (2) of section 107(b) of the conference substitute provides that section 103(c)(1) of the Code, as amended by section 107(a) of the conference substitute, is not to apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968, any one of the conditions contained in subparagraph (A), (B), (C), or (D) of section 107(b)(2) is satisfied.

For purposes of section 107(b)(2), obligations are considered to be issued on the date on which there is a physical delivery of the evidences of indebtedness in exchange for the amount of the issue price. For example, a bond issue is "issued" when the issuer physically exchanges the bonds for the underwriter's (or other purchaser's) check. Obligations which are taken down after December 31, 1968, by purchasers pursuant to a delayed delivery agreement with the issuer are, therefore, subject to the rules contained in new section 103(c) of the Code.

Subparagraph (A) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit. Therefore, if the governing body of the governmental unit issuing industrial development bonds has, prior to May 1, 1968, adopted a resolution or an ordinance which authorizes or approves either (1) the project being financed or (2) the bond issue, then new section 103(c)(1) of the Code will not apply to the bonds involved. Similarly, if the voters of the governmental unit have approved the issuance of such bonds for a designated project, such section will not be applicable.

Subparagraph (B) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, a governmental unit has made a significant financial commitment in connection with the issuance of such obligation, with the use of the proceeds to be derived from the sale of such obligation, or the property to be acquired or improved with such proceeds. The governmental unit making the significant financial commitment with respect to a project financed by the proceeds of an industrial development bond issue need not be the governmental unit issuing the bonds. For example, the condition of subparagraph (B) is satisfied if a State makes a significant financial commitment to build access roads to a project in one of its counties which will issue the bonds. Similarly, the condition is satisfied when a city or county makes a significant financial commitment to build roads, powerlines, or sewer lines to a project within its jurisdiction which is being financed by a separate governmental unit such as an industrial development board.

For purposes of this subparagraph, the term "significant financial commitment" means the expenditure of (or a commitment to expend) a sizable amount of money. The amount involved need not be compared to the size of the financed project. For example, a commitment to expend $250,000 in connection with a $10 million project would be considered significant.

Subparagraph (C) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation, or who will use the property to be acquired or improved with such proceeds, has expended (or has entered into a binding contract to expend), for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds.

For purposes of this subparagraph, a prospective user of the proceeds of an industrial development bond issue or property to be acquired with such proceeds will be considered to have entered into a binding contract to expend money for purposes related to the project if (1) such person has entered into a contract for fuel, power, water, or raw materials and (2) any conditions to which the obligations of one or more parties to such contract are subject are beyond the control of such parties. For example, a binding contract for alumina entered into in connection with the financing of an aluminum reduction mill or such a contract to purchase timber land in connection with a paper mill are contracts related to the use of the financed facility. For purposes of determining whether the expenditures of the prospective user are equal to or in excess of 20 percent of the bond proceeds, binding contracts will be taken into account on the basis of the amounts to be expended over the term of the contract.

Subparagraph (D) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

For purposes of this subparagraph, "financial assistance" includes a guaranty of the payment of the principal and interest on an obligation by a governmental unit as well as a direct financial grant. For example, new section 103(c)(1) of the Code does not apply if the Federal Economic Development Administration has approved a grant in connection with a project to be financed by industrial development bonds. Similarly, where a State agency has approved a project and the agency has guaranteed the payment of the principal and interest on the bonds, new section 103(c)(1) of the Code does not apply. The governmental unit concerned with economic development may be a Federal, State, or local agency.

Section 108. Advertising in a political convention program

Section 276(a) of the Internal Revenue Code of 1954 provides, in part, that no deduction otherwise allowable for income tax purposes shall be allowed for any amount paid or incurred for advertising in a convention program of a political party.

Section 108 of the conference substitute (which is substantially the same as sec. 13 of the Senate amendment) amends section 276 of the Code by adding a new section 276(c). The new section 276(c) provides that section 276(a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive (1) directly as a result of such advertising, or (2) as a result of the convention being held in an area in which the taxpayer has a principal place of business.

For purposes of the new section 276(c), an amount paid or incurred for advertising will not be considered as "reasonable" if such amount is greater than the amount which would be paid for comparable advertising in a comparable convention program of a nonpolitical organization. The use of the word "directly" in paragraph (1) of the new section 276(c) does not permit the deduction of amounts paid or incurred for institutional advertising; it does not, for example, permit a deduction of amounts paid or incurred for advertising of a type not designed to sell specific goods or services to persons attending the convention.

The new section 276(c) does not permit the deduction of any amount described therein which is not otherwise allowable as a deduction under section 162 of the Code (relating to trade or business expenses), nor does it permit the deduction of any amount to which section 276(a) applies other than an amount which satisfies the requirements of the new section 276(c). Therefore, in order for any such amount to be deductible, it must first satisfy the requirements of section 162; in addition, it also must satisfy the more restrictive requirements of the new section 276(c).

This amendment applies with respect to amounts paid or incurred on or after January 1, 1968.

Section 109. Tax-exempt status of certain hospital service organizations

Section 109 of the conference substitute (which corresponds to sec. 12 of the Senate amendment) adds a new subsection to section 501 of the Internal Revenue Code which, in effect, provides a tax-exempt status for certain cooperative hospital service organizations. In order to qualify for a tax-exempt status, a hospital service organization must be organized and operated solely to perform services specified in the new subsection which, if performed directly by a tax-exempt hospital, would constitute activities in the exercise or performance of the purpose or function constituting the basis for its exemption, and must perform these services solely for two or more tax-exempt hospitals. The new subsection does not grant tax-exempt status if the hospital service organization performs any services other than those specified in the new subsection (for example, laundry services), or performs any services for any person or organization other than a tax-exempt hospital. In addition, such organization must be organized and operated on a cooperative basis and, if it has capital stock, all of its stock outstanding must be owned by its patron-hospitals. Under the amendment, a hospital service organization which meets these requirements and thereby qualifies for tax-exempt status is to be treated, for purposes of the Internal Revenue Code, as a hospital and as an organization referred to in section 503(b)(5) of the Code.

This amendment applies to taxable years ending after the date of enactment of the bill.

Section 110. Submission of proposals for tax reform

Section 20 of the Senate amendment provides that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954. This section is retained as section 110 of the conference substitute.

Title II—Expenditure and Related Controls

Section 201. Limitation on the number of civilian officers and employees in the executive branch

Subsection (a) of section 201 of the conference substitute provides the general rules that except as otherwise provided in section 201—

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966, and

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

Subsection (b) of section 201 relates to the application of section 201(a)(1). Paragraph (1) provides that during any period when appointments are otherwise prohibited under section 201(a)(1), the head of any department or agency may (except as otherwise provided in section 201(b)) appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

Paragraph (2) of section 201(b) provides that, for purposes of paragraph (1), all agencies, which on the first day of any period when appointments are otherwise prohibited under section 201(a)(1), have 50 or fewer full-time civilian employees in permanent positions are to be treated as one agency, and the Director of the Bureau of the Budget is to determine the vacancies in each such agency which may be filled by reason of paragraph (1).

Paragraph (3) of section 201(b) provides that, for purposes of paragraph (1), the Director of the Bureau of the Budget may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Paragraph (4) of section 201(b) provides that, if a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency (1) such transfer is to be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and (2) section 201(a)(1) is not to apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy is not to be taken into account under paragraph (1).

Subsection (c) provides that, for purposes of section 201(a)(2), the Director of the Bureau of the Budget may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Subsection (d) provides that, for purposes of section 201, there shall not be taken into account (1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under section 201(a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time, (2) casual employees or employees serving without compensation, and (3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons betwen the ages of 16 and 22.

Subsection (e) requires the Director of the Bureau of the Budget to maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and to reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

Subsection (f) requires the departments and agencies in the executive branch to submit to the Director of the Bureau of the Budget such information as may be necessary to enable him to carry out his functions under section 201.

Subsection (g) requires the Director to submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of section 201.

Subsection (h) provides that nothing in section 201 shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

Subsection (i) provides that the Director of the Bureau of the Budget shall prescribe such regulations as he deems necesary or appropriate to carry out the provisions of this section.

Subsection (j) provides that section 201 (other than subsection (i) which takes effect on enactment) shall take effect on the first day of the first month which begins after the date of the enactment of the bill.

In administering section 201, the managers both on the part of the House and on the part of the Senate expect the Director of the Bureau of the Budget and the heads of departments and agencies to exercise control to prevent circumvention of its provisions by contracting for personal services to be performed by persons who are not government employees.

In keeping with the June 30, 1966, date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966, level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966, level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans' hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

Section 202. Reduction of $6 billion in expenditures during fiscal year 1969

Subsection (a) of section 202 of the conference substitute provides that expenditures and net lending (collectively referred to in the Budget as budget outlays) during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as totaling $186,062 million) shall not exceed $180,062 million, except by expenditures and net lending—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget; and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The amounts estimated in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) as budget outlays for the items listed above are as follows:

(1) $26,264,000,000 for special support of Vietnam operations (see p. 83 of the Budget),

(2) $14,400,000,000 for interest (see p. 53 of the Budget),

(3) $7,342,000,000 for veterans' benefits and services (see p. 161 of the Budget), and

(4) $36,042 million for payments from trust funds established by the Social Security Act (see table C–4, "Outlays and Receipts of Trust Funds", p. 488 of the Budget) as follows:

	In millions
Federal old-age and survivors insurance trust fund	$24,567
Federal disability insurance trust fund	2,617
Health insurance trust funds	5,770
Unemployment trust fund	3,088
Total	36,042

Subsection (b) of section 202 provides that the President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of section 202(a).

Section 203. Reduction of $10 billion in new obligational authority

Subsection (a) of section 203 of the conference substitute provides that the total new obligational authority and loan authority (collectively referred to in the Budget as budget authority) for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as $201,723 million) shall not exceed $191,723 million, except for new obligational authority and loan authority—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The budget authority (new obligational authority and loan authority) requested in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) for the items listed above are as follows:

(1) $25,405 million for special support of Vietnam operations. This is the sum of the amounts estimated in the Budget as indicated by the Director of the Bureau of the Budget, and may be derived as follows:

	In millions
National defense (see p. 81 of the Budget):	
Subtotal, Department of Defense—Military	$79,116
Excluding special Vietnam	(54,191)
Special Vietnam	24,925
International affairs and finance (see p. 92 of the Budget):	
Subtotal, expenditures	4,700
Excluding Vietnam	(4,220)
Special Vietnam	480
	25,405

(2) $14,400 million for interest (see p. 53 of the Budget).

(3) $7,817 million for veterans' benefits and services (see p. 161 of the Budget).

(4) $41,765 million for receipts appropriated to trust funds established by the Social Security Act (see table 4–C, p. 488 of the Budget) as follows:

	In millions
Federal old-age and survivors insurance trust fund	$27,188
Federal disability insurance trust fund	3,655
Health insurance trust funds	6,827
Unemployment trust fund	4,095
Total	41,765

Subsection (b) of section 203 provides that in the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by section 203(a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of section 203(a). The amounts so reserved (other than any amounts reserved from trust funds) are rescinded by subsection (b) as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, is to make a report to the Congress indentifying the amounts reserved pursuant to subsection (b).

Section 204. Specific recommendations for $8 billion rescission in old obligational authority

Section 204 of the conference substitute provides that the President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress.

The report is to be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and is to include specific recommendations for legislation to rescind not less than $8 billion of such unobligated balances.

Section 205. Application of certain formulas

Section 205 of the conference substitute provides that in the administration of any program as to which—

(1) The amount of expenditures or obligations is limited pursuant to section 202 or 203; and

(2) The allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) is to be substituted for the amount appropriated or otherwise made available in the application of the formula.

Title III—Social Security Act Amendments

Section 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children

Section 301 of the conference substitute corresponds to section 14(a) of the Senate amendment. Section 14(a) repealed section 403(d) of the Social Security Act, which limited the number of dependent children under 18 who may receive AFDC with Federal financial participation in any State for any quarter after June 1968 because of a parent's absence to a proportion of the total under-18 population of the State at the beginning of the year involved equal to the corresponding proportion for the first quarter of 1968. There was no corresponding provision in the House bill.

Section 301 of the conference agreement instead postpones for one year (to July 1, 1969) the date on which the section 403(d) limitation becomes effective; the base quarter to be used for the measurement (January-March 1968) is not changed. The conference agreement also provides that if in compliance with, in reliance upon, or in consideration of a judicial decision a State adopts a policy of paying AFDC on the basis of a parent's absence to children who would not otherwise be eligible, the number of children under 18 receiving AFDC on the basis of a parent's absence in the January-March quarter of 1968 (for purposes of establishing the proportion in the base quarter and thereby determining the maximum proportion permitted for a later quarter, as described above) will be increased by the average monthly number of children under 18, added to the rolls because of such decision after March 1968, who were receiving AFDC on the basis of a parent's absence in the April-June quarter of 1969. For this purpose "judicial decision" means only a decision by a U.S. court of competent jurisdiction on the issue of the constitutional validity of a State law, rule, regulation, or policy under which AFDC is denied to otherwise eligible individuals because of failure to meet durational residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom the aid is sought. The Department of Health, Education, and Welfare can provide sampling or other appropriate methods to be used

to determine the number of children under 18 who because of such a judicial decision are receiving AFDC in the April-June quarter of 1969 on the basis of a parent's absence, so as to provide a basis for the required adjustment of the number in the base quarter.

Section 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation

Section 302 of the conference substitute corresponds to section 14 (c) and (d) of the Senate amendment. Section 14 (c) and (d) eliminated the provision (in sec. 407(b)(2)(C) of the Social Security Act) prohibiting the payment of AFDC to a family on the basis of the father's unemployment for any period in which the father receives unemployment compensation under State or Federal law, and substituted a provision (in sec. 407(c)) giving each State the option under its State plan to deny all or any part of the aid otherwise payable under the plan to a family on the basis of the father's unemployment for any month if the father received unemployment compensation under State or Federal law for any week any part of which is included in such month. There was no corresponding provision in the House bill.

Section 302 of the conference agreement instead modifies section 407(b)(2)(C) of the act to prohibit the payment of AFDC to a family on the basis of the father's unemployment with respect to any week for which the father receives unemployment compensation under State or Federal law. It is the intention of the conferees that if the father receives unemployment compensation for all the weeks which fall wholly or partly in a month, the family could not under any circumstances receive an AFDC payment for that month; and if the father receives unemployment compensation for one or more but less than all the weeks which fall (wholly or partly) in a month, the family's AFDC payment will be reduced by the percentage of the month represented by such week or weeks (or by the portion of such week or weeks which falls in such month).

Section 303. Federal payments under medical assistance program for certain services includable under supplementary medical insurance program

Section 303 of the conference substitute is the same as section 16 of the Senate amendment. Section 16 amended section 1903(b)(2) of the Social Security Act (and sec. 222 of the Social Security Amendments of 1967) to postpone for 2 years (from January 1, 1968, to January 1, 1970) the date when Federal matching payments under a State's title XIX medical assistance plan may no longer be made for medical services which would have been covered under the supplementary medical insurance program (pt. B of title XVIII of the Social Security Act) had the State elected to "buy in" for its title XIX eligibles under section 1843 of that act. There was no corresponding provision in the House bill.

Provisions of Senate Amendment Not Included in Conference Substitute

Under the conference agreement, the following provisions of the Senate amendment are omitted from the bill as agreed to in conference:

Section 11, relating to income from advertising in periodicals of tax-exempt organizations.

Section 14(b), relating to prior work by unemployed fathers under Aid to Families With Dependent Children (AFDC) program.

Section 15, relating to effective date of family planning services requirement under AFDC program. The conference committee does not believe that the provisions of existing law which are involved require any State to take action contrary to State statute and expects the Department of Health, Education, and Welfare to so interpret and administer the provision referred to in the Senate amendment.

Section 18, relating to import quotas on textile articles.

Section 19, relating to foreign nations indebted to the United States. The committee of conference expects the Secretary of State and the Secretary of the Treasury to make a study of appropriate and practical terms and conditions for payment of the amounts of indebtedness of foreign countries to the United States which are past due and unpaid, and to report the results of this study to the Congress.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,
Managers on the Part of the House.

○

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Congressional Record

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House of Representatives

The House met at 12 o'clock noon.

The Chaplain, Rev. Edward G. Latch, D.D. offered the following prayer:

Blessed be God, the God of all comfort, who comforts us in all our affliction.—2 Corinthians 1: 3, 4.

O God, from whom we come and unto whom our spirits return, Thou hast been our dwelling place in all generations. Thou art our refuge and strength, a very present help in trouble.

Grant us Thy blessing in this hour as we remember our colleague in Congress who has gone home to be with Thee. We still stand stunned by the suddenness of it all and our hearts give way to sorrow. Yet in grief Thou art with us. Make us conscious of Thy presence and may we and our Nation find our security and our strength in Thee.

We pray for the family of our beloved Senator, for his wife and children, for his mother and father, for his sisters and brother. Comfort their hearts with thine indwelling spirit and give them the faith that sees beyond the earthly shadows the larger life in Thy living presence.

For our people we lift our spirits in prayer this sad hour. Together may we work to rid our world of war, may we toil at the task of ridding our Nation of crime, and may we labor to rid our hearts of ill will.

We pray for a nation united in purpose and principle, devoted to Thee and to Thy will for us, and dedicated to the good of all people and to Thy way among men of good will.

In the Master's name we pray. Amen.

THE JOURNAL

The Journal of the proceedings of Thursday, June 6, 1968, was read and approved.

COMMUNICATION FROM THE CLERK OF THE HOUSE

The SPEAKER laid before the House the following communication from the Clerk of the House of Representatives:

OFFICE OF THE CLERK,
U.S. HOUSE OF REPRESENTATIVES,
Washington, D.C., June 7, 1968.

The Honorable the SPEAKER,
House of Representatives.

DEAR SIR: Pursuant to authority granted on June 6, 1968, the Clerk received from the Secretary of the Senate today, the following messages:

That the Senate passed the bill H.R. 16911, entitled "An act to provide for U.S. participation in the facility based on special drawing rights in the International Monetary Fund, and for other purposes."; and

That the Senate, pursuant to Senate Concurrent Resolution 73, 90th Congress, appointed Mr. MANSFIELD, Mr. DIRKSEN, and Mr. JORDAN of North Carolina to the Joint Committee on Arrangements for the inauguration of the President-elect and the Vice President-elect on January 20, 1969.

Respectfully yours,
W. PAT JENNINGS,
Clerk.

ANNOUNCEMENT BY THE SPEAKER

The SPEAKER. The Chair desires to announce that pursuant to the authority granted him on Thursday, June 6, 1968, he did on June 7, 1968, sign the following enrolled bills of the House:

H.R. 5037. A act to assist State and local governments in reducing the incidence of crime, to increase the effectiveness, fairness, and coordination of law enforcement and criminal justice systems at all levels of government, and for other purposes; and

H.R. 16911. An act to provide for U.S. participation in the facility based on special drawing rights in the International Monetary Fund, and for other purposes.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

Mr. MILLS submitted the following conference report and statement on the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations:

CONFERENCE REPORT (H. REPT. NO. 1533)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate to the text of the bill and agree to the same with an amendment as follows: In lieu of the matter proposed to be inserted by the Senate amendment insert the following:

"Section 1. Short Title; Table of Contents.

"(a) SHORT TITLE.—This Act may be cited as the 'Revenue and Expenditure Control Act of 1968'.

"(b) TABLE OF CONTENTS.—

"TITLE I—INTERNAL REVENUE CODE AMENDMENTS

"Sec. 101. Amendment of existing law.
"Sec. 102. Imposition of tax surcharge.
"Sec. 103. Payment of estimated tax by corporations.
"Sec. 104. Special rules for application of sections 102 and 103.
"Sec. 105. Continuation of excise taxes on communication services and on automobiles.
"Sec. 106. Timely mailing of deposits.
"Sec. 107. Industrial development bonds.
"Sec. 108. Advertising in a political convention program.
"Sec. 109. Tax-exempt status of certain hospital service organizations.
"Sec. 110. Submission of proposals for tax reform.

"TITLE II—EXPENDITURE AND RELATED CONTROLS

"Sec. 201. Limitation on the number of civilian officers and employees in the executive branch.
"Sec. 202. Reduction of $6 billion in expenditures during fiscal year 1969.
"Sec. 203. Reduction of $10 billion in new obligational authority.

"Sec. 204. Specific recommendations for $8 billion rescission in old obligational authority.

"Sec. 205. Application of certain formulas.

"TITLE III—SOCIAL SECURITY ACT AMENDMENTS

"Sec. 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children.

"Sec. 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation.

"Sec. 303. Federal payments under medical assistance program for certain services includible under supplementary medical insurance program.

"TITLE I—INTERNAL REVENUE CODE AMENDMENTS

"Sec. 101. Amendment of existing law.

"Exempt as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

"Sec. 102. Imposition of tax surcharge.

"(a) IMPOSITION OF TAX.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

" 'PART V—TAX SURCHARGE

" 'Sec. 51. Tax surcharge.

" 'Sec. 51. Tax surcharge.

" '(a) IMPOSITION OF TAX.—

" '(1) CALENDAR YEARS.—

" '(A) INDIVIDUALS (OTHER THAN ESTATES AND TRUSTS).—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every individual (other than an estate or trust) whose taxable year is the calendar year a tax as follows:

"CALENDAR YEAR 1968

"TABLE 1.—SINGLE PERSON (OTHER THAN HEAD OF HOUSEHOLD) AND MARRIED PERSON FILING SEPARATE RETURN

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$148	0	$275	$282	$20	$527	$540	$40
$148	155	$1	282	288	21	540	553	41
155	162	2	288	298	22	553	567	42
162	168	3	298	313	23	567	580	43
168	175	4	313	327	24	580	593	44
175	182	5	327	340	25	593	607	45
182	188	6	340	353	26	607	620	46
188	195	7	353	367	27	620	633	47
195	202	8	367	380	28	633	647	48
202	208	9	380	393	29	647	660	49
208	215	10	393	407	30	660	673	50
215	222	11	407	420	31	673	687	51
222	228	12	420	433	32	687	700	52
228	235	13	433	447	33	700	713	53
235	242	14	447	460	34	713	727	54
242	248	15	460	473	35	727	734	55
248	255	16	473	487	36	734 and over, 7.5% of the adjusted tax		
255	262	17	487	500	37			
262	268	18	500	513	38			
268	275	19	513	527	39			

"TABLE 2.—HEAD OF HOUSEHOLD

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$223	0	$350	$357	$20	$527	$540	$40
$223	230	$1	357	363	21	540	553	41
230	237	2	363	370	22	553	567	42
237	243	3	370	377	23	567	580	43
243	250	4	377	383	24	580	593	44
250	257	5	383	390	25	593	607	45
257	263	6	390	397	26	607	620	46
263	270	7	397	403	27	620	633	47
270	277	8	403	410	28	633	647	48
277	283	9	410	417	29	647	660	49
283	290	10	417	423	30	660	673	50
290	297	11	423	430	31	673	687	51
297	303	12	430	437	32	687	700	52
303	310	13	437	447	33	700	713	53
310	317	14	447	460	34	713	727	54
317	323	15	460	473	35	727	734	55
323	330	16	473	487	36	734 and over, 7.5% of the adjusted tax		
330	337	17	487	500	37			
337	343	18	500	513	38			
343	350	19	513	527	39			

"TABLE 3.—MARRIED PERSONS OR SURVIVING SPOUSE FILING JOINT RETURN

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$293	0	$420	$427	$20	$553	$560	$40
$293	300	$1	427	433	21	560	567	41
300	307	2	433	440	22	567	573	42
307	313	3	440	447	23	573	580	43
313	320	4	447	453	24	580	593	44
320	327	5	453	460	25	593	607	45
327	333	6	460	467	26	607	620	46
333	340	7	467	473	27	620	633	47
340	347	8	473	480	28	633	647	48
347	353	9	480	487	29	647	660	49
353	360	10	487	493	30	660	673	50
360	367	11	493	500	31	673	687	51
367	373	12	500	507	32	687	700	52
373	380	13	507	513	33	700	713	53
380	387	14	513	520	34	713	727	54
387	393	15	520	527	35	727	734	55
393	400	16	527	533	36	734 and over, 7.5% of the adjusted tax		
400	407	17	533	540	37			
407	413	18	540	547	38			
413	420	19	547	553	39			

"CALENDAR YEAR 1969

"TABLE 1.—SINGLE PERSON (OTHER THAN HEAD OF HOUSEHOLD) AND MARRIED PERSON FILING SEPARATE RETURN

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$150	0	$270	$280	$13	$510	$530	$26
$150	160	$1	280	290	14	530	550	27
160	170	2	290	310	15	550	570	28
170	180	3	310	330	16	570	590	29
180	190	4	330	350	17	590	610	30
190	200	5	350	370	18	610	630	31
200	210	6	370	390	19	630	650	32
210	220	7	390	410	20	650	670	33
220	230	8	410	430	21	670	690	34
230	240	9	430	450	22	690	710	35
240	250	10	450	470	23	710	730	36
250	260	11	470	490	24	730 and over, 5% of the adjusted tax		
260	270	12	490	510	25			

"TABLE 2.—HEAD OF HOUSEHOLD

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$225	0	$345	$355	$13	$510	$530	$26
$225	235	$1	355	365	14	530	550	27
235	245	2	365	375	15	550	570	28
245	255	3	375	385	16	570	590	29
255	265	4	385	395	17	590	610	30
265	275	5	395	405	18	610	630	31
275	285	6	405	415	19	630	650	32
285	295	7	415	425	20	650	670	33
295	305	8	425	435	21	670	690	34
305	315	9	435	450	22	690	710	35
315	325	10	450	470	23	710	730	36
325	335	11	470	490	24	730 and over, 5% of the adjusted tax.		
335	345	12	490	510	25			

"TABLE 3.—MARRIED PERSONS OR SURVIVING SPOUSE FILING JOINT RETURN

"If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$295	0	$415	$425	$13	$545	$555	$26
$295	305	$1	425	435	14	555	565	27
305	315	2	435	445	15	565	575	28
315	325	3	445	455	16	575	590	29
325	335	4	455	465	17	590	610	30
335	345	5	465	475	18	610	630	31
345	355	6	475	485	19	630	650	32
355	365	7	485	495	20	650	670	33
365	375	8	495	505	21	670	690	34
375	385	9	505	515	22	690	710	35
385	395	10	515	525	23	710	730	36
395	405	11	525	535	24	730 and over, 5% of the adjusted tax		
405	415	12	535	545	25			

"'(B) OTHER PERSONS.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every corporation, and on the income of every estate and trust, whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (b)) for the taxable year specified in the following table:

"Calendar year	Percent: Estates and trusts	Percent: Corporations
1968	7.5	10.0
1969	5.0	5.0

"'(2) FISCAL AND SHORT TAXABLE YEARS.—

"'(A) IN GENERAL.—In addition to the other taxes imposed by this chapter and except as provided in subparagraph (B), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"'(i) 10 percent of the adjusted tax for the taxable year, multiplied by

"'(ii) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"'(B) LIMITATION.—In the case of—

"'(i) a husband and wife (or surviving spouse) who file a joint return under section 6013 and whose adjusted tax for the taxable year is less than $580,

"'(ii) an individual who is a head of a household to whom section 1(b) applies and whose adjusted tax for the taxable year is less than $440, and

"'(iii) any other individual (other than an estate or trust) whose adjusted tax for the taxable year is less than $290,

the tax imposed by subparagraph (A) shall not be greater than an amount equal to twice the tax which would be imposed by subparagraph (A) if the tax were imposed on the amount by which the adjusted tax exceeds $290, $220, or $145, respectively.

"'(C) EFFECTIVE DATE DEFINED.—For purposes of subparagraph (A), the term "effective date of the surcharge" means—

"'(i) January 1, 1968, in the case of a corporation, and

"'(ii) April 1, 1968, in the case of any other taxpayer.

"'(b) ADJUSTED TAX DEFINED.—For purposes of this section, the term "adjusted tax" means, with respect to any taxable year, the tax imposed by this chapter for such taxable year, determined without regard to—

"'(1) the taxes imposed by this section, section 871(a), and section 881; and

"'(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation),

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year.

"'(c) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations, amended declarations, and payments of estimated tax the time prescribed for filing or payment of which is on or after—

"'(1) in the case of an individual, September 15, 1968, or

"'(2) in the case of a corporation, June 15, 1968,

sections 6654(d)(1) and 6655(d)(1) shall not apply with respect to any taxable year for which a tax is imposed by this section.

"'(d) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"'(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility,

"'(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"'(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"'(e) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a).

"'(f) SPECIAL RULE.—For purposes of this title, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section.'

"(b) TECHNICAL AMENDMENT.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended—

"(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"'(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—', and

"(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"'(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—', and

"(3) by adding after the table in paragraph (3) the following:

"'In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"'(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"'(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year. As used in this subsection, the term "surcharge period" means the period beginning January 1, 1968, and ending June 30, 1969.'

"(c) WITHHOLDING ON WAGES.—

"(1) PERCENTAGE METHOD OF WITHHOLDING.—Subsection (a) of section 3402 (relating to requirement of withholding) is amended—

"(A) by inserting before table 1 therein the following:

"'(1) In the case of wages paid on or before the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 or after June 30, 1969:"; and

"(B) by adding at the end thereof the following:

"'(2) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 and before July 1, 1969:

"'TABLE 1.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS WEEKLY

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be w'thheld shall be:
Not over $4	0.
Over $4 but not over $13	14% of excess over $4.
Over $13 but not over $23	$1.26 plus 15% of excess over $13.
Over $23 but not over $85	$2.76 plus 19% of excess over $23.
Over $85 but not over $169	$14.54 plus 22% of excess over $85.
Over $169 but not over $212	$33.02 plus 28% of excess over $169.
Over $212	$45.06 plus 33% of excess over $212.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $4	0.
Over $4 but not over $23	14% of excess over $4.
Over $23 but not over $58	$2.66 plus 15% of excess over $23
Over $58 but not over $169	$7.91 plus 19% of excess over $58.
Over $169 but not over $340	$29.00 plus 22% of excess over $169
Over $340 but not over $423	$66.62 plus 28% of excess over $340.
Over $423	$89.86 plus 33% of excess over $423.

"'TABLE 2.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS BIWEEKLY

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $27	14% of excess over $8.
Over $27 but not over $46	$2.66 plus 15% of excess over $27.
Over $46 but not over $169	$5.51 plus 19% of excess over $46.
Over $169 but not over $338	$28.88 plus 22% of excess over $169.
Over $338 but not over $423	$66.06 plus 28% of excess over $338.
Over $423	$89.86 plus 33% of excess over $423.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $46	14% of excess over $8.
Over $46 but not over $115	$5.32 plus 15% of excess over $46.
Over $115 but not over $338	$15.67 plus 19% of excess over $115.
Over $338 but not over $681	$58.04 plus 22% of excess over $338.
Over $681 but not over $846	$133.50 plus 28% of excess over $681.
Over $846	$179.70 plus 33% of excess over $846.

"'TABLE 3.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS SEMIMONTHLY

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of imcome tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $29	14% of excess over $8.
Over $29 but not over $50	$2.94 plus 15% of excess over $29.
Over $50 but not over $183	$6.09 plus 19% of excess over $50.
Over $183 but not over $367	$31.36 plus 22% of excess over $183.
Over $367 but not over $458	$71.84 plus 28% of excess over $367.
Over $458	$97.32 plus 33% of excess over $458.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $50	14% of excess over $8.
Over $50 but not over $125	$5.88 plus 15% of excess over $50.
Over $125 but not over $367	$17.13 plus 19% of excess over $125.
Over $367 but not over $738	$63.11 plus 22% of excess over $367.
Over $738 but not over $917	$144.73 plus 28% of excess over $738.
Over $917	$194.85 plus 33% of excess over $917.

"'TABLE 4.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS MONTHLY

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $17	0.
Over $17 but not over $58	14% of excess over $17.
Over $58 but not over $100	$5.74 plus 15% of excess over $58.
Over $100 but not over $367	$12.04 plus 19% of excess over $100.
Over $367 but not over $733	$62.77 plus 22% of excess over $367.
Over $733 but not over $917	$143.29 plus 28% of excess over $733.
Over $917	$194.81 plus 33% of excess over $917.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $17	0.
Over $17 but not over $100	14% of excess over $17.
Over $100 but not over $250	$11.62 plus 15% of excess over $100.
Over $250 but not over $733	$34.12 plus 19% of excess over $250.
Over $733 but not over $1475	$125.89 plus 22% of excess over $733.
Over $1475 but not over $1833	$289.13 plus 28% of excess over $1475.
Over $1833	$389.37 plus 33% of excess over $1833.

"'TABLE 5.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS QUARTERLY

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $50	0.
Over $50 but not over $175	14% of excess over $50.
Over $175 but not over $300	$17.50 plus 15% of excess over $175.
Over $300 but not over $1100	$36.25 plus 19% of excess over $300.
Over $1100 but not over $2200	$188.25 plus 22% of excess over $1100.
Over $2200 but not over $2750	$430.25 plus 28% of excess over $2200.
Over $2750	$584.25 plus 33% of excess over $2750.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $50	0.
Over $50 but not over $300	14% of excess over $50.
Over $300 but not over $750	$35.00 plus 15% of excess over $300.
Over $750 but not over $2200	$102.50 plus 19% of excess over $750.
Over $2200 but not over $4425	$378.00 plus 22% of excess over $2200.
Over $4425 but not over $5500	$867.50 plus 28% of excess over $4425.
Over $5500	$1168.50 plus 33% of excess over $5500.

"'TABLE 6.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS SEMIANNUAL

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $100	0.
Over $100 but not over $350	14% of excess over $100.
Over $350 but not over $600	$35.00 plus 15% of excess over $350.
Over $600 but not over $2200	$72.50 plus 19% of excess over $600.
Over $2200 but not over $4400	$376.50 plus 22% of excess over $2200.
Over $4400 but not over $5500	$860.50 plus 28% of excess over $4400.
Over $5500	$1168.50 plus 33% of excess over $5500.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $100	0.
Over $100 but not over $600	14% of excess over $100.
Over $600 but not over $1500	$70.00 plus 15% of excess over $600.
Over $1500 but not over $4400	$205.00 plus 19% of excess over $1500.
Over $4400 but not over $8850	$756.00 plus 22% of excess over $4400.
Over $8850 but not over $11,000	$1735.00 plus 28% of excess over $8850.
Over $11,000	$2337.00 plus 33% of excess over $11,000.

"'TABLE 7.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS ANNUAL

"'(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $700	14% of excess over $200.
Over $700 but not over $1200	$70 plus 15% of excess over $700.
Over $1200 but not over $4400	$145 plus 19% of excess over $1200.
Over $4400 but not over $8800	$753 plus 22% of excess over $4400.
Over $8800 but not over $11,000	$1,721 plus 28% of excess over $8800.
Over $11,000	$2,337 plus 33% of excess over $11,000.

"'(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $1200	14% of excess over $200.
Over $1200 but not over $3000	$140 plus 15% of excess over $1200.
Over $3000 but not over $8800	$410 plus 19% of excess over $3000.
Over $8800 but not over $17,700	$1,512 plus 22% of excess over $8800.
Over $17,700 but not over $22,000	$3,470 plus 28% of excess over $17,700.
Over $22,000	$4,674 plus 33% of excess over $22,000.

"'TABLE 8.—IF THE PAYROLL PERIOD WITH RESPECT TO AN EMPLOYEE IS A DAILY PAYROLL OR A MISCELLANEOUS PAYROLL PERIOD

"'(a) Single Person—Including Head of Household:

If the amount of wages divided by the number of days in the paryroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $1.90	14% of excess over $0.50.
Over $1.90 but not over $3.30	$0.20 plus 15% of excess over $1.90.
Over $3.30 but not over $12.10	$0.41 plus 19% of excess over $3.30.
Over $12.10 but not over $24.10	$2.08 plus 22% of excess over $12.10.
Over $24.10 but not over $30.10	$4.72 plus 28% of excess over $24.10.
Over $30.10	$6.40 plus 33% of excess over $30.10.

"'(b) Married Person:

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $3.30	14% of excess over $0.50.
Over $3.30 but not over $8.20	$0.39 plus 15% of excess over $3.30.
Over $8.20 but not over $24.10	$1.13 plus 19% of excess over $8.20.
Over $24.10 but not over $48.50	$4.15 plus 22% of excess over $24.10.
Over $48.50 but not over $60.30	$9.52 plus 28% of excess over $48.50.
Over $60.30	$12.82 plus 33% of excess over $60.30.'

"(2) WAGE BRACKET WITHHOLDING.—Subsection (c) of section 3402 (relating to wage bracket withholding) is amended by adding at the end thereof the following new paragraph:

"'(6) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968, and before July 1, 1969, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables contained in paragraph (1). The tables so prescribed shall be the same as the tables contained in paragraph (1), except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld shall be computed on the basis of table 7 contained in subsection (a) (2).'

"(d) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"'Part V. Tax surcharge.'

"(e) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section (other than subsection (c)) shall apply—

"(1) Insofar as they relate to taxpayers other than corporations, to taxable years ending atfer March 31, 1968, and beginning before July 1, 1969.

"(2) Insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

"Sec. 103. Payment of estimated tax by corporations.

"(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

"(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"'Sec. 6154. Installment payments of estimated income tax by corporations.

"'(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201 (a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be $40 or more.

"'(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"'If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"'(c) ESTIMATED TAX DEFINED.—

"'(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term "estimated tax" means the excess of—

"'(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"'(B) the sum of—

"'(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

"'(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"'(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"'(2) TEMPORARY ESTIMATED TAX EXEMPTION.—

"'(A) IN GENERAL.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under subparagraph (B)) multiplied by the lesser of—

"'(i) an amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for such year, or

"'(ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

"'(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A) and section 6655 (e)(2), the applicable percentage is—

"'In the case of a taxable year beginning in—

1968, 1969, 1970, 1971, and 1972	100 percent
1973	80 percent
1974	60 percent
1975	40 percent
1976	20 percent.

"'(3) TRANSITIONAL EXEMPTION.—

"'(A) IN GENERAL.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under subparagraph (B)) multiplied by the lesser of—

"'(i) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"'(ii) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"'(B) EXCLUSION PERCENTAGE.—For purposes of subparagraph (A) and section 6655 (e)(3), the exclusion percentage is—

"'In the case of taxable year beginning in—

1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"'(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be) by the amount computed by dividing—

"'(1) the difference between—

"'(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"'(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"'(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"'(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"'(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"'(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11.'

"(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

"(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out '70 percent' each place it appears therein and inserting in lieu thereof '80 percent'.

"(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"'(e) DEFINITION OF TAX.—

"'(1) IN GENERAL.—For purposes of subsections (b) and (d), the term "tax" means the excess of—

"'(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

"'(B) the sum of—

"'(i) the credits against tax provided by part IV of subchapter A of chapter 1,

"'(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"'(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"'(2) TEMPORARY ESTIMATED TAX EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under section 6154(c)(2)(B)) multiplied by the lesser of—

"'(A) an amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for such year, or

"'(B) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

"'(3) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)(B)) multiplied by the lesser of—

"'(A) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"'(B) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"'(4) SPECIAL RULE FOR SUBSECTION (d)(1) AND (2).—In applying this subsection for purposes of subsection (d)(1) and (2), the applicable percentage and the exclusion percentage shall be the percentage for the taxable year for which the underpayment is being determined.'

"(d) ADJUSTMENT OF OVERPAYMENT.—

"(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

"'Sec. 6425. Adjustment of overpayment of estimated income tax by corporation.

"'(a) APPLICATION FOR ADJUSTMENT.—

"'(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpayment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"'(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth—

"'(A) the estimated income tax paid by the corporation during the taxable year,

"'(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"'(C) the amount of the adjustment, and

"'(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"'(b) ALLOWANCE OF ADJUSTMENT.—

"'(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and

shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"'(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"'(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $500.

"'(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"'(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)—

"'(1) The term "income tax liability" means the excess of—

"'(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"'(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"'(2) The amount of an adjustment under this section is equal to the excess of—

"'(A) the estimated income tax paid by the corporation during the taxable year, over

"'(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"'(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe.'

"(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"'(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"'(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

"'(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"'(A) the income tax liability (as defined in section 6425(c)) for the taxable year as shown on the return for the taxable year, exceeds

"'(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment.'

"(e) CONFORMING AMENDMENTS.—

"(1) Section 6655(d)(1) is amended by striking out 'reduced by $100,000'.

"(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"'(v) surtax exemption, and one amount under sections 6154(c) (2) and (3) and sections 6655(e) (2) and (3), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax.'

"(3) Section 6020(b)(1) is amended by striking out 'section 6015 or 6016)' and inserting in lieu thereof 'section 6015)'.

"(4) Section 6651(c) is amended by striking out 'or section 6016'.

"(5) Section 7203 is amended by striking out 'section 6015 or section 6016),' and inserting in lieu thereof 'section 6015),'.

"(6) Section 7701(a)(34)(B) is amended by striking out 'section 6016(b)' and inserting in lieu thereof 'section 6154(c)'.

"(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

"(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

"(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"'Sec. 6425. Adjustment of overpayment of estimated income tax by corporation.'

"(f) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

"Sec. 104. Special rules for application of sections 102 and 103.

"(a) PAYMENT OF ESTIMATED TAX FOR TAXABLE YEARS BEGINNING BEFORE DATE OF ENACTMENT.—In determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103—

"(1) such amendments shall apply (A) in the case of an individual, only if the taxable year ends on or after September 30, 1968, and (B) in the case of a corporation, only if the taxable year ends on or after June 30, 1968,

"(2) in applying sections 6015, 6073, and 6654, of the Internal Revenue Code of 1954, such amendments shall first be taken into account as of September 1, 1968, and

"(3) in applying sections 6016, 6074, 6154, and 6655 of such Code, such amendments shall first be taken into account as of May 31, 1968.

In the case of any amount or additional amount of estimated tax payable, by reason of such amendments, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of this Act, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of this Act) as the Secretary of the Treasury or his delegate shall prescribe.

"(b) PAYMENT OF TAX SURCHARGE FOR TAXABLE YEARS ENDING BEFORE DATE OF ENACTMENT.—In the case of a taxable year ending before the date of the enactment of this Act, the time prescribed for payment of the tax imposed by section 51 of the Internal Revenue Code of 1954 shall not expire before September 15, 1968.

"Sec. 105. Continuation of excise taxes on communication services and on automobiles.

"(a) PASSENGER AUTOMOBILES.—

"(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows:

"'(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable:

"'If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972.'

"(2) CONFORMING AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out 'May 1, 1968, or January 1, 1969,' and inserting in lieu thereof 'January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,'.

"(b) COMMUNICATIONS SERVICES.—

"(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"'(2) The rate of tax referred to in paragraph (1) is as follows:

"'Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1.'

"(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out 'January 1, 1969' and inserting in lieu thereof 'January 1, 1973', and subsection (c) of section 4251 is amended to read as follows:

"'(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year.'

"(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

"(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as of April 30, 1968.

"Sec. 106. Timely mailing of deposits.

"(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

"'(e) MAILING OF DEPOSIT.—

"'(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

"'(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"'(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"'(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust comany authorized to receive such deposit.

"'In applying subsection (c) for purposes of this subsection, the term "payment" includes "deposit", and the reference to the postmark date refers to the date of mailing.'

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

"Sec. 107. Industrial development bonds.

"(a) AMENDMENT OF SECTION 103.—Section 103 (relating to interest on certain governmental obligations) is amended by redesignating subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

"'(c) INDUSTRIAL DEVELOPMENT BONDS.—

"'(1) SUBSECTION (a)(1) NOT TO APPLY.—Except as otherwise provided in this subsection, any industrial development bond shall be treated as an obligation not described in subsection (a)(1).

"'(2) INDUSTRIAL DEVELOPMENT BOND.—For purposes of this subsection, the term "industrial development bond" means any obligation—

"'(A) which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3)), and

"'(B) the payment of the principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part—

"'(i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or

"'(ii) to be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

"'(3) EXEMPT PERSON.—For purposes of paragraph (2)(A), the term "exempt person" means—

"'(A) a governmental unit, or

"'(B) an organization described in section 501(c)(3) and exempt from tax under section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business, determined by applying section 513(a) to such organization).

"'(4) CERTAIN EXEMPT ACTIVITIES.—Paragraph (1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide—

"'(A) residential real property for family units,

"'(B) sports facilities,

"'(C) convention or trade show facilities,

"'(D) airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to any of the foregoing,

"'(E) sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy, gas, or water, or

"'(F) air or water pollution control facilities.

"'(5) INDUSTRIAL PARKS.—Paragraph (1) shall not apply to any obligation issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park. For purposes of the preceding sentence, the term "development of land" includes the provision of water, sewage, drainage, or similar facilities, or of transportation, power or communication facilities which are incidental to use of the site as an industrial park, but, except with respect to such facilities, does not include the provision of structures or buildings.

"'(6) EXEMPTION FOR CERTAIN SMALL ISSUES.—

"'(A) IN GENERAL.—Paragraph (1) shall not apply to any obligation issued as part of an issue the aggregate authorized face amount of which is $1,000,000 or less and substantially all of the proceeds of which are to be used (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation, or (ii) to redeem part or all of a prior issue which was issued for purposes described in clause (i) or this clause.

"'(B) CERTAIN PRIOR ISSUES TAKEN INTO ACCOUNT.—If—

"'(i) the proceeds of two or more issues of obligations (whether or not the issuer of each such issue is the same) are or will be used primarily with respect to facilities located in the same incorporated municipality or located in the same county (but not in any incorporated municipality),

"'(ii) the principal user of such facilities is or will be the same person or two or more related persons, and

"'(iii) but for this subparagraph, subparagraph (A) would apply to each such issue,

then, for purposes of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues and outstanding at the time of such later issue (not including as outstanding any obligation which is to be redeemed from the proceeds of the later issue).

"'(C) RELATED PERSONS.—For purposes of this paragraph and paragraph (7), a person is a related person to another person if—

"'(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

"'(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears therein).

"'(7) EXCEPTION.—Paragraphs (4), (5), and (6) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person.'

"(b) EFFECTIVE DATE.—

"(1) IN GENERAL.—Except as provided by paragraph (2), the amendment made by subsection (a) shall apply to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

"(2) TRANSITIONAL PROVISIONS.—Section 103(c)(1) of the Internal Revenue Code of 1954, as amended by subsection (a), shall not apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968—

"(A) the issuance of the obligations (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit;

"(B) in connection with the issuance of such obligation or with the use of the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds, a governmental unit has made a significant financial commitment;

"(C) any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds has expended (or has entered into a binding contract to expend) for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds; or

"(D) in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

"Sec. 108. Advertising in a political convention program.

"(a) ALLOWANCE OF DEDUCTION.—Section 276 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

"'(c) ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive—

"'(1) directly as a result of such advertising, or

"'(2) as a result of the convention being held in an area in which the taxpayer has a principal place of business.'

"(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to amounts paid or incurred on or after January 1, 1968.

"Sec. 109. Tax-exempt status of certain hospital service organizations.

"(a) EXEMPTION FROM TAX.—Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection:

"'(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes, if—

"'(1) such organization is organized and operated solely—

"'(A) to perform, on a centralized basis, one or more of the following services which, if performed on its own behalf by a hospital which is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel (including selection, testing, training, and education of personnel) services; and

"'(B) to perform such services solely for two or more hospitals each of which is—

"'(i) an organization described in subsection (c)(3) which is exempt from taxation under subsection (a),

"'(ii) a constituent part of an organization described in subsection (c)(3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c)(3), or

"'(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

"'(2) such organization is organized and operated on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"'(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence,

is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5).'

"(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

"Sec. 110. Submission of proposals for tax reform.

"Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

"TITLE II—EXPENDITURE AND RELATED CONTROLS

"Sec. 201. Limitation on the number of civilian officers and employees in the executive branch.

"(a) Except as otherwise provided in this section—

"(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966.

"(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

"(b)(1) During any period when appointments are otherwise prohibited under subsection (a)(1), the head of any department or agency may, except as otherwise provided in this subsection, appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

"(2) For purposes of paragraph (1), all agencies which, on the first day of any period when appointments are otherwise prohibited under subsection (a)(1), have 50 or fewer full-time civilian employees in permanent positions shall be treated as one agency, and the Director of the Bureau of the Budget (hereinafter in this section referred to as the 'Director') shall determine the vacancies in each such agency which may be filled by reason of paragraph (1).

"(3) For purposes of paragraph (1), the Director may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

"(4) If a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency—

"(A) such transfer shall be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and

"(B) subsection (a)(1) shall not apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy shall not be taken into account under paragraph (1).

"(c) For purposes of subsection (a)(2), the Director may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

"(d) For purposes of this section, there shall not be taken into account—

"(1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under subsection (a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time,

"(2) casual employees or employees serving without compensation, and

"(3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

"(e) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

"(f) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

"(g) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of this section.

"(h) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

"(i) The Director shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.

"(j) This section (other than subsection (i)) shall take effect on the first day of the first month which begins after the date of the enactment of this Act.

"Sec. 202. Reduction of $6 billion in expenditures during fiscal year 1969.

"(a) Expenditures and net lending during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as totaling $186,062,000,000), shall not exceed $180,062,000,000, except by expenditures and net lending—

"(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,

"(2) for interest in excess of the amounts estimated therefor in the Budget,

"(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

"(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

"(b) The President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a).

"Sec. 203. Reduction of $10 billion in new obligational authority.

"(a) The total new obligational authority and loan authority for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as $201,723,000,000) shall not exceed $191,723,000,000, except for new obligational authority and loan authority—

"(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,

"(2) for interest in excess of the amounts estimated therefor in the Budget,

"(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

"(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

"(b) In the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by subsection (a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of subsection (a). The amounts so reserved (other than any amounts reserved from trust funds) are hereby rescinded as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, shall make a report to the Congress identifying the amounts reserved pursuant to this paragraph.

"Sec. 204. Specific recommendations for $8 billion rescission in old obligational authority.

"The President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress. Such report shall be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and shall include specific recommendations for legislation to rescind not less than $8,000,000,000 of such unobligated balances.

"Sec. 205. Application of certain formulas.

"In the administration of any program as to which—

"(1) the amount of expenditures or obligations is limited pursuant to section 202 or 203, and

"(2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

"TITLE III—SOCIAL SECURITY ACT AMENDMENTS

"Sec. 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children.

"Subsection (d) of section 403 of the Social Security Act is amended (1) by inserting '(1)' immediately after '(d)', (2) by inserting '(except the succeeding paragraphs of this subsection)' immediately after 'Act', (3) by striking out 'June 30, 1968' and inserting in lieu thereof 'June 30, 1969', and (4) by adding at the end of such subsection the following new paragraphs:

"'(2) In the case of any State which is determined by the Secretary to have effectuated, in compliance with or in reliance upon or in consideration of a judicial decision (as defined in paragraph (3)), a policy of providing aid to families with dependent children under its State plan approved under this part to or on behalf of individuals who, except for such policy, would not be eligible for such aid, the average monthly number of dependent children under the age of 18 who have been deprived of parental support or

care by reason of the continued absence from the home of a parent with respect to whom payments under this section were made to the State for the calendar quarter beginning January 1, 1968, shall, for purposes of applying the provisions of paragraph (1), be increased by the average monthly number, in the calendar quarter beginning April 1, 1969, of children under the age of 18 who are deprived of parental support or care by reason of the continued absence from the home of a parent and who by reason of such policy began to receive such aid after March 1968 and received such aid during the calendar quarter beginning April 1, 1969.

"'(3) As used in paragraph (2), the term "judicial decision" means any decision by a court of the United States of competent jurisdiction in any case or controversy in which there is decided the issue of the validity, under the United States Constitution, of any law, rule, regulation, or policy of a State under which aid to families with dependent children is denied to individuals otherwise eligible therefor because of failure to meet duration of residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom such aid is sought.'

"Sec. 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation.

"Section 407(b)(2)(C) of the Social Security Act is amended to read as follows:

"'(C) for the denial of aid to families with dependent children to any child or relative specified in subsection (a)—

"'(i) if, and for so long as, such child's father is not currently registered with the public employment offices in the State, and

"'(ii) with respect to any week for which such child's father receives unemployment compensation under an unemployment compensation law of a State or of the United States.'

"Sec. 303. Federal payments under medical assistance program for certain services includible under supplementary medical insurance program.

"(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out '1967' and inserting in lieu thereof '1969'.

"(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out '1967' and inserting in lieu thereof '1969'.

"(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967."

And the Senate agree to the same.

That the House recede from its disagreement to the amendment of the Senate to the title of the bill and agree to the same with an amendment as follows:

Amend the title so as to read: "An Act to increase revenues, to limit expenditures and new obligational authority, and for other purposes."

And the Senate agree to the same.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,
Managers on the Part of the House.

RUSSELL LONG,
GEORGE SMATHERS,
CLINTON P. ANDERSON,
JOHN J. WILLIAMS,
FRANK CARLSON,
Managers on the Part of the Senate.

STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The Senate amendment to the text of the bill struck out all after the enacting clause and inserted new text. Under the conference agreement, the House recedes with an amendment which substitutes new text explained below.

Section 1. Short title; table of contents

Section 1(a) of the conference substitute provides that the bill, when enacted, may be cited as the "Revenue and Expenditure Control Act of 1968." Section 1(a) of the bill as passed by the House provided as the short title the "Tax Adjustment Act of 1968." Section 1 of the Senate amendment provided as the short title the "Balance of Payments and Domestic Economy Act of 1968."

Section 1(b) of the conference substitute provides a table of contents which sets forth the titles and sections of the bill.

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

Section 101. Amendment of existing law

Section 101 of the conference substitute provides that, except as otherwise expressly provided, whenever in title I of the bill an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference is to be considered to be made to a section or other provision of the Internal Revenue Code of 1954. This corresponds to section 1(b) of the bill as passed by the House and to section 5 of the Senate amendment.

Section 102. Imposition of tax surcharge

Section 102 of the conference substitute corresponds in substance to section 17 of the Senate amendment. Subsection (a) of section 102 amends subchapter A of chapter 1 of the 1954 Code by adding at the end thereof a new part V, consisting of a new section 51 which imposes a 10 percent income tax surcharge for the period January 1, 1968, through June 30, 1969, in the case of corporations, and for the period April 1, 1968, through June 30, 1969, in the case of individuals.

Imposition of Tax Surcharge

Subsection (a) of the new section 51 imposes the tax surcharge. Paragraph (1) relates to calendar years. Subparagraph (A) imposes, in addition to the other taxes imposed by chapter 1 of the 1954 Code, on the income of every individual (other than an estate or trust) whose taxable year is the calendar year, a tax which is shown in the applicable table in such subparagraph. For the calendar year 1968, the tables are based on a tax of 7.5 percent of the adjusted tax. For the calendar year 1969, the tables are based on a tax of 5 percent of the adjusted tax. The tables also are based on—

(1) An exemption from the tax surcharge for single persons (other than a head of household) whose adjusted tax does not exceed $145, heads of households whose adjusted tax does not exceed $220, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed $290; and

(2) A limitation on the tax surcharge applicable to single persons (other than a head of household) whose adjusted tax does not exceed $290, heads of households whose adjusted tax does not exceed $440, and married persons and surviving spouses filing joint returns whose adjusted tax does not exceed $580.

Subparagraph (B) imposes the tax surcharge on corporations, and on estates and trusts, whose taxable year is the calendar year. In the case of corporations, the tax for the calendar year 1968 is to be 10 percent of the adjusted tax, and the tax for the calendar year 1969 is to be 5 percent of the adjusted tax. In the case of estates and trusts, the rates are 7.5 percent for 1968 and 5 percent for 1969.

Paragraph (2) of subsection (a) imposes the tax surcharge in the case of taxpayers whose taxable year is a fiscal year or a short year. The tax is comparable to the tax for the calendar year and is determined, in general, by multiplying 10 percent of the adjusted tax for the taxable year by a fraction determined by the number of the days in the taxable year which are within the period during which the surcharge applies.

Adjusted Tax Defined

Subsection (b) of the new section 51 defines the term "adjusted tax" as meaning the tax imposed by chapter 1 of the 1954 Code for the taxable year, determined without regard to the taxes imposed by sections 51 (as added by the bill), 871(a), and 881 of such code and without regard to certain specified increases in tax, and reduced by an amount equal to the retirement income credit which would be allowable under section 37 of such code if no tax were imposed by section 51 for the taxable year. Except for this reduction for the retirement income credit, the amount of the surcharge is determined before credits (such as the foreign tax credit and the investment credit), but the credits provided by part IV of subchapter A of chapter 1 are allowed against the amount of the surcharge. In the case of an alternative tax computed by reference to a partial tax (such as sec. 1201, in the case of capital gains), the tax surcharge applies only to the alternative tax and is not taken into account in determining the partial tax.

Estimated Tax

Subsection (c) of the new section 51 provides that with respect to declarations, amended declarations, and payments of estimated tax, the time prescribed for filing or payments of which is on or after September 15, 1968, in the case of an individual, or June 15, 1968, in the case of a corporation, the rules in section 6654(d)(1) and 6655(d)(1) of the Code (which permit taxpayers to base their estimated tax payments for a taxable year on the tax liability shown on the return for the preceding year) are not to apply with respect to any taxable year for which a tax is imposed by the new section 51.

Technical Amendments

The remaining subsections of the new section 51 contain technical and conforming provisions relating to (1) Western Hemisphere trade corporations and dividends on certain preferred stock of public utilities, (2) shareholders of regulated investment companies, and (3) the attribution of the tax surcharge to the section imposing the tax on which the surcharge is based.

Subsection (b) of section 102 of the bill as agreed to in conference is a technical amendment relating to the receipt of minimum distributions by domestic corporations from controlled foreign corporations

Withholding on Wages

Subsection (c) of section 102 of the bill as agreed to in conference relates to withholding on wages.

Paragraph (1) of subsection (c) sets forth new tables for the percentage method of withholding. These tables are to apply in the case of wages paid after the 15th day after the date of the enactment of the bill and before July 1, 1969. The tables provide for witholding amounts of tax including the 10-percent tax surcharge which is to be in effect during this period.

Paragraph (2) of subsection (c) relates to the wage bracket method of withholding on wages during the period referred to in paragraph (1). The amount deducted and withheld under this method is to be determined in accordance with tables prescribed

by the Secretary of the Treasury or his delegate. The tables so prescribed are to be the same as the tables now in the law, except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld are to be computed on the basis of table 7 (percentage method of withholding if payroll period with respect to an employee is annual) set forth in the amendment made by paragraph (1) of subsection (c).

Subsection (d) of section 102 of the bill as agreed to in conference makes a clerical amendment to a table of parts.

Effective Date

Subsection (e) of section 102 of the bill as agreed to in conference provides effective dates. The amendments made by section 102 (other than subsection (c), relating to withholding on wages) are to apply (1) insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969, and (2) insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

For explanation of special rules with respect to the application of the new section 51 of the 1954 Code in the case of (1) payments of estimated tax for taxable years beginning before the date of the enactment of the bill, and (2) payments of tax surcharge for taxable years ending before such date of enactment, see the explanation of section 104.

Section 103. Payment of estimated income tax by corporations

Section 103 of the conference substitute corresponds to section 3 of the bill as passed by the House and section 7 of the Senate amendment. Except for technical and conforming changes and as noted below, the provisions of the bill as passed by the House, the Senate amendment, and the conference substitute are the same.

Under existing law, a corporation is required to make payments of estimated income tax to the extent its estimated income tax liability (after credits) exceeds $100,000. Under the bill as passed by the House, the $100,000 exemption is ultimately eliminated and a corporation is required to make payments if the tax liability can reasonably be expected to be $40 or more. Under the Senate amendment, the $100,000 exemption is ultimately reduced to an amount equal to 22 percent of its surtax exemption (this amount is $5,500 or, in the case of certain controlled groups of corporations, the portion thereof allocated to the corporation). Both the bill as passed by the House and the Senate amendment make their respective changes in the $100,000 exemption over a 5-year transitional period. Under the conference agreement, the $100,000 exemption is reduced in the manner provided by the Senate amendment in five annual stages, and is then eliminated in five additional annual stages. Payments of estimated tax are not required unless such estimated tax (tax liability, reduced by credits against tax and the exemptions) can reasonably be expected to be $40 or more.

Under the bill as passed by the House and under the Senate amendment, a corporation which overpays its estimated income tax may file an application for an adjustment ("quick refund") of the overpayment. Under the bill as passed by the House, the application may not be allowed unless the amount of the adjustment ("quick refund") equals or exceeds (A) 5 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $200. The Senate amendment changed 5 percent to 10 percent, and changed the $200 amount to $500. The conference agreement accepts the changes made by the Senate amendment.

The bill as passed by the House, the Senate amendment, and the conference substitute provide that the amendments relating to the payment of estimated income tax by corporations are to apply with respect to taxable years beginning after December 31, 1967. The Senate amendment contained in addition, a special provision relating to the payment of estimated tax (attributable to the enactment of the bill) required of any corporation on April 15, 1968. Under the conference agreement, the special rules relating to the application of this section of the bill and section 102 (including its effect on declarations and payments of estimated tax) are contained in section 104.

Section 104. Special rules for applications of sections 102 and 103

Section 104 of the conference substitute provides certain special rules with regard to the due dates for additional payments of estimated tax attributable to sections 102 and 103 of the bill, and the due date for certain payments of the tax surcharge imposed by the new section 51 of the Code.

Payment of Estimated Tax for Taxable Years Beginning Before Date of Enactment

Subsection (a) of section 104 provides that in determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103, such amendments are to apply only if the taxable year ends on or after September 30, 1968, in the case of an individual, or on or after June 30, 1968, in the case of a corporation. Subsection (a) further provides that with respect to estimated tax requirements, the amendments made by sections 102 and 103 of the bill are to be first taken into account as of September 1, 1968, for individuals, and May 31, 1968, for corporations. Thus, for example, in the case of a calendar year corporation the requirements of the amended section 6154 (installment payments of estimated tax by corporations) will be first applied as of May 31, 1968, and any increase in the amount of estimated tax resulting from the amendments made by sections 102 and 103 are to be reflected in the corporation's estimated tax installments beginning with the installment due June 15, 1968. In the case of an individual whose taxable year is the calendar year, any increase in the amount of estimated tax resulting from the tax surcharge is to be reflected in the individual's estimated tax installments beginning with the installment due September 15, 1968.

Subsection (a) also provides that in the case of any amount or additional amount of estimated tax payable, by reason of the amendments made by sections 102 and 103, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of the bill, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date the enactment of the bill) as the Secretary of the Treasury or his delegate shall prescribe.

Payment of Tax Surcharge for Taxable Years Ending Before Date of Enactment

Subsection (b) of section 104 provides that in the case of a taxable year ending before the date of enactment of this bill, the time prescribed for payment of the surcharge imposed by new section 51 shall not expire before September 15, 1968. Since taxpayers whose taxable years ended during 1968 before the date of enactment of the surcharge may have filed their returns without taking any liability for the surcharge into account, the Internal Revenue Service may require a statement to be filed with the payment due on September 15. Such statement will not constitute a return for purposes of the Internal Revenue Code of 1954. Therefore, neither the period of limitations on assessment and collection nor the period of limitations on credit or refund, if otherwise measured from the time the return is filed, will be extended by the subsequent filing of such statement. In the case of any interest, penalty, or addition to tax, the period of underpayment will not begin with respect to the surcharge before September 15, 1968. Thus, for example, interest on an underpayment of surcharge due, under section 104(b), on September 15, 1968, will be measured from such due date. This results from the application of section 6601 of the Internal Revenue Code which provides, generally, that interest will be measured on an underpayment from the last date prescribed for payment. Similarly, in the event of an overpayment of tax, interest on such overpayment attributable to a surcharge payment made on or before September 15, 1968, will not be allowable with respect to any period before September 15. This results from the application of sections 6611 and 6513 of the Internal Revenue Code which provide, generally, that interest shall be allowed on an overpayment of tax from the last day prescribed by law for payment of such tax, or, if later, from the date of such overpayment.

Under section 6152 of the Internal Revenue Code, a corporation may elect to pay its tax in two equal installments. If both installments are due before September 15, 1968, then the additional payment required to reflect the surcharge must be paid on or before September 15. If the first installment is due on or before September 15, but the second installment is due after that date, the corporation must pay one-half of the amount of the surcharge on or before September 15, 1968. The remaining half of the surcharge due will be paid as a part of the second installment on the due date for that installment.

Section 105. Continuation of excise taxes on communication services and on automobiles

Section 6 of the Senate amendment is identical to section 2 of the bill as passed by the House. These provisions are retained as section 105 of the conference substitute, except that the amendments are to take effect as of April 30, 1968, rather than March 31, 1968, in order to conform to the one month extension provided by Public Law 90–285, approved April 12, 1968.

Section 106. Timely mailing of deposits

Section 4 of the bill as passed by the House amends the Code to prescribe rules under which deposits delivered by United States mail to the bank or trust company authorized to receive the deposits are to be treated as timely deposited. Section 8 of the Senate amendment is identical to section 4 of the bill as passed by the House. These provisions are retained as section 106 of the conference substitute.

Section 107. Industrial development bonds

Sections 9 and 10 of the Senate amendment relate to industrial development bonds. In past years the Internal Revenue Service had ruled that the interest paid on obligations commonly known as industrial development bonds was exempt from income tax under section 103 of the Gode (Rev. Rul. 54–106, Rev. Rul. 57–187, and Rev. Rul. 63–20). On March 23 of this year the Internal Revenue Service published proposed regulations providing that the interest paid on industrial development bonds described in the proposed regulations would no longer be considered to be exempt under section 103. The proposed regulations represented a change in the position previously taken by the Internal Revenue Service and were based on the theory that industrial development bonds described in the proposed regulations were not "obligations of a State * * * or any political subdivision" within the meaning of section 103

since the primary obligor was not a State or political subdivision. These proposed regulations also contained a series of rules to provide a transition from the prior rulings to the rules set forth in the new regulations applicable to those who had committed themselves in particular ways to projects in reliance on the Service's prior position.

Section 9 of the Senate amendment would have, in effect, suspended the application of the proposed regulations by requiring the continued application of the revenue rulings referred to above until Congress acted on the subject. Section 10 of the Senate amendment would have provided a specific rule for determining the tax status of industrial development bonds issued after January 1, 1969. In general, section 10, denied tax-exempt status to industrial development bonds described in such section issued after January 1, 1969. Section 10 also provided specific exemptions to this rule. The effect of sections 9 and 10, taken together would have been to extend the Internal Revenue Service's prior interpretation of the tax status of industrial development bonds until section 10 became effective.

The conferees, in agreeing to a substitute incorporating features of sections 9 and 10, have for the future provided exclusive rules for industrial development bonds essentially of the type referred to in the prior revenue rulings and within the definition contained in the substitute, specifying the types of such bonds which in the future are to be taxable and the types of such bonds which are to be tax exempt. Under the conference agreement, the substitute becomes effective on May 1, 1968, and there is a continuing exemption, in addition to the specific exemptions, for issues of under $1 million. The May 1, 1968, effective date does not apply with respect to obligations issued before January 1, 1969, if before May 1, 1968, any of the conditions specified in section 107(b) of the conference substitute are satisfied.

The conference substitute does not affect the tax status of any obligation which is not an industrial development bond as defined in the substitute.

(*a*) *Amendment of section 103.*—Section 107(a) of the conference substitute amends section 103 of the Code, relating to interest on certain governmental obligations, by relettering present section 103(c) as section 103(d) and by inserting after present section 103(b) a new subsection (c), relating to the tax treatment of interest paid on industrial development bonds.

Section 103(a)(1) not to apply

Paragraph (1) of new subsection (c) provides that, except as otherwise provided in new subsection (c), any industrial development bond (as defined in new subsection (c)(2)) shall be treated as an obligation which is not described in present section 103(a)(1) of the Code. The interest paid on any obligation which is an industrial development bond will, therefore, be taxable except as otherwise provided by the new subsection (c).

Industrial Development Bond Defined

Paragraph (2) of new subsection (c) contains the definition of the term "industrial development bond" for purposes of new subsection (c). Any debt obligation which satisfies both the trade or business test (contained in new subsection (c)(2)(A)) and the security interest test (contained in new subsection (c)(2)(B)) is an industrial development bond.

Trade or Business Test

Subparagraph (A) of new subsection (c)(2) contains the trade or business test. This test is met by any obligation which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person (within the meaning of paragraph (3) of the new subsection (c)). The term "obligation which is part of an issue" includes a single note issued in connection with a bank loan.

Security Interest Test

Subparagraph (B) of new subsection (c)(2) contains the security interest test. The test is met by any obligation the payment of the principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part, secured in the manner described in clauses (i) or (ii) of new subparagraph (B).

Clause (i) of new subsection (c)(2)(B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) secured either (1) by any interest in property used or to be used in a trade or business, or (2) by any interest in payments in respect of such property.

Clause (ii) of new subsection (c)(2)(B) provides that the security interest test is met when the payment of the principal or interest on an obligation is (in whole or major part) to be derived from payments to be made in respect of property, or borrowed money, used or to be used in a trade or business.

Exempt Person

Paragraph (3) of new section 103(c) defines the term "exempt person" for purposes of paragraph (2)(A) to mean—

(1) a governmental unit (that is, a State, a territory, or a possession of the United States, or any political subdivision of any of the foregoing, or of the District of Columbia), or

(2) an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code (but only with respect to a trade or business which is not an unrelated trade or business).

In determining whether a trade or business is an unrelated trade or business, the definition of such term in section 513(a) of the Code is to be applied to the organization without regard to whether it is an organization subject to the tax imposed by section 511 of the Code.

Under paragraphs (2) and (3) of the new section 103(c), an obligation (1) which is issued as a part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, and (2) which meets the security interest test of paragraph (2)(B) is an industrial development bond. In determining whether all or a major portion of the proceeds of an issue are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the indirect, as well as the direct, use of the proceeds is to be taken into account. Thus, if all or a major portion of the proceeds of an issue are to be loaned by the issuer to one or more persons who are not exempt persons for use by such person or persons in trades or businesses carried on by them, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who is not an exempt person and who is to use such facilities in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds. If such proceeds are to be used to construct facilities to be leased to any person who will in turn lease them to another person who is not an exempt person for use in a trade or business carried on by him, such proceeds are to be used in a trade or business carried on by a person who is not an exempt person and the obligations comprising such issue are industrial development bonds.

Therefore, under paragraphs (2) and (3) of the new section 103(c), when all or a major portion of the proceeds of an issue which meets the security interest test of paragraph (2)(B) are to be used directly or indirectly in any trade or business carried on by any person who is not an exempt person, the obligations comprising such issue are industrial development bonds, unless all or a major portion of such proceeds are to be used directly or indirectly only in a trade or business carried on by a person who is an exempt person, and are not to be used in any trade or business carried on by any person who is not an exempt person. The fact that the governmental unit engages in a series of loan transactions of the type referred to above does not mean that the bonds relating to the loans in each case are not industrial development bonds so long as the other person uses the loans (for example, to acquire or construct property) in a trade or business carried on by a person who is not an exempt person.

Examples

The application of the rules contained in paragraphs (2) and (3) of new section 103(c) are illustrated by the following examples:

Example (1).—Governmental unit A and corporation X enter into an arrangement under which A is to provide a factory which X will lease for 20 years. The arrangement provides (1) that A will issue $10 million of bonds, (2) that the proceeds of the bond issue will be used to purchase land and to construct and equip a factory in accordance with X's specifications, (3) that X will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by X and the facility itself will be the security for the bonds. The bonds are industrial development bonds since they are part of an issue of obligations (1) all of the proceeds of which are to be used (by purchasing land and constructing and equipping the factory) in a trade or business by a person who is not an exempt person, and (2) the payment of the principal and interest on which is secured by a security interest in, and is to be derived from payments to be made in respect of, property to be used in a trade or business.

Example (2).—The facts are the same as in example (1) except that instead of providing that X will lease the facility for 20 years, the arrangement provides that (1) X will purchase the facility, and (2) annual payments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds will be made by X. The bonds are industrial development bonds for the reasons set forth in example (1).

Example (3).—Governmental unit B and corporation X enter into an arrangement under which the governmental unit is to lend $10 million to X. The arrangement provides that (1) B will issue $10 million of bonds, (2) the proceeds of the bond issue will be lent to X to provide additional working capital and to finance the acquisition of certain new machinery, (3) X will repay the loan in annual installments equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) the payments on the loan and the machinery will be security for the bonds. The bonds are industrial development bonds since they are debt obligations part of an issue (1) all of the proceeds of which are to be used in a trade or business by a person who is not an exempt person, and (2) the payment of the principal and interest on which is secured by payments to be made in respect of property to be used in a trade or business.

Example (4).—The facts are the same as in example (1), (2), or (3) except that the annual payments required to be made by

corporation X exceed the amount necessary to amortize the principal and pay the interest on the outstanding bonds. The bonds are industrial development bonds for the reasons set forth in such examples. The fact that corporation X is required to pay an amount in excess of the amount necessary to pay the principal and interest on the bonds does not affect their status as industrial development bonds.

Example (5).—The facts are the same as in example (1), (2), (3), or (4) except that the bonds also are general obligation bonds and the governmental unit is required to pay principal and interest out of general revenues in the event of a default by corporation X. The bonds are industrial development bonds for the reasons set forth in such examples. Governmental unit A's arrangement to pay the principal and interest on the bonds out of its general revenues in the event of default is a guaranty of corporation X's primary obligation to make the necessary payments. Governmental unit A's guaranty does not affect the status of the bonds as industrial development bonds.

Example (6).—Governmental unit C issues its general obligation bonds to purchase land and build a housing project principally for residential purposes. The bond indenture provides (1) that C is to own and operate the project as a rental facility, and (2) that the project itself and the rental payments are the security for the bonds. The bonds are not industrial development bonds since the project is to be owned and operated by C (an exempt person) and a major part of the proceeds of the issue are not to be used indirectly by any other person in any trade or business.

Example (7).—Governmental unit D issues its obligations to finance the construction of dormitories for educational institution Y which is an organization described in section 501(c)(3) of the Code and exempt from tax under section 501(a) of the Code. The dormitories are to be owned and operated by Y and do not constitute an unrelated trade or business. The bonds are not industrial development bonds since the proceeds are not to be used in a trade or business by a person who is not an exempt person.

Example (8).—Governmental unit E issues its obligations to finance the construction of various facilities that are to be leased to numerous unrelated corporations for use in their trades or businesses. The obligations are secured by revenues that governmental unit E will derive from such leases. The bonds will constitute industrial development bonds notwithstanding the fact that the activities of governmental unit E, an exempt person, may amount to a trade or business of leasing property, since the property involved will be used by each of the corporations in their respective trades or businesses.

Certain Exempt Activities

Paragraph (4) of new subsection (c) provides that new subsection (c)(1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide certain designated types of facilities. Obligations issued to finance such facilities may be industrial development bonds, but they are to be treated as obligations described in section 103(a)(1) of the Code.

Subparagraph (A) of new subsection (c)(4) applies in respect of obligations issued to provide residential real property for family units. A family unit is a building or portion thereof which contains complete living facilities which are to be used on other than a transient basis by only one family consisting of one or more persons. Thus, an apartment which is to be used on other than a transient basis by one family, which contains complete facilities for living, sleeping, eating, cooking, and sanitation constitutes a family unit. Hotels, motels, dormitories, fraternity and sorority houses, rooming houses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not constitute residential real property.

The term "residential real property for family units" includes land and facilities which are functionally related and subordinate to the space used for family units. In addition, it is not intended that the fact that a minor portion of the facility is used for other nonfamily unit purposes (such as for a drugstore or other retail establishment) would cause the project not to be within the term.

Subparagraph (B) of new subsection (c)(4) applies in respect of obligations issued to provide sports facilities. The term "sports facilities" includes facilities (such as stadiums) for watching baseball, football, and other sports events as well as facilities for the participation of the general public in sports activities such as golf, skiing, or swimming. Any other facility which is functionally related and subordinate to the sports facility such as a parking lot, club house, ski slope warming house, or bath house, is considered to be a part of the exempt sports facility. The portion of the proceeds of a borrowing which are expended in connection with any functionally related and subordinate facility are taken into account in determining whether substantially all of the proceeds of the borrowing are used to provide a sports facility. A facility which is primarily a hotel or motel but which includes facilities for sports, such as a golf course, swimming pool, or tennis courts, is not within the meaning of the term.

Subparagraph (C) of new subsection (c)(3) applies in respect of obligations issued to provide convention and trade show facilities. These facilities are the meeting halls, display areas, and facilities functionally related and subordinate to them, which are needed to house a convention or trade show. The term does not include hotel facilities available to the general public whether or not intended primarily to house persons attending or participating in a convention or a trade show.

Subparagraph (D) of new subsection (c)(4) applies in respect of obligations issued to provide airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to an airport, dock, wharf, mass commuting facility, or parking facility. For example, a grain elevator or warehouse which is on or adjoins a dock or wharf and which is directly related to it is an exempt storage facility. A facility located at an airport at which flight personnel are trained for their duties is an example of an exempt training facility.

Subparagraph (E) of new subsection (c)(4) applies in respect of obligations issued to provide (1) sewage or solid waste disposal facilities or (2) facilities for the local furnishing of electric energy, gas, or water. Solid waste disposal means the collection, storage, treatment, utilization, processing, or final disposal of solid waste (as defined in the Solid Waste Disposal Act, 42 U.S.C. § 3252(4)). Facilities for the local furnishing of electric energy, gas, or water do not include facilities for regional or broader transportation of gas or water by pipeline or long line transmission of electric energy.

Subparagraph (F) of new subsection (c)(4) applies in respect of obligations issued to provide air or water pollution control facilities, such as, for example, those described in subparagraphs (B)(i) and (C)(i) of section 48(h)(12) of the Code (relating to water and air pollution control facilities).

Industrial Parks

Paragraph (5) of new subsection (c) provides that new subsection (c)(1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park.

An industrial park, is, for purposes of new subsection (c)(5), a tract of land suitable for industrial, distribution, or wholesale use, the control and administration of which is usually vested in a governmental body. The uses of the tract are usually regulated by protective minimum restrictions, ordinarily including the size of sites, parking and loading regulations, and building set-back lines.

For purposes of paragraph (5), the term "development of land" includes the provision of water, sewer, drainage, or similar facilities, or of transportation, power, or communication facilities. Such facilities are, however, included within the meaning of the term only to the extent that they are incidental to the use of the site as an industrial park. A water pump house or a railroad siding might be incidental to the use of a site as an industrial park. Except with respect to such facilities, the term does not include the provision of structures or buildings.

Exemption For Certain Small Issues

Paragraph (6) of new subsection (c) provides a special exemption for industrial development bond issues of $1 million or less. If the provisions of paragraph (6) are applicable to an issue of industrial development bonds, the interest on such bonds will be tax exempt notwithstanding new subsection (c)(1).

In general.—Subparagraph (A) of new subsection (c)(6) provides that new subsection (c)(1) shall not apply to any obligation issued as part of an issue if (1) the aggregate authorized face amount of such issue is $1 million or less and (2) substantially all of the proceeds of such issue are to be used either (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation under section 167 of the Code (relating to depreciation), or (ii) to redeem part or all of a prior issue which was issued for the purposes described in clauses (i) or (ii) of new subsection (c)(6)(A).

Substantially all of the proceeds of a $1 million or less issue must be used for the acquisition, construction, reconstruction, or improvement of land or of depreciable property if the obligations are to qualify for the small issue exemption. This $1 million exemption is not applicable if a substantial portion of the proceeds are loaned to a borrower for use as working capital or to finance inventory.

Under the refunding rule of clause (ii), all or a part of the proceeds of a new $1 million or less issue may be used to redeem either (1) part or all of any prior issue which qualifies under clause (i), or (2) part or all of any prior issue which was used (either itself or one of its predecessor issues) to redeem an issue which qualified under clause (i). For example, a new $1 million issue of 4.5 percent obligations might in the future be used to redeem on outstanding $1 million issue of 6 percent obligations. In addition, if the outstanding issue was $700,000, a new issue of $1 million would be tax exempt if the $300,000 additional proceeds were used in the manner described in clause (i).

Certain prior issues taken into account.—Subparagraph (B) of new subsection (c)(6) provides rules for taking into account outstanding prior small issues in determining whether a subsequent $1 million or less issue qualifies for the special exception. Subparagraph (B) provides that if the requirements of clauses (i), (ii), and (iii) of subparagraph (B) with respect to a prior issue of obligations are applicable, then, for purposes of applying the special exemption of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues which are outstanding at the time of such later issue. The face amount of any outstanding obligation which is to be redeemed

from the proceeds of the later issue is not, however, taken into account.

The requirement of clause (i) of new subsection (c)(6)(B) is that the proceeds of two or more issues of obligations (whether or not the governmental unit issuing such obligations is the same unit for each such issue) which qualify under new subsection (c)(6)(A) and which are issued after April 30, 1968, are or will be used primarily with respect to facilities located or to be located in the same incorporated municipality or located or to be located in the same county in an unincorporated area in such county.

The requirement of clause (ii) of new subsection (c)(6)(B) is that the principal user of such facilities is or will be the same person or two or more related persons (as defined in new subsection (c)(6)(C)).

The requirement of clause (iii) of new subsection (c)(6)(B) is that, but for subparagraph (B), new subsection (c)(6)(A) would apply to each such issue of obligations.

The application of the rules contained in subparagraphs (A) and (B) of new subsection (c)(6) are illustrated by the following example:

Example.—(a) County B and corporation Y enter into an arrangement under which the county is to provide a factory which Y will lease for 20 years. The arrangement provides (1) that B will issue $1 million of bonds on November 1, 1968, (2) that the proceeds of the bond issue will be used to purchase land in Town M and to construct and equip a factory in accordance with Y's specifications, (3) that Y will rent the facility for 20 years at an annual rental equal to the amount necessary to amortize the principal and pay the interest on the outstanding bonds, and (4) that such payments by Y and the facility itself shall be the security for the bonds. Although the bonds issued are industrial development bonds within the meaning of new subsection (c)(2), by reason of the small issue exemption of subparagraph (A) of new subsection (c)(6), they are to be treated as obligations described in section 103(a)(1) of the Code.

(b) Subsequently, corporation Y proposes to Town M that the Town build a $400,000 warehouse in the Town for the use of corporation Y under terms similar to the factory arrangement. On the issue date of the new bond issue, $750,000 of the first issue of bonds are outstanding. If M issues $400,000 of bonds for such purposes, the issue will not qualify under the small issue exemption since the prior outstanding issue of $750,000 must be taken into account, inasmuch as (1) the facilities under both issues are to be located in Town M, (2) the same taxpayer will be the principal user of the new warehouse, and (3) but for subparagraph (B) of new subsection (c)(6), subsection (c)(6)(A) would apply to the new bond issue.

Related persons.—Subparagraph (C) of new subsection (c)(6) defines the term "related person" for purposes of paragraphs (6) and (7) of new subsection (c).

Subparagraph (C) provides that a person is a "related person" to another person if—

(1) under clause (i), the relationship between such persons would result in a disallowance of losses under section 267 of the Code (relating to disallowance of losses, etc., between related taxpayers) and section 707(b) of the Code (relating to losses disallowed, etc., between partners and controlled partnerships), or

(2) such persons are members of the same controlled group of corporations, as defined in section 1563(a) of the Code, relating to definition of controlled group of corporations (except that "more than 50 percent" shall be substituted for "at least 80 percent" each place it appears in section 1563(a)).

Exception

Paragraph (7) of new subsection (c) provides that paragraphs (4), (5), and (6) of new subsection (c) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person (as defined in subparagraph (C) of new subsection (c)(6)). Thus, the interest paid on an obligation which is issued to provide certain facilities, issued to finance an industrial park, or issued under the small issue exemption, will be taxable while the obligation is held by a substantial user of the financed facilities or a related person. For example, if a baseball or football club held the bonds of a stadium in which it played its home games for the season, the bond interest would be taxable. Similarly, if the users of the sites in an industrial park hold the industrial park bonds, the interest would be taxable.

(b) *Effective date.*—

In General

Paragraph (1) of section 107(b) of the conference substitute provides that, except as provided by paragraph (2) of section 107(b), the amendment made by section 107(a) is to apply with respect to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

Transitional Provisions

Paragraph (2) of section 107(b) of the conference substitute provides that section 103(c)(1) of the Code, as amended by section 107(a) of the conference substitute, is not to apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968, any one of the conditions contained in subparagraph (A), (B), (C), or (D) of section 107(b)(2) is satisfied.

For purposes of section 107(b)(2), obligations are considered to be issued on the date on which there is a physical delivery of the evidences of indebtedness in exchange for the amount of the issue price. For example, a bond issue is "issued" when the issuer physically exchanges the bonds for the underwriter's (or other purchaser's) check. Obligations which are taken down after December 31, 1968, by purchasers pursuant to a delayed delivery agreement with the issuer are, therefore, subject to the rules contained in new section 103(c) of the Code.

Subparagraph (A) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit. Therefore, if the governing body of the governmental unit issuing industrial development bonds has, prior to May 1, 1968, adopted a resolution or an ordinance which authorizes or approves either (1) the project being financed or (2) the bond issue, then new section 103(c)(1) of the Code will not apply to the bonds involved. Similarly, if the voters of the governmental unit have approved the issuance of such bonds for a designated project, such section will not be applicable.

Subparagraph (B) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, a governmental unit has made a significant financial commitment in connection with the issuance of such obligation, with the use of the proceeds to be derived from the sale of such obligation, or the property to be acquired or improved with such proceeds. The governmental unit making the significant financial commitment with respect to a proj ect financed by the proceeds of an industrial development bond issue need not be the governmental unit issuing the bonds. For example, the condition of subparagraph (B) is satisfied if a State makes a significant financial commitment to build access roads to a project in one of its counties which will issue the bonds. Similarly, the condition is satisfied when a city or county makes a significant financial commitment to build roads, powerlines, or sewerlines to a project within its jurisdiction which is being financed by a seperate governmental unit such as an industrial development board.

For the purposes of this subparagraph, the term "significant financial commitment" means the expenditure of (or a commitment to expend) a sizable amount of money. The amount involved need not be compared to the size of the financed project. For example, a commitment to expend $250,000 in connection with a $10 million project would be considered significant.

Subparagraph (C) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation, or who will use the property to be acquired or improved with such proceeds, has expended (or has entered into a binding contract to expend), for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds.

For purposes of this subparagraph, a prospective user of the proceeds of an industrial development bond issue or property to be acquired with such proceeds will be considered to have entered into a binding contract to expend money for purposes related to the project if (1) such person has entered into a contract for fuel, power, water, or raw materials and (2) any conditions to which the obligations of one or more parties to such contract are subject are beyond the control of such parties. For example, a binding contract for alumina entered into in connection with the financing of an aluminum reduction mill or such a contract to purchase timber land in connection with a paper mill are contracts related to the use of the financed facility. For purposes of determining whether the expenditures of the prospective user are equal to or in excess of 20 percent of the bond proceeds, binding contracts will be taken into account on the basis of the amounts to be expended over the term of the contract.

Subparagraph (D) of section 107(b)(2) of the conference substitute provides that new section 103(c)(1) of the Code shall not apply to such an obligation if, before May 1, 1968, in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

For purposes of this subparagraph, "financial assistance" includes a guaranty of the payment of the principal and interest on an obligation by a governmental unit as well as a direct financial grant. For example, new section 103(c)(1) of the Code does not apply if the Federal Economic Development Administration has approved a grant in connection with a project to be financed by industrial development bonds. Similarly, where a State agency has approved a project and the agency has guaranteed the payment of the principal and interest on the bonds, new section 103(c)(1) of the Code does not apply. The governmental unit concerned with economic development may be a Federal, State, or local agency.

Section 108. Advertising in a political convention program

Section 276(a) of the Internal Revenue Code of 1954 provides, in part, that no deduction otherwise allowable for income tax purposes shall be allowed for any amount paid or incurred for advertising in a convention program of a political party.

Section 108 of the conference substitute (which is substantially the same as sec. 13 of the Senate amendment) amends section 276 of the Code by adding a new section 276 (c). The new section 276(c) provides that section 276(a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive (1) directly as a result of such advertising, or (2) as a result of the convention being held in an area in which the taxpayer has a principal place of business.

For purposes of the new section 276(c), an amount paid or incurred for advertising will not be considered as "reasonable" if such amount is greater than the amount which would be paid for comparable advertising in a comparable convention program of a nonpolitical organization. The use of the word "directly" in paragraph (1) of the new section 276(c) does not permit the deduction of amounts paid or incurred for institutional advertising; it does not, for example, permit a deduction of amounts paid or incurred for advertising of a type not designed to sell specific goods or services to persons attending the convention.

The new section 276(c) does not permit the deduction of any amount described therein which is not otherwise allowable as a deduction under section 162 of the Code (relating to trade or business expenses), nor does it permit the deduction of any amount to which section 276(a) applies other than an amount which satisfies the requirements of the new section 276(c). Therefore, in order for any such amount to be deductible, it must first satisfy the requirements of section 162; in addition, it also must satisfy the more restrictive requirements of the new section 276(c).

This amendment applies with respect to amounts paid or incurred on or after January 1, 1968.

Section 109. Tax-exempt status of certain hospital service organizations

Section 109 of the conference substitute (which corresponds to sec. 12 of the Senate amendment) adds a new subsection to section 501 of the Internal Revenue Code which, in effect, provides a tax-exempt status for certain cooperative hospital service organizations. In order to qualify for a tax-exempt status, a hospital service organization must be organized and operated solely to perform services specified in the new subsection which, if performed directly by a tax-exempt hospital, would constitute activities in the exercise or performance of the purpose or function constituting the basis for its exemption, and must perform these services solely for two or more tax-exempt hospitals. The new subsection does not grant tax-exempt status if the hospital service organization performs any services other than those specified in the new subsection (for example, laundry services), or performs any services for any person or organization other than a tax-exempt hospital. In addition, such organization must be organized and operated on a cooperative basis and, if it has capital stock, all of its stock outstanding must be owned by its patron-hospitals. Under the amendment, a hospital service organization which meets these requirements and thereby qualifies for tax-exempt status is to be treated, for purposes of the Internal Revenue Code, as a hospital and as an organization referred to in section 503(b)(5) of the Code.

This amendment applies to taxable years ending after the date of enactment of the bill.

Section 110. Submission of proposals for tax reform

Section 20 of the Senate amendment provides that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954. This section is retained as section 110 of the conference substitute.

TITLE II—EXPENDITURE AND RELATED CONTROLS

Section 201. Limitation on the number of civilian officers and employees in the executive branch

Subsection (a) of section 201 of the conference substitute provides the general rules that except as otherwise provided in section 201—

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966, and

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

Subsection (b) of section 201 relates to the application of section 201(a)(1). Paragraph (1) provides that during any period when appointments are otherwise prohibited under section 201(a)(1), the head of any department or agency may (except as otherwise provided in section 201(b)) appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

Paragraph (2) of section 201(b) provides that, for purposes of paragraph (1), all agencies, which on the first day of any period when appointments are otherwise prohibited under section 201(a)(1), have 50 or fewer full-time civilian employees in permanent positions are to be treated as one agency, and the Director of the Bureau of the Budget is to determine the vacancies in each such agency which may be filled by reason of paragraph (1).

Paragraph (3) of section 201(b) provides that, for purposes of paragraph (1), the Director of the Bureau of the Budget may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Paragraph (4) of section 201(b) provides that, if a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency (1) such transfer is to be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and (2) section 201(a)(1) is not to apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy is not to be taken into account under paragraph (1).

Subsection (c) provides that, for purposes of section 201(a)(2), the Director of the Bureau of the Budget may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Subsection (d) provides that, for purposes of section 201, there shall not be taken into account (1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under section 201(a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time, (2) casual employees or employees serving without compensation, and (3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

Subsection (e) requires the Director of the Bureau of the Budget to maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and to reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

Subsection (f) requires the departments and agencies in the executive branch to submit to the Director of the Bureau of the Budget such information as may be necessary to enable him to carry out his functions under section 201.

Subsection (g) requires the Director to submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of section 201.

Subsection (h) provides that nothing in section 201 shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

Subsection (i) provides that the Director of the Bureau of the Budget shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.

Subsection (j) provides that section 201 (other than subsection (i) which takes effect on enactment) shall take effect on the first day of the first month which begins after the date of the enactment of the bill.

In administering section 201, the managers both on the part of the House and on the part of the Senate expect the Director of the Bureau of the Budget and the heads of departments and agencies to exercise control to prevent circumvention of its provisions by contracting for personal services to be performed by persons who are not Government employees.

In keeping with the June 30, 1966, date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966, level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966, level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

Section 202. Reduction of $6 billion in expenditures during fiscal year 1969

Subsection (a) of section 202 of the conference substitute provides that expenditures

and net lending (collectively referred to in the Budget as budget outlays) during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as totaling $186,062 million) shall not exceed $180,062 million, except by expenditures and net lending—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget; and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The amounts estimated in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) as budget outlays for the items listed above are as follows:

(1) $26,264,000,000 for special support of Vietnam operations (see p. 83 of the Budget),

(2) $14,400,000,000 for interest (see p. 53 of the Budget),

(3) $7,342,000,000 for veterans' benefits and services (see p. 161 of the Budget), and

(4) $36,042 million for payments from trust funds established by the Social Security Act (see table C–4, "Outlays and Receipts of Trust Funds", p. 488 of the Budget) as follows:

	In millions
Federal old-age and survivors insurance trust fund	$24,567
Federal disability insurance trust fund	2,617
Health insurance trust funds	5,770
Unemployment trust fund	3,088
Total	36,042

Subsection (b) of section 202 provides that the President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of section 202(a).

Section 203. Reduction of $10 billion in new obligational authority

Subsection (a) of section 203 of the conference substitute provides that the total new obligational authority and loan authority (collectively referred to in the Budget as budget authority) for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on p. 55 of H. Doc. No. 225, pt. 1, 90th Cong., as $201,723 million) shall not exceed $191,723 million, except for new obligational authority and loan authority—

(1) Which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget;

(2) For interest in excess of the amounts estimated therefor in the Budget;

(3) For veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) For payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

The budget authority (new obligational authority and loan authority) requested in the Budget (H. Doc. No. 225, pt. 1, 90th Cong.) for the items listed above are as follows:

(1) $25,405 million for special support of Vietnam operations. This is the sum of the amounts estimated in the Budget as indicated by the Director of the Bureau of the Budget, and may be derived as follows:

	In millions
National defense (see p. 81 of the Budget):	
Subtotal, Department of Defense—Military	$79,116
Excluding special Vietnam	(54,191)
Special Vietnam	24,925
International affairs and finance (see p. 92 of the Budget):	
Subtotal, expenditures	4,700
Excluding Vietnam	(4,220)
Special Vietnam	480
	25,405

(2) $14,400 million for interest (see p. 53 of the Budget).

(3) $7,817 million for veterans' benefits and services (see p. 161 of the Budget).

(4) $41,765 million for receipts appropriated to trust funds established by the Social Security Act (see table 4–C, p. 488 of the Budget) as follows:

	In millions
Federal old-age and survivors insurance trust fund	$27,188
Federal disability insurance trust fund	3,655
Health insurance trust funds	6,827
Unemployment trust fund	4,095
Total	41,765

Subsection (b) of section 203 provides that in the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by section 203(a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of section 203(a). The amounts so reserved (other than any amounts reserved from trust funds) are rescinded by subsection (b) as of the close of June 30, 1969. The President, at the time of submission of the Budget for the fiscal year ending June 30, 1970, is to make a report to the Congress indentifying the amounts reserved pursuant to subsection (b).

Section 204. Specific recommendations for $8 billion rescission in old obligational authority

Section 204 of the conference substitute provides that the President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress. The report is to be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and is to include specific recommendations for legislation to rescind not less than $8 billion of such unobligated balances.

Section 205. Application of certain formulas

Section 205 of the conference substitute provides that in the administration of any program as to which—

(1) The amount of expenditures or obligations is limited pursuant to section 202 or 203; and

(2) The allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) is to be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Section 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children

Section 301 of the conference substitute corresponds to section 14(a) of the Senate amendment. Section 14(a) repealed section 403(d) of the Social Security Act, which limited the number of dependent children under 18 who may receive AFDC with Federal financial participation in any State for any quarter after June 1968 because of a parent's absence to a proportion of the total under-18 population of the State at the beginning of the year involved equal to the corresponding proportion for the first quarter of 1968. There was no corresponding provision in the House bill.

Section 301 of the conference agreement instead postpones for one year (to July 1, 1969) the date on which the section 403(d) limitation becomes effective; the base quarter to be used for the measurement (January–March 1968) is not changed. The conference agreement also provides that if in compliance with, in reliance upon, or in consideration of a judicial decision a State adopts a policy of paying AFDC on the basis of a parent's absence to children who would not otherwise be eligible, the number of children under 18 receiving AFDC on the basis of a parent's absence in the January–March quarter of 1968 (for purposes of establishing the proportion in the base quarter and thereby determining the maximum proportion permitted for a later quarter, as described above) will be increased by the average monthly number of children under 18, added to the rolls because of such decision after March 1968, who were receiving AFDC on the basis of a parent's absence in the April–June quarter of 1969. For this purpose "judicial decision" means only a decision by a U.S. court of competent jurisdiction on the issue of the constitutional validity of a State law, rule, regulation, or policy under which AFDC is denied to otherwise eligible individuals because of failure to meet durational residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom the aid is sought. The Department of Health, Education, and Welfare can provide sampling or other appropriate methods to be used to determine the number of children under 18 who because of such a judicial decision are receiving AFDC in the April–June quarter of 1969 on the basis of a parent's absence, so as to provide a basis for the required adjustment of the number in the base quarter.

Section 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation

Section 302 of the conference substitute corresponds to section 14 (c) and (d) of the Senate amendment. Section 14 (c) and (d) eliminated the provision (in sec. 407(b)(2)(C) of the Social Security Act) prohibiting the payment of AFDC to a family on the basis of the father's unemployment for any period in which the father receives unemployment compensation under State or Federal law, and substituted a provision (in sec. 407(c)) giving each State the option under its State plan to deny all or any part of the aid otherwise payable under the plan to a family on the basis of the father's unemployment for any month if the father received unemployment compensation under State or Federal law for any week any part of which is included in such month. There was no corresponding provision in the House bill.

Section 302 of the conference agreement instead modifies section 407(b)(2)(C) of the act to prohibit the payment of AFDC to a family on the basis of the father's unemploy-

ment with respect to any week for which the father receives unemployment compensation under State or Federal law. It is the intention of the conferees that if the father receives unemployment compensation for all the weeks which fall wholly or partly in a month, the family could not under any circumstances receive an AFDC payment for that month; and if the father receives unemployment compensation for one or more but less than all the weeks which fall (wholly or partly) in a month, the family's AFDC payment will be reduced by the percentage of the month represented by such week or weeks (or by the portion of such week or weeks which falls in such month).

Section 303. Federal payments under medical assistance program for certain services includable under supplementary medical insurance program

Section 303 of the conference substitute is the same as section 16 of the Senate amendment. Section 16 amended section 1903(b)(2) of the Social Security Act (and sec. 222 of the Social Security Amendments of 1967) to postpone for 2 years (from January 1, 1968, to January 1, 1970) the date when Federal matching payments under a State's title XIX medical assistance plan may no longer be made for medical services which would have been covered under the supplementary medical insurance program (pt. B of title XVIII of the Social Security Act) had the State elected to "buy in" for its title XIX eligibles under section 1843 of that act. There was no corresponding provision in the House bill.

PROVISIONS OF SENATE AMENDMENT NOT INCLUDED IN CONFERENCE SUBSTITUTE

Under the conference agreement, the following provisions of the Senate amendment are omitted from the bill as agreed to in conference:

Section 11, relating to income from advertising in periodicals of tax-exempt organizations.

Section 14(b), relating to prior work by unemployed fathers under Aid to Families With Dependent Children (AFDC) program.

Section 15, relating to effective date of family planning services requirement under AFDC program. The conference committee does not believe that the provisions of existing law which are involved require any State to take action contrary to State statute and expects the Department of Health, Education, and Welfare to so interpret and administer the provision referred to in the Senate amendment.

Section 18, relating to import quotas on textile articles.

Section 19, relating to foreign nations indebted to the United States. The committee of conference expects the Secretary of State and the Secretary of the Treasury to make a study of appropriate and practical terms and condition for payment of the amounts of indebtedness of foreign countries to the United States which are past due and unpaid, and to report the result of this study to the Congress.

W. D. MILLS,
CECIL R. KING,
HALE BOGGS,
JOHN W. BYRNES,
Managers on the Part of the House.

EXPLANATION OF THE BILL, H.R. 15414, AS AGREED TO IN CONFERENCE

INTRODUCTORY STATEMENT

This explanation of the conference substitute to the text of the bill, H.R. 15414, supplements the explanation in the statement of managers on the part of the House and corresponds to the general explanation customarily included in reports from the Committee on Ways and Means and the Committee on Finance on major bills amending the Internal Revenue Code.

The short title of this bill is the "Revenue and Expenditure Control Act of 1968." The long title of the bill is "An act to increase revenues, to limit expenditures and new obligational authority, and for other purposes."

SUMMARY

A. The principal revenue amendments made by this bill are as follows:

1. An income tax surcharge at an annual rate of 10 percent is provided. Generally, this is effective for corporations beginning January 1, 1968, and for individuals April 1, 1968. In both cases the surcharge applies until July 1, 1969.

2. Provision is made for a speedup of corporate tax payments by increasing from 70 to 80 percent the percentage of estimated tax which a corporation must pay currently and by gradually eliminating (over a 10-year period) the present $100,000 corporate exemption from estimated tax. In addition, provision is made for "quickie" refunds of overpayments of estimated tax; and the requirement for corporations to file a declaration, at the time of making the first estimated tax payment, is eliminated.

3. The excise tax rates on new passenger automobiles and telephone services are to continue at the May 1968 levels of 7 percent and 10 percent, respectively, until January 1, 1970. Thereafter, these excise taxes are to be gradually reduced until they are eliminated on January 1, 1973.

4. Taxpayers who mail a deposit of tax (such as withheld income tax, estimated tax, or excise tax) 2 or more days before the prescribed due date are to be considered as having made a timely deposit even though the deposit is received after the due date.

5. Interest on so-called industrial development bonds generally is to be taxable with respect to issues on or after May 1, 1968 (unless specified commitments were made prior to that time). An exception to this rule, however, is made for bond issues of less than $1 million and also for certain specified categories which are to continue to be exempt.

6. Deductions are to be available for advertising expenses in a presidential convention program under certain limited circumstances.

7. Cooperative-type entities providing joint services solely for tax-exempt hospitals are to be treated as tax-exempt organizations where only limited, specified types of services are provided.

B. The principal expenditure control amendments made by this bill are as follows:

1. In the case of full-time permanent employees in the executive branch only three out of four vacancies in agencies or departments may be filled during any month when the employment level for the executive branch exceeds the June 30, 1966 level. Temporary and part-time employees in any department or agency generally are limited to the number of similar employees on the rolls in the corresponding month of 1967. In keeping with the June 30, 1966 date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966 level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966 level. For example, in applying this provision in the case of the Veterans Administration (including all such employees working in veterans hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

2. Federal expenditures and net lending in the fiscal year 1969 are to be reduced by $6 billion, from the level of $186.1 to $180.1 billion except for increases which may occur for expenditures related to Vietnam operations, interest on the debt, veterans services and benefit payments, and payments from social security trust funds.

3. Total new obligational and loan authority provided for the fiscal year 1969 is to be reduced by $10 billion, or from $201.7 to $191.7 billion, with the same exceptions as referred to above.

4. The President is to make a report including specific recommendations for legislation rescinding not less than $8 billion of unobligated balances at the time he sends up the 1970 budget.

C. The public assistance amendments made by this bill are as follows:

1. The limitation on Federal financial participation in the AFDC program applicable under present law is postponed for 1 year from July 1, 1968, to July 1, 1969. The allowable level for any State under the AFDC program is to take into account any addition in the average monthly number of dependent children in a State who come within this category as a result of a court decision with respect to the State's residency or "man-in-the-house" requirements.

2. The prohibition under present law on payments of assistance with Federal participation to a family when the father receives unemployment compensation during any part of the same month is modified so that the family may receive assistance during any weeks that the father does not receive unemployment compensation.

3. The period in which the Federal Government is to continue making payments under title XIX coverage for medical services to aged medically needy persons in a State which has not purchased supplementary medical insurance on their behalf is extended from January 1, 1968, to January 1, 1970.

TITLE I—REVENUE AMENDMENTS

The revenue amendments deal with numerous subject matters which are described under the headings set forth below. The major feature of this title, however, is the 10-percent surcharge which generally is effective January 1, 1968, in the case of corporations and April 1, 1968, in the case of individuals.

The conference committee agreed with the Senate that it is necessary to reduce the prospective budget deficit to more manageable proportions by increasing taxes (subject to the expenditure and obligational authority reduction set forth in title II) in order to halt inflation, relieve pressures on the domestic financial markets, and strengthen international confidence in the value of the dollar.

Recent events make it clear that inflationary pressures are growing. Nearly half of the record increase in gross national product in the first 3 months of 1968 was attributable to price increases rather than real gains in production. Furthermore, prices increased at an annual rate of 4 percent during this period. This is not only unacceptably high but also indicates that the rate of price increase is accelerating. Moreover, these price increases occurred throughout the economy.

The overheated rate of expansion which has generated price increases has also been accompanied by a serious deterioration in the U.S. balance of payments. Within recent months, imports of lower priced foreign goods have risen, jeopardizing the entire program to close the balance-of-payments gap. In March, imports actually exceeded exports on a seasonally adjusted basis. Foreign confidence in the value of the dollar, already weakened in the aftermath of the devaluation of the British pound and the winter gold crisis, may lessen still more if the United States fails to demonstrate progress toward a reduction in the balance-of-payments deficit.

Recent trends in domestic financial markets bear a disturbing resemblance to the developments which caused such distress in 1966. Demands for credit, in an important measure attributable to Federal borrowing to cover a $25 billion 1968 deficit, have pushed

interest rates above the high levels reached in 1966 to the highest levels in a century. Furthermore, recently the rate at which funds are withdrawn from savings and loan associations has increased sharply, casting doubt on the ability of these institutions to supply needed funds for home mortgages.

An essential ingredient in any policy to restore price stability, strengthen international confidence in the dollar, and relieve domestic financial pressures is a sharp reduction in the size of the Federal deficit for 1969, which in the absence of this bill, will approach $24 billion and could well be substantially more. Reducing expenditures and increasing taxes should restore a better balnace between Federal expenditures and tax receipts and relieve inflationary pressures without jeopardizing the maintenance of full employment. It will also demonstrate conclusively to foreigners our willingness to reduce the balance-of-payments deficit to an acceptable level. Finally, a sharp reduction in the Federal demand for borrowed funds will help to restore normal domestic financial relationships.

The provisions of this bill will reduce the 1969 budget deficit to a figure far less than the $25 billion estimtaed for the fiscal year 1968. Reductions in expenditures, provided in title II, account for a substantial part of this reduction. But the expenditure reductions that are feasible in view of the Nation's international and domestic commitments are not enough to accomplish the task. A tax increase is also necessary.

The table below indicates that in the fiscal years 1968 and 1969 it is expected that the bill as agreed to by the conferees will increase receipts by $15.5 billion; $3 billion of this is attributable to the excise tax extensions and $1 billion to the speedup of corporate tax payments in the fiscal years 1968 and 1969. The remainder—$11.6 billion—is attributable to the impact of the surcharge on collections in these 2 years. The surcharge on the individual income tax will account for $7.8 billion of the increase and the corporate surcharge, $3.8 billion.

TABLE 1.—ESTIMATED REVENUE INCREASES DUE TO TAX PROVISIONS OF H.R. 15414—CONFERENCE ACTION

[In billions of dollars]

	Fiscal year 1968	Fiscal year 1969
Excise taxes, extension of present rates:		
Automobiles	0.2	1.5
Telephone service	.1	1.2
Total, excise extension	.3	2.7
Corporations estimated taxpayments [1]	.0	1.0
Surcharge: [1]		
Individuals	0	7.8
Corporations	0	3.8
Total surcharge	0	11.6
Total revenue increase	.3	15.2

[1] Assumes enactment of this bill too late for Treasury receipts to reflect much, if any, increase in the case of the individual or corporate income tax payments in the fiscal year 1968.

Note: Detail may not add to total due to rounding.

Addendum: The surcharge; a full year liability at 1968 income levels:	Billions
Individuals	$6.8
Corporations	3.4
Total	10.2

Section 101. Amendment of existing law (sec. 101(b) of the House bill and sec. 5 of the Senate bill)

This section is essentially the same as provisions in both the House and Senate versions of the bill. It provides that whenever an amendment or repeal is expressed in this title of the bill, the expression refers to provisions of the Internal Revenue Code of 1954.

Section 102. Imposition of tax surcharge (sec. 17 of the Senate bill and sec. 51 of the code)

This section imposes an income tax surcharge at an annual rate of 10 percent. For corporations this is generally effective January 1, 1968, and for individuals it is generally effective April 1, 1968. In both cases the surcharge applies until July 1, 1969. In substance, the section is the same as in the Senate amendment.

The surcharges which the section imposes is in addition to the income taxes which a taxpayer must pay under existing law. The surcharge, as it was under the Senate amendment, is a percent of these existing taxes (with certain adjustments).

In the case of an individual reporting on the calendar year, the rate of the surcharge is 7.5 percent for 1968 and 5 percent for 1969.[1] This is the approximate equivalent of a 10-percent tax from April 1 in 1968 and for the first half of the year in 1969. The result is that the calendar year individual taxpayer pays the surcharge at an annual rate of 10 percent for the 15-month period of the surcharge. The rate of 7.5 percent for the calendar year 1968, and the rate of 5 percent for the calendar year 1969, applies to the entire tax of the applicable taxable year, whether attributable to income received before or after the aforementioned effective dates.

The tax surcharge does not apply to individual taxpayers whose income taxes (without regard to the surcharge) are below specified limits. The tax does not apply unless the taxpayer has taxable income above the first two tax brackets; that is, in the case of a single person, the tax applies only if the individual's tax exceeds $145, or in the case of married persons filing joint returns, only if their tax exceeds $290.[2]

An individual taxpayer whose tax (without regard to the surcharge) is just above the amount of the exemption is not to pay the surcharge at the full annual rate of 10 percent. To have required him to do so in effect would have imposed a special tax of $15 (or $29 for a married couple)[2] on his income immediately above the exemption level. This would leave a taxpayer whose before tax income is immediately above the exemption level with a smaller after tax income than a taxpayer whose income is immediately below the exemption level.

To avoid the result described above, the section provides that the amount of the surcharge cannot exceed the surcharge which would result if the surcharge applied at twice the annual rate (i.e., 15 percent in 1968), but only to a taxpayer's income tax liability above the exemption level. This means, for example, that a single person whose 1968 tax (before the surcharge) is $200 must only pay a surcharge of $8 (or 15 percent of $55) and not a surcharge of $15 (or 7.5 percent of $200). The result of phasing in the surcharge in this manner is to apply the surcharge at the lower rate provided by the phase-in provision only to those taxpayers whose taxes (without regard to the surcharge) are above the surcharge level but are not over about twice the level of the surcharge exemption. The section provides surcharge tables to reflect the surcharge up to the levels where the optional tax tables apply. As a result no taxpayer now determining his tax from the optional tax tables is to be required to compute the surcharge.

The exemption for the individual taxpayer does not apply to an estate or trust. Nor does it apply to a corporation. These latter taxpayers must pay the full amount of the surcharge at the annual rate of 10 percent. In the case of an estate or trust, the surcharge, in effect applies (as it does in the case of an individual taxpayer) only for the 15-month period April 1, 1968, through June 30, 1969. In the case of a corporation, the surcharge applies for the 18-month period from January 1, 1968, through June 30, 1969. For a corporation reporting on a calendar year basis, the rate of the surcharge is a full 10 percent in 1968 and 5 percent in 1969.

The surcharge, as previously explained, is a percent of the amount of the income taxes (without regard to additions to tax or penalties) imposed by chapter 1 of the code with certain adjustments. With the exception of certain items, noted below, the surcharge applies with respect to all taxes imposed by chapter 1. For example, the surcharge applies with respect to the tax on capital gains (but not in the partial tax computation necessary to determine if the alternate capital gains tax is applicable); it also applies with respect to the tax on accumulated earnings of corporations, to the personal holding company income tax, etc. The surcharge does not apply to the flat 30-percent (or lower treaty rate) tax on the income of a nonresident alien individual which income is not effectively connected with the conduct of a trade or business in the United States, since this tax generally does not change with rate changes. Nor does the surcharge apply to the flat 30-percent (or lower treaty rate) tax on the income of a foreign corporation which income is not effectively connected with the conduct of a trade or business within the United States. The surcharge also does not apply to an increase in tax resulting from a recapture of a previously allowed investment credit, since the surcharge is applied before the allowance of the investment credit. Nor does it apply to an increase in tax resulting in certain instances when a taxpayer elects to aggregate mineral interests since the recapture in this case works only to the extent of the prior tax benefit.

The surcharge applies, as it did under the Senate amendment, before any allowance for credits against tax, such as the foreign tax credit or the investment tax credit, with one exception. The surcharge generally is applied before credits because this is the result which would occur in the case of a rate change. It also is necessary not to inflate the value of the credits. This treatment is consistent with the treatment provided in the past when there was a percentage change in tax.

The surcharge applies after allowance for the retirement income credit. The reason for the exception is to treat taxpayers who receive retirement income substantially in the same manner as individual taxpayers who receive social security benefits. Since social security benefits are exempt from tax, the surcharge does not increase the tax liability with respect to these benefits. Applying the surcharge after allowance for the retirement income credit maintains the present relationship.

Since the surcharge generally applies before the allowance of credits, the limitations on the amounts of the various credits which may be claimed increase as the result of the imposition of the surcharge. For example, the investment credit in any year cannot exceed $25,000 plus 50 percent of a taxpayer's tax liability in excess of $25,000. Since the surcharge increases the taxpayer's tax liability for the year, it also increases the maxi-

[1] In the case of an individual reporting on a fiscal year basis, the surcharge is at an annual rate of 10 percent for the 15-month period beginning April 1, 1968, and ending June 30, 1969. The rate for any fiscal year only a part of which is within the surcharge period is prorated on a daily basis.

[2] The tax surcharge does not apply in the case of a head of household if the tax does not exceed $220. For married couples filing separately, the exemption level is the same as for single persons, and for a surviving spouse, the same as for married couples filing joint returns.

[2] Based on a 10-percent surcharge. With a 7.5-percent surcharge (applicable in 1968) the amounts are $10.87 and $21.75, respectively.

mum amount of the investment credit he can claim. The effect thus is to allow taxpayers to claim credits against the tax resulting from the surcharge.

In order to keep individuals as near current as possible with respect to the payment of their tax liabilities, the amendment provides a new set of wage withholding tables to reflect the surcharge. In addition, those taxpayers who pay their income taxes currently by quarterly payments of estimated tax are required to increase their estimated taxpayments to take the amount of the surcharge into account. The provision of existing law which permits a taxpayer (individual as well as corporate) in determining whether or not he is subject to a penalty for underpayment of estimated tax, to rely on his tax shown on his return for the preceding taxable year, is suspended for any taxable year for which the surcharge is imposed. This is necessary to be sure that the surcharge is more closely reflected in current taxpayments. Taxpayers, however, will not be subject to a penalty if they base their estimate on last year's income but apply the current year's rates (including surcharge). As provided in section 104 of the bill, an individual taxpayer is to increase his estimated taxpayments beginning with his first payment due on or after September 15, 1968. A corporate taxpayer is to take the effect of the surcharge into account beginning with its first taxpayment due on or after June 15, 1968. A special rule requires the Secretary of the Treasury to prescribe a date, not earlier than 15 days after the date of enactment for the payment by a corporation of the increase in its estimated taxpayment due on June 15 (or due later dates) as a result of the enactment of this bill.

The surcharge provision also provides a series of special rules in order to conform existing law to the amendments made by the surcharge. For example, there are specific rules relating to the special deduction for Western Hemisphere trade corporations and the special deduction with respect to dividends on the preferred stock of public utilities. Another rule provides that to the extent the tax imposed by the surcharge is attributable to a tax imposed by another section of the code, the tax is deemed to be imposed by the other section. This rule applies, for example, in the case of the treatment of certain distributions to shareholders of life insurance companies, and the required adjustments for taxes in computing accumulated taxable income, undistributed personal holding company income, and undistributed foreign personal holding company income. The rule also affects how the surcharge applies to an unincorporated business enterprise which has elected to be taxed as a domestic corporation.

The surcharge amendment also contains a special rule increasing required minimum distributions which a domestic corporation must receive from its foreign subsidiaries in order to avoid including the undistributed earnings of the foreign subsidiaries in its own income. In the absence of the minimum distribution, the domestic corporation would have to include a portion of its subsidiaries' income in its own income, even though the subsidiaries did not distribute the income to the parent. This change is necessary to assure that the tax on these corporations' income, domestic and foreign, is at least equal to the tax that would be paid if the income were earned entirely in this country.

Section 103. Speedup of corporate tax payments (sec. 3 of the House bill, sec. 7 of the Senate bill, and secs. 6154 and 6425 of the code)

Present law.—Present law requires a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration and make payments of estimated tax with respect to this excess in the current year; i.e., the year the income is earned. In general, the estimated taxpayments made during the current year must equal at least 70 percent of the tax liability in excess of $100,000 in order to avoid an addition to tax. These taxpayments for calendar year corporations are payable in equal quarterly installments on April 15, June 15, September 15, and December 15. A corporation with estimated income tax (after credits) not exceeding $100,000 is not required to make estimated taxpayments.

In general, if a corporation's equal quarterly payments of estimated tax during a year in total are less than 70 percent of its tax over $100,000 for the year, as subsequently shown on its income tax return, an addition to tax is imposed amounting to 6 percent per annum on the amount of each quarter's underpayment. However, a corporation is not subject to this addition to tax if one of three exceptions applies. Two of these are related to the corporation's last year's experience; i.e., there is no addition to tax if the total of its estimated tax payments is equal to the income tax reported on its prior year's return less the $100,000 exemption of it this total is equal to the amount in excess of the $100,000 exemption derived by applying the current year's income tax rates to the corporation's taxable income in the previous year. A third alternative provides that there is no addition to tax if during the current year, as each quarterly payment comes due, the corporation pays an amount equal to 70 percent of the estimated income tax over $100,000 which would be due if the corporation's income received throughout the entire year were received at the same rate as in the period prior to the due date of the installment in question. That is, no addition to tax is payable even though quarterly payments are unequal as long as the pattern of payments conforms closely to the pattern of the receipt of income and payments in total equal 70 percent of the amount of tax in excess of $100,000.

Explanation of conference provisions.—The House bill made four changes in the estimated tax procedure.

First, it repealed the requirement that a corporation, in paying its estimated tax, file a declaration of estimated tax. Thus action was taken on the grounds that there is no justification for requiring a corporation to continue filing a form which, under present practices, serves no useful purpose. The Senate bill made no change in this provision of the House bill and it is included in the conference agreement. With the shift in 1967 to the collection of estimated tax of corporations through the use of banks as depositaries, the filing of declarations of estimated tax by corporate taxpayers became unnecessary. The declarations formerly were used as a means of identifying and billing the taxpayer; but, since shifting to a depositary system, the Service supplies the taxpayer with deposit forms for each quarterly payment which contain the taxpayer's identifying number. The deposit forms provide both the Service and the corporation (through the retention of a stub) with a record of payments and also serve as a reminder to the corporation as to when payments are due.

The second change in estimated tax procedure made by the House bill eliminated, over a 5-year transitional period, the $100,000 exemption for payment of estimated tax liability. The Senate bill used the same 5-year transitional period, but reduced the $100,000 exemption generally [4] to $5,500 (the tax on the first $25,000 of income). Both the House bill and the Senate bill provided for estimated tax payments only if the corporation's estimated income tax, after credits and its exemption, exceeded $40. (Present law has a similar rule in the case of an individual taxpayer). As the House and Senate reports indicate, this reduction in the corporate estimated tax payment exemption, in addition to meeting the need for additional revenue, removes a competitive tax advantage to those operating in corporate form. The phaseout is provided to give the corporation time to arrange its financing.

The conferees agreed to eliminate the $100,000 corporate exemption as provided in the House bill, but over two, instead of one, 5-year transitional periods. In the first 5-year period (1968 to 1972, inclusive), a progressively smaller "transitional exemption" is to be employed which places all tax liabilities above $5,500 on a current basis. The transitional exemption is a given percentage of the difference between the first $100,000 of a corporation's estimated income tax liability (after credits) and $5,500. Thus, if the corporation's estimated income tax liability (after credits) is less than $100,000, the percentage applies to the difference between its estimated tax liability and $5,500. This percentage, called the exclusion percentage, is to be 80 percent in 1968, 60 percent in 1969, 40 percent in 1970, 20 percent in 1971, and is to be eliminated in 1972, at which time the exemption is to be $5,500.

In the second 5-year period (1973 to 1977, inclusive), the $5,500 exemption is to be phased out entirely. In this case another transitional exemption (technically the "temporary estimated tax exemption") is to be available. It is to be the product of $5,500 or, if less, the corporation's estimated income tax liability (after credits), times an applicable percentage equal to 80 percent in 1973, 60 percent in 1974, 40 percent in 1975, and 20 percent in 1976, and falls to zero in 1977.

These dual periods for the phaseout of tax liabilities over and under $5,500 mean that eventually all taxable corporations (with $40 or more of estimated tax) are to be required to pay their tax currently. However, a longer period is made available for the first $5,500 of tax liability since this primarily affects small business.

The third estimated tax change made by both the Senate and the House versions of the bill, and included in the conference agreement, is to increase from 70 percent to 80 percent the percentage of estimated tax which must be paid currently (including the percentage payable currently if the quarterly annualization method is used) to avoid an addition to tax. This provision restores the balance between the corporate taxpayer and the individual which existed before the Tax Adjustment Act of 1966 advanced these percentage requirements from 70 percent to 80 percent for individuals. In addition, in raising the percentage tests (as in phasing out the existing exemption), corporations are brought closer to a full pay-as-you-go basis.

The following table shows the allowable exemptions for corporations with estimated income tax liabilities of $100,000 or more in the first transitional period and with estimated income tax liabilities of $5,500 or more in the second:

1ST 5-YEAR PERIOD

	Exclusion percentage	Exclusion base [1]	Transitional exemption [2]
1968	80	$94,500	$75,600
1969	60	94,500	56,700
1970	40	94,500	37,800
1971	20	94,500	18,900
1972			5,500

Footnotes at end of tables.

[4] Throughout this part of the report the figure $5,500 is used. This is applicable to corporations other than those who can reasonably expect their surtax exemption under sec. 11(d) to be less than $25,000. In that case, the figure equal to 22 percent of their surtax exemption should be substituted for $5,500.

2D 5-YEAR PERIOD

	Applicable percentage	Exclusion base[1]	Temporary estimated tax exemption[2]
1973	80	$5,500	$4,400
1974	60	5,500	3,300
1975	40	5,500	2,200
1976	20	5,500	1,100
1977 and later years			0

[1] $100,000 less $5,500 in 1st 5-year period.
[2] Payment of estimated tax required only if estimated tax exceeds exemptions by $40 or more.

For a corporation with income tax liability of less than $100,000 in the first 5-year period, the transitional exemption is the exclusion percentage multiplied by the estimated income tax less $5,500. For example, assume that a corporation's estimated income tax liability for 1968 is $96,000. The transitional exemption is to be $72,400 (80 percent of $90,500) making the required tax payment $18,100 ($96,000 minus the sum of $5,500 and $72,400). In the second 5-year period, the transitional exemption for those corporations with an estimated tax liability of less than $5,500 is the applicable percentage multiplied by the estimated income tax.

The fourth change in estimated tax procedure made by the House and Senate bills relates to quick refunds of overpayments of estimated tax by corporations. As previously indicated, existing law requires a corporation with an estimated income tax in excess of $100,000 to make payments of estimated tax in the current year. If the total of these payments exceeds the tax shown on the return, the corporation may claim the overpayment as a refund. It may not claim this refund, however, until it files its income tax return for the year. Unlike the individual, who makes his last installment payment after the close of the year, the corporation must complete its payments during the year, and therefore cannot reduce these payments to reflect yearend losses. Moreover, corporations may claim automatic 3- or 6-month extensions of time for filing their tax returns merely by filing requests (but are required to make payments of proper estimates of tax on the due date). The result is that corporations often do not file their income tax returns until more than 8 months after the close of their taxable years. Even then, the Internal Revenue Service may wait another 45 days before refunding any overpayment of taxes without paying interest on the overpayments. As a result, a total of 10 months may elapse between the close of the year and the time corporations receive refunds of overpayments of tax.

The House bill allowed a corporation to apply for a quick refund or, more technically, an adjustment of overpayment of estimated tax, immediately after the close of its taxable year. A corporation can do so when its current revised estimate of income tax liability shows that its estimated tax payments exceed its revised estimate by at least 5 percent of the revised estimate and that the excess amounts to at least $200.

The Senate accepted the House provision, except that, to ease the administrative burden of the Internal Revenue Service, it provided that the overpayment of estimated tax must exceed the expected tax liability by 10 percent (instead of 5 percent) and must exceed $500 (instead of $200) to be eligible for the quick refund. The conferees accepted the Senate provision.

The amendments made by the provisions described above apply to taxable years beginning after December 31, 1967.

Section 104. Special rules for application of tax surcharge and speedup of estimated corporate taxpayments (sec. 7(f)(2) of the Senate bill)

This section of the conference substitute provides special rules with respect to the application of the tax surcharge to payments of the surcharge for taxable years which end before the date of enactment. It also contains special rules with respect to the application of the tax surcharge, and the amendment relating to the speedup in corporate estimated taxpayments, for payments of estimated tax for taxable years beginning before the date of enactment of the bill.

With respect to the payment of the tax surcharge for a taxable year to which the surcharge applies which ends before the date of enactment of the bill, the conference substitute provides that the time prescribed for payment of the surcharge is not to expire before September 15, 1968. The Internal Revenue Service presumably will require a taxpayer to file a statement with his payment of the surcharge. The statement is not to constitute a return. This means, for example, that it is not to affect the period of limitations, the collection or assessment of tax, etc. No interest, penalty, or addition to tax, which is determined by reference to a period of underpayment, is to begin with respect to the surcharge before September 15, 1968. In the case of a corporate taxpayer, if it elects to pay its tax liability in two installment payments, that portion of the surcharge which otherwise should be paid (as a result of enactment of this bill) with an installment paid before September 15, 1968, must be paid on or before that date.

This section also has application where the tax surcharge and the speedup of estimated taxpayments required of corporations increase the estimated taxpayments required in the current year.

This provision provides, in the case of individuals, that the increase in estimated taxpayments required as a result of the surcharge is not required to be paid until September 15, 1968. The individual is to take the surcharge into account in determining the amount of estimated taxpayments he must make in his installments due on September 15 and thereafter. This means, for example, that if an individual has two remaining installment payments due in the current taxable year, he is to pay one-half of his additional tax resulting from imposition of the surcharge on or before September 15 and the balance on or before January 15, 1969.

In the case of a corporate taxpayer, it must take any increase in estimated taxpayments required as a result of the imposition of the surcharge and enactment of the speedup requirements into account beginning with its first estimated taxpayments due on or after June 15, 1968. However, the Secretary of the Treasury is to require the increase in estimated tax due with the June 15 payment (or payments due later) to be paid at a date not earlier than 15 days after the date of enactment.

Section 105. Excise tax on communication services and on automobiles (sec. 2 of the House bill, sec. 6 of the Senate bill, and secs. 4061 and 4251 of the code)

Present law; automobile tax.—The excise tax on passenger automobiles (imposed on the manufacturer's price) was 7 percent before May 1. On that date the rate, in the absence of the enactment of this bill, would fall from 7 to 2 percent and is scheduled to fall to a permanent rate of 1 percent on January 1, 1969.

Explanation of conference provision; automobile tax.—Both the House and Senate versions of this provision provided for the continuance of the 7-percent excise tax on passenger automobiles. They also substituted a new timetable for the scheduled reductions in the excise tax. Finally, they provided for the repeal of the tax effective January 1, 1973. The conferees, therefore, made no changes in this provision (except changes to reflect the joint resolution continuing the 7-percent rate from March 31, 1968, to April 30, 1968).

The new timetable restores the 7-percent rate and postpones the scheduled reductions in the excise tax on passenger automobiles for a temporary period. At the same time it tempers the effect that the scheduled reductions would have on consumer purchases by providing for a gradual reduction in rate. Finally, the new timetable provides for the repeal of the tax at the end of the postponement period.

The 7-percent excise tax on passenger automobiles is restored effective May 1, 1968, to continue until January 1, 1970. On that date the rate is to fall to 5 percent. Further annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, as the rate falls from 5 to 3 percent and from 3 to 1 percent, respectively. On January 1, 1973, the tax rate is to fall to zero. As in the past, refunds are to be paid to dealers with respect to automobiles held in inventory on the date of any rate reduction. The following schedule of excise tax rates is to be applicable in the case of passenger automobiles:

	Percent
Before Jan. 1, 1970	7
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

Present law; communication tax.—The excise tax on amounts paid for local and toll telephone and teletypewriter exchange service was 10 percent before May 1, 1968. On that date, the rate, in the absence of the enactment of this bill, would fall to 1 percent and is scheduled to be repealed on January 1, 1969.

Explanation of conference provision; communication tax.—Both the House and Senate versions of the bill provided for the continuance of the 10-percent tax rate on telephone services and teletypewriter exchange service. They also provided for a graduated reduction in the rate before the rate falls to zero on January 1, 1973. The conferees made no changes in this provision (except for a change made to reflect the joint resolution continuing the 10-percent rate from March 31, 1968, to April 30, 1968).

The scheduled reduction and repeal of the excise tax on telephone services and teletypewriter service generally parallels the scheduled reduction and repeal of the excise tax on passenger automobiles. Thus, the 10-percent rate (restored effective May 1, 1968) is to apply until January 1, 1970, when it is to fall to 5 percent—the same rate then scheduled for the automobile excise tax. Annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, so that the tax rate is to be 3 percent in 1971 and 1 percent in 1972. On January 1, 1973, the tax is to cease. In applying these new rates, bills for services before November 1 of a calendar year are to bear the tax of that year even if the bill for the services is not rendered before the close of the year. As a result, the schedule of rates in the case of these telephone services is as follows:

	Percent
Before Jan. 1, 1970	10
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

Section 106. Timely mailing of tax deposits (sec. 4 of the House bill, sec. 8 of the Senate bill, and sec. 7502(e) of the code)

Present law.—The Internal Revenue Service is placing increasing reliance on the deposit method for the collection of taxes and now is collecting about $100 billion a year in this manner. Presently most withheld income taxes, estimated corporate income taxes, and excise taxes are collected in this manner. About 90 percent of the banks in the country are designated as depositaries for this purpose. This allows most taxpayers to hand deliver deposits on or before the last

day prescribed for deposit and avoid any addition to tax that would otherwise result.

Some taxpayers, however, find it more convenient to mail tax deposits than to hand deliver them. This may occur, for example, because a corporation with centralized financial management desires to make deposits with banks in the various communities in which its plants are located. Under the regulations, these deposits which are mailed are not considered as made until received by depositaries. The responsibility for timely mail delivery thus falls on the taxpayers. This differs from the general rule which treats payments as made when mailed.

Explanation of conference provision.—This provision, which is the same in both the House and Senate versions of the bill, provides that where a taxpayer mails his tax deposit 2 or more days before the prescribed due date, the mailing is to be considered a timely deposit even though the deposit is received after the due date (but only if it is actually received). Thus, the Government, and not the taxpayer, bears the responsibility for timely mail delivery.

The mailing of a deposit 2 or more days before the due date for payment is to be considered as payment only where the taxpayer can establish that he timely mailed the deposit. In the case of a deposit sent by registered mail, the date of registration is to be deemed the date of mailing. The taxpayer, of course, could also establish the date of mailing by other competent evidence.

The conferees made no change in this provision.

This provision applies to mailings occurring after the date of enactment of this bill.

Section 107. Industrial development bonds (secs. 9 and 10 of the Senate bill and sec. 103 of the code)

Present law.—Present law provides an exemption from income tax for interest on obligations of a State or local government. The Internal Revenue Service in the past has ruled that so-called industrial development bonds were State or local bonds for this purpose. The Treasury Department, on March 6, 1968, announced (in TIR 972) that it was reconsidering its position as to whether interest paid on so-called industrial development bonds comes within the exemption. It also announced that, on or about March 15, it would publish proposed regulations holding that these bonds are not obligations of a State or local governmental unit.

On March 23, 1968, the Treasury Department published proposed regulations holding that industrial development bonds (as defined in the regulations) are not to be considered obligations of a State or local government within the meaning of the exemption provision of the code. Therefore, under the proposed regulations, interest on these industrial development bonds is subject to tax. The proposed regulations, with certain exceptions for bonds in process of issue on March 15, apply to industrial development bonds initially sold after March 15, 1968. The exceptions for bonds in process of issue extend the March 15 effective date to bonds sold before September 15, 1968. (On May 14, the Internal Revenue Service announced (in IR–926) that it was postponing scheduled hearings on the proposed Treasury regulations until Congress acted on this bill.)

Explanation of conference provision.—The Senate adopted two amendments dealing with interest on industrial development bonds. The first (sec. 9 of the Senate bill) provided that, until a change in law hereafter enacted, interest on these bonds was to continue to be tax exempt in accordance with the regulations in effect on March 13, 1968 (2 days before the effective date of the proposed Treasury regulations) and in accordance with the principles set forth in certain prior revenue rulings. This amendment also authorized and directed the Internal Revenue Service to issue ruling letters with regard to the exempt status of industrial development bonds in accordance with the position stated in the regulations in effect on March 13, 1968, and the prior rulings. (See, Rev. Ruls. 54–106, 57–187, and 63–20.)

The second State amendment (sec. 10) dealing with industrial development bonds provided that interest on those bonds (as defined in the amendment) issued after January 1, 1969, was not to be considered tax-exempt interest. The amendment excepted bonds issued with respect to certain listed facilities. These excepted facilities included (among others) sport facilities, convention and tradeshow facilities, airports, docks, wharves, and grain storage facilities, parking and certain other transportation facilities, facilities for furnishing power, air or water pollution abatement facilities, and facilities used by a State or local government in an active trade or business.

The provision in the conference substitute dealing with interest on industrial development bonds is a modification of the two Senate amendments. The conference substitute in effect provides that industrial development bonds, as defined here, which are part of an issue of $1 million or less, or which fall within certain specified categories, are to continue to be exempt obligations. Thus, interest on these bonds is to be tax exempt (as was true under sec. 9 of the Senate bill of bonds coming within the purview of the Treasury regulations in effect on March 13, 1968, and the prior revenue ruling). On the other hand, industrial development bonds, as defined here, which are part of an issue in excess of $1 million, and which do not fall in one of the specified exempt categories, are to be considered obligations which are not those of States or local governments. Therefore the interest on these bonds is to be subject to tax (as was true of those coming within the purview of sec. 10 of the Senate bill and those coming within the purview of the proposed Treasury regulations).

The provision in the conference substitute deals exclusively with industrial development bonds as defined here; it is not intended to, and does not, reflect on the status of other types of obligations. Thus, for example, the provision does not deal with the status of so-called arbitrage bonds. The Internal Revenue Service has announced that it will not issue rulings on the tax status of these bonds. (See TIR 840, Aug. 11, 1966.)

The substitute provision provides that, for a bond to be an industrial development bond, two elements must be present, one relating to the usé of the bond proceeds and the other relating to the security for payment of the bonds. A bond is an industrial development bond only if the use of its proceeds, and the security for its payment, both are within the terms of the definition.

The first element which must be present for a bond to be an industrial development bond is that is must be a part of a bond issue all or a major part of the proceeds of which are to be used, directly or indirectly, in any trade or business by a person other than an exempt person. The fact that the proceeds of a bond issue are used by an exempt person in what may be classified as a trade or business does not mean that the bond issue may not be an industrial development bond issue if the proceeds also are used in the trade or business of another person. For example, even though an exempt person may be using the proceeds of a bond issue in what might be considered a lending or leasing business, when it lends the proceeds or leases the property to other persons in a series of transactions, the bond issue nevertheless meets the first element of the definition of an industrial development bond if the person borrowing the proceeds or leasing the property from the exempt person uses the proceeds or property in his own business. Similarly, a bond issue meets this element of the industrial development bond definition when the exempt person sells property acquired with the proceeds of the bond issue in a series of transactions to other persons who in turn use the property in their trade or business.

In some cases the proceeds of a bond issue may be used in part in trades or buisnesses carried on by taxable persons, but not in major part. For example, bonds issued by a turnpike authority to cover both the cost of highway construction and the cost of erecting incidental facilities, such as gasoline service stations and restaurants which are leased or sold to private trades or businesses, are not industrial development bonds since a major portion of the proceeds are not used directly or indirectly in trades or businesses carried on by taxable persons.

An "exempt person" for purposes of the provision described above is a governmental unit or a tax-exempt religious, charitable, educational, etc., organization (exempt by reason of secs. 501(a) and 501(c)(3) of the code). In this latter case, however, the exempt organization is included only when it uses the proceeds of the bond issue in an activity which is not an unrelated trade or business as determined elsewhere under the tax laws (this determination is to be made whether or not the particular organization may be subject to the unrelated business income tax).

The result of these exemptions for governmental units and certain exempt organizations is to exempt bond issues such as those issued by a State or local governmental unit to finance dormitory facilities for tax-exempt educational institutions, or to finance hospital facilities for tax-exempt hospitals (charitable), since bond issues for the use of specified types of exempt organizations are not included in the first element of the definition of industrial development bonds. This results because no other person is directly or indirectly using the dormitory or hospital facilities in a trade or business. Therefore the interest on these bonds is not taxable whether or not the bond issue comes within the terms of the second element in the definition described below.

The second element which must be present for a bond to be an industrial development bond is that it must be in whole or in major part either secured by an interest in property used in a trade or business, or in payments made with respect to this property, or it must be derived from payments in respect of property or borrowed money used (or to be used) in a trade or business. It is not necessary, in order for this second element to apply, for the property meeting this element of the industrial development bond definition to be the same property referred to in the first element of the definition; i.e., the property securing payment need not be the same property for which the bonds are issued. The fact that the bond issue may also be secured by the full faith and credit of the governmental unit does not prevent a bond from meeting the second element of the industrial development bond test as long as payment of the obligation also in major part is secured by or to be derived from the property or payments referred to above.

As does the Senate amendment providing for a tax on interest on industrial development bonds, the conference substitute also excepts bonds issued by a governmental unit to provide facilities for certain exempt activities even though the activities are carried on by a private person in a trade or business. These exceptions are in addition to the exemption for interest on bonds which are part of an issue of $1 million or less.

The conference substitute, by providing an exception for a bond issued as part of an issue substantially all the proceeds of which are to be used for facilities for the following listed purposes, in effect provides that interest on bonds for these purposes is to be tax

exempt. The exemption applies to bonds issued by a governmental unit to provide: (1) residential real property; (2) sports facilities; (3) facilities for a convention or trade show; (4) airports, docks, wharves, mass commuting facilities, parking facilities, or facilities for storage or training directly related to any of the foregoing; (5) sewage or solid waste disposal facilities, facilities for the local furnishing of electric energy, gas or water; and (6) air or water pollution control facilities.

The exemption for residential real property for family units relates to buildings containing one or more complete living facilities which are not intended to be used on a transient basis. The facilities to qualify must contain complete facilities for living, sleeping, eating, cooking, and sanitation. Hotels, motels, dormitories, fraternity and sorority houses, roominghouses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not qualify. On the other hand, residential real property is intended to include facilities which are functionally related and subordinate to the space used for family units. In addition, the fact that a minor portion of a facility is used for other nonfamily unit purposes (such as a laundromat, drugstore, or other retail establishment) is not intended to foreclose qualification for the facility.

The exemption for bonds issued to provide sports facilities applies, as did the corresponding Senate amendment, both to spectator sport facilities and to participation sport facilities. Thus, the exemption applies to bonds issued by a governmental unit to provide such facilities as baseball and football stadiums and indoor sports arenas as well as to provide ski slopes, golf courses, tennis courts, swimming pools, and gymnasiums. Facilities directly related to exempt sports facilities are intended to be considered sports facilities for purposes of this exemption. Facilities constructed in connection with, but not directly related to, a sports facility, such as a ski lodge to be built in connection with the development of a ski slope, are not to be considered sports facilities. Thus, interest on bonds issued in part to furnish the lodge is to be tax exempt only if this represent a very minor part of the total project and if in the case of the total project substantially all the proceeds are to be used to develop the ski slope and directly related facilities, such as a warming house and restaurant, etc.

The exemption for bonds issued to provide convention or trade show facilities applies only with regard to special-purpose buildings and structures constructed for convention or trade shows. This means, for example, that the exemption does not apply to bonds issued to finance a hotel even though the hotel expects and does a major part of its business in catering to delegates or participants at conventions or trade shows.

The exemption for storage or training facilities directly related to airports, docks, wharves, mass commuting and parking facilities is intended in the case of training to include facilities for flight training. In addition, facilities for storage with any of the foregoing is intended to include conveyors to move products from a ship to a silo or other storage facility on a wharf.

In addition to the exemption for the activities listed above, the conference substitute also exempts interest on a bond issued as part of an issue substantially all the proceeds of which are to be used for the acquisition or development of land as a site for an industrial park. An industrial park in general is a series of sites for industrial (including wholesaling and distributing) plants for which a plan has been developed and for which there usually are special zoning restrictions. The term "development of land" for this purpose includes providing water, sewage, etc., facilities, road, railroad, docking or other similar transportation facilities, and power or communication facilities. Except for the facilities referred to above, the term does not include the provision of any buildings or structures.

The conference substitute, as previously noted, provides an exemption for an industrial development bond which is part of an issue of $1 million or less. In determining whether a bond issue is within the $1 million exemption, the proceeds of outstanding prior issues, as well as of issues of another governmental unit, in respect of the principal user of facilities constructed with the proceeds of the first issue are taken into account if the later facilities are located in the same county or municipality. Related persons (such as corporations whose stock is owned by the same individual) are considered as one for purposes of the $1 million exemption.

The exemptions listed above with respect to certain exempt activities, the financing of an industrial park, and bond issues of $1 million or less, do not apply to industrial development bonds during any period in which they are held by a person who is a substantial user of the facilities constructed with the proceeds of the bond. Thus, the interest on these bonds which come within the listed exceptions is to be taxable when received by a substantial user of the facilities.

The conference substitute applies with respect to industrial development bonds issued on or after May 1, 1968. As do the proposed regulation in this regard, the substitute provides certain exceptions for bonds in process of issue on the effective date of the amendment. The exceptions for bonds in process of issue extend the May 1 effective date to bonds issued before January 1, 1969. The first two exceptions extend the effective date if, before May 1, the governmental unit issuing the bonds, or its voters, had authorized or approved the bond issuance, or the project in connection with which the proceeds are to be used, or the governmental unit had made a significant financial commitment in connection with the issuance.

A governmental unit is to be considered as having approved a bond issuance within the meaning of the first exception if it has committed the Government to issue the bonds in question. An authorization of a bond issue, however, does not require a binding commitment on the part of the governmental unit for this purpose. An agreement with the principal user of the facilities to be constructed with the bond issuance, a general resolution approving an industrial development project and a bond issuance, or a resolution of the governing body providing for submission of the bond issue to the voters is to qualify the bond issue for this purpose. Similarly, a resolution of a local governmental unit authorizing a bond issue but subject to approval of the State (or an agency or department of the State) is also to qualify the bond issue.

The third exception extends the May 1 effective date to bonds issued before January 1, 1969, if, before the earlier date, the private party who is to use the bond proceeds, or the property to be acquired or improved with the proceeds, had spent, or had committed himself to spend, for purposes related to the use of the property, an amount equal to 20 percent of the bond proceeds. A commitment to purchase power to be used in the operation of the property acquired with the proceeds of a bond issue is one example of a commitment for purposes of this provision. It is the total amount to be spent under a contract of this type (even if the contract is for a period of years) which is the amount of the commitment. Another example of a commitment or expenditure for this purpose is an expenditure or a commitment to spend amounts for raw materials to be used in connection with the property to be constructed with the bond proceeds. The expenditure of funds or the commtiment to spend funds to buy timberland for use in a paper plant is still another example of what would constitute a commitment or expenditure for this purpose.

The fourth exception extends the May 1 effective date to bonds issued before January 1, 1969, if, before the earlier date, a Federal or State economic development (or similar) agency had before it, or had approved, an application for financial assistance in conjunction with a project involving the bond issue and for which the agency extends financial assistance. For purposes of this exception, a loan or a grant in aid, or a guarantee of bonds issued by a local governmental unit, is to be considered financial assistance, Moreover, for this exception to apply, the financial assistance is not required to be extended directly to either the governmental unit issuing the bonds or to the person who is to use the property acquired or constructed with the bond proceeds. It is sufficient in this regard if the agency renders financial assistance in conjunction with a project which includes the property in respect of which the governmental unit issues the bonds.

Section 108. Advertising in a political convention program (sec. 13 of the Senate bill and sec. 276(c) of the code)

Present law.—Present law denies a deduction for an amount paid or incurred for advertising in a convention program of a political party. This limitation presently applies even though the amount paid or incurred might otherwise be deductible as an ordinary and necessary business expense.

Explanation of conference provision.—The conference substitute (which is substantially the same as the Senate amendment) modifies the present restriction denying a deduction for an amount paid or incurred for advertising in a political convention program to allow a deduction for the cost of this advertising under certain limited circumstances. An amount paid or incurred for advertising in a political convention program which is not deductible under this amendment is not deductible under any circumstance. The basic limitation of existing law which denies a deduction for indirect contributions to political parties produces this result.

This amendment allows a deduction for an amount paid or incurred for advertising in a political convention program only if the convention is one held to nominate candidates for the offices of President and Vice President of the United States. In addition, for the deduction to be available, the proceeds from the convention program must be used *solely* to defray the cost of conducting the convention (or a subsequent convention of the party held for the same purpose). Finally, under the amendment, an amount paid or incurred for advertising in a political convention program is deductible only if the amount is reasonable in light of the business the taxpayer may expect to receive (1) directly as a result of the advertising, or (2) as a result of the convention being held in an area where the taxpayer has a principal place of business.

This amendment does not permit a deduction for any amount paid or incurred which is not otherwise allowable as an ordinary and necessary business expense for advertising. On the other hand, the fact that the cost of advertising might otherwise be deductible as an ordinary and necessary business expense does not mean that the cost of advertising in a political convention program is necessarily deductible under this provision. In order for an ordinary and necessary business advertising expense to be deductible under the provision, the expense must satisfy the more restrictive tests for deductibility which the provision imposes.

For example, the cost of institutional or goodwill advertising, if reasonable in amount, generally is allowable as a business expense deduction under the code. Thus, the cost of an advertisement welcoming dele-

gates to a nonpolitical convention generally is deductible even though the advertisement merely names the business concern and does not refer to its product or try to stimulate sales directly to the persons attending the convention. Under the limitations of the new amendment, however, an amount paid or incurred for institutional advertising of this type at a political convention is not deductible as a direct advertising expense. Such an advertisement could be deductible only if the taxpayer has a principal place of business in the area where the convention is held.

Under the amendment, a taxpayer may deduct an amount paid or incurred for advertising in a political convention program only if the amount is reasonable in light of the business the taxpayer may expect to receive either directly as a result of the advertising or as a result of the convention being held in an area in which he has a principal place of business. This test of reasonableness applies throughout the amendment. It means that no deduction is allowable under the amendment unless the amount paid or incurred for advertising in a political convention program is no more than the amount which is (or would be) paid or incurred for comparable advertising in a comparable convention program of a nonpolitical organization involving comparable attendance.

These restrictions relating to direct advertising or principal place of business are intended to be such that in all events no amount is to be deductible which is essentially a political contribution.

The amendment applies with respect to amounts paid or incurred after January 1, 1968.

Section 109. Tax-exempt status of certain hospital service organizations (sec. 12 of the Senate bill and sec. 501(e) of the code.)

Present law.—The Internal Revenue Code does not now contain any provisions dealing specifically with the taxable status of organizations which render ordinary commercial services only to tax-exempt organizations. Accordingly, the Internal Revenue Service takes the position that if two or more tax-exempt hospitals join together to create an entity to perform ordinary commercial services for them this entity is not a tax-exempt organization.

Explanation of conference provision.—The Senate bill provided that certain entities which provide joint services solely to tax-exempt hospitals would be tax-exempt organizations (and treated like tax-exempt hospitals). As a result, they would pay no income tax and contributions to them would be deductible. The purpose of this type of joint service organization is to aid hospitals in lowering costs by performing administrative and other similar services on a joint basis.

To come within the Senate provision, an organization must—

(1) Provide services which if performed on its own behalf by a hospital would constitute part of its exempt activities.

(2) Be organized and operated to provide services solely for tax-exempt hospitals, including those owned and operated by any government agency.

(3) Be organized and operated on a cooperative basis (whether or not under a specific state statute on cooperatives) and make patronage refunds within 8½ months after the close of the taxable year.

(4) Have its capital stock (if there is stock) held solely by its patrons.

The conferees agreed to the Senate provision, but limited it to a joint enterprise which is organized and operated solely to perform one or more of the following services for hospitals: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel. Thus, an organization is not to qualify for exemption under this section if it performs any other services such as, for example, general laundry services or performs any services for other than a tax-exempt hospital.

The amendment is effective for taxable years ending after the date of enactment.

Section 110. Submission of proposal for tax reform (sec. 20 of the Senate bill)

This provision, added by the Senate, provides that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954. The conferees accepted this provision without change.

TITLE II—EXPENDITURE CONTROLS (SECS. 2, 3, AND 4 OF THE SENATE BILL)

The conference committee agrees with the Senate that positive action to impose controls on the level of Federal expenditures must accompany the provision which increases individual and corporate income taxes. The difficult decision to recommend an increase in taxes is taken because it is apparent that such action is required to halt inflation, relieve pressures on the domestic financial markets, and strengthen the international standing of the dollar. Unless expenditures also are controlled, however, the revenue gained from the surcharge might be dissipated by increased spending. Inflation will continue if a rapid increase in Federal expenditures is allowed to offset the impact of a tax increase. Continued inflation will increase speculation against the dollar and weaken the balance of payments. Continued large deficits will also increase the pressures in domestic financial markets which have already resulted in the highest interest rates in over a century.

Exercise of the necessary degree of control over expenditures cannot be assured without the approval of explicit provisions imposing ceilings on spending and grants of obligational authority.

To impose meaningful limits on Federal expenditures, action must be taken on several fronts. It is not enough to set a ceiling on the actual expenditures of a given fiscal year. Such a ceiling, although necessary, can in effect be avoided by postponing rather than reducing expenditures. Action must also be taken therefore to limit the grants of obligational authority under which future expenditures are made. Rescissions in existing amounts of unspent obligations are also important. The bill approved by the conferees, therefore, not only imposes a ceiling on the level of expenditures for the fiscal year 1969, but also imposes a similar ceiling on grants of new obligational authority and requires that proposals be submitted for rescissions in the amount of outstanding unobligated obligational authority. Consistent with the objective of expenditure control, the conferees also approved the imposition of a ceiling on the number of Federal civilian employees in the executive branch of the Government. These provisions are discussed below.

Section 201. Limitation on number of Government employees

The Senate bill provided that only two out of four vacancies were to be filled in the executive branch until such time as the number of full-time civilian employees (including the full-time equivalent of the number of part-time employees) in the executive branch was no higher than the number employed on September 20, 1966. The vacancies to be filled were to be determined on a Government-wide basis by the Director of the Bureau of the Budget. Excepted from this provision were employees of the Defense Department, CIA, postal field service, FBI, employees of the TVA engaged in its power program and paid from other than appropriated funds, casual employees, employees employed without compensation and officers appointed by the President with the advice and consent of the Senate.

The bill approved by the conferees requires the number of these Federal civilian employees to be gradually reduced to, and subsequently maintained at the June 1966 level. Federal full-time permanent employment has already increased by about 244,000 since the end of the fiscal year 1966.

Under the conference provisions, separate limitations are provided for full-time permanent employees and for part-time and temporary employees. With regard to the former, Federal executive agencies and departments are permitted to employ only as many new full-time employees as are required to fill three out of every four vacancies that occur by reason of the resignation, retirement, removal, or death of existing employees, until such time as the overall number of such employees is reduced to 2,366,317,[5] the number of full-time permanent employees on the rolls on June 30, 1966, as shown in table 2. Once this level is reached, new employees may be employed without restriction as long as the overall number of full-time civilian employees does not exceed this level. It is estimated that there were as of March 31, 1968, 2,610,304[5] full-time permanent civilian employees in the executive departments and agencies.

TABLE 2.—FEDERAL CIVILIAN EMPLOYMENT—EXECUTIVE BRANCH

Month	June 1966–March 1968		
	Full-time permanent	Temporary and part-time employment	Total employment
1966—June	2,366,317	359,827	2,726,144
July	2,382,253	394,032	2,776,285
August	2,402,870	380,179	2,783,049
September	2,418,146	343,729	2,761,875
October	2,428,169	358,087	2,786,256
November	2,478,274	344,750	2,823,024
December	2,490,166	464,403	2,954,569
1967—January	2,508,631	327,800	2,836,431
February	2,524,958	327,838	2,852,796
March	2,538,575	332,374	2,870,949
April	2,545,545	342,311	2,887,856
May	2,554,374	339,353	2,893,727
June	2,572,286	395,678	2,967,964
July	2,481,884	418,043	2,999,927
August	2,593,267	396,107	2,989,374
September	2,592,715	318,592	2,911,307
October	2,603,805	311,416	2,915,221
November	2,610,007	307,092	2,917,099
December	2,606,897	421,524	3,028,421
1968—January	2,606,176	300,412	2,906,588
February	2,607,459	298,226	2,905,685
March	2,610,304	297,234	2,907,538

The number of temporary and part-time Federal Government employees in any one month is not to exceed the number of similar employees on the rolls in the corresponding month of the calendar year 1967. The monthly total of part-time employees in 1967 also is shown in table 2.

Exemptions are provided from the terms of this provision for persons appointed by the President with the advice and consent of the Senate, for casual employees, for employees serving without compensation, and for up to 70,000 persons between the ages of 16 to 22 who may be provided summer employment under programs for the economically or educationally disadvantaged.

The limitations are to be applied by each executive agency and department. However, the Director of the Budget is authorized to reassign vacancies from one department or agency to another when in his opinion such reassignment is necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or in order to obtain the more efficient operation of the Government.

[5] Does not take into account adjustments for exemptions described subsequently which make up only a very small percentage of the total.

It is important to note that this enables the Director of the Bureau of the Budget to prevent reductions in employment levels in any agency where this would seriously interfere with the operation of the Government by making larger reductions in employment in other agencies. In keeping with the June 30, 1966 date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966 level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966 level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

In addition, the Director is authorized, in effect, to pool all agencies with 50 or fewer full-time permanent civilian employees to permit the three out of four vacancy rule to be applied on an overall basis for these agencies without separate regard to the number of vacancies in any one of them. The determination of the vacancies to be filled in these pooled agencies is to be made by the Director of the Bureau of the Budget.

When a full-time permanent civilian employee is transferred from one department or agency to another, the agency from which the employee is transferred is to be permitted to fill the vacancy without regard to this provision. The agency to which the employee is transferred, however, must regard the employee as an appointment under the terms of this provision. This rule takes account of the fact that a transfer within the Government does not represent a reduction in the number of existing employees, but at the same time removes any incentive for agencies to recruit new employees from other agencies in an effort to avoid the impact of this provision.

As indicated previously, under the terms of the Senate amendment, Federal agencies (with the exceptions previously described) would have been permitted to fill only two out of every four vacancies until the total number of employees, including both the number of full-time permanent employees and the number of part-time and temporary employees (enumerated on a full-time-equivalent basis), was reduced to the number employed on September 20, 1966. The conferees concluded that the transition to the permanent limitation would be so rapid under the Senate bill as to cause severe dislocations in some agencies and departments. For this reason the conferees shifted over to a rule allowing three out of four vacancies to be filled instead of two out of four. With this modified rule the conferees concluded that it was better to apply such a rule to all governmental agencies and not to exclude major departments or agencies which, although they perform essential functions, should be able to share in the reduction in employment.

The conferees agreed that it was appropriate to include part-time and temporary employees under a separate limitation to preclude the substitution of part-time employees for full-time employees. Including both categories under a single limitation would not take account of the normal seasonal fluctuations in the number of part-time and temporary Federal employees. By establishing a separate limitation for each group, the conferees provided for seasonal variations in part-time and temporary employment while maintaining the effect of the Senate provision.

The conferees agreed to establish a limitation based upon the number of employees on the Federal payroll at the end of the fiscal year 1966 because of the difficulty of determining, accurately the number employed on September 20, 1966.

The conferees do not contemplate that the ceilings on employment provided by this provision are to be avoided by contracting work outside the Government. The expenditure limitations should aid in preventing this. However, in addition, is is expected that the Bureau of the Budget and the agency heads will see to it that contract work is not substituted for personal services performed by governmental employees.

The determinations of what constitutes a full-time employee, a permanent position, a temporary position and a part-time employee are to be based on the definitions used by the Bureau of the Budget. (See, for example, Circular No. A–64, revised, dated June 28, 1965.) A casual employee is to be considered one classified as an "intermittent" employee in the circular referred to.

Nothing in this section is to supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

This section is to take effect on the first day of the first month which begins after the date of enactment of this bill.

Section 202. Reduction of $6 billion in expenditures in fiscal year 1969

A reduction in Federal expenditures below the amounts estimated in the budget for the fiscal year 1969 as proposed in January is a vital part of the comprehensive effort to reduce the budget deficit to manageable proportions. A tax increase unaccompanied by controls over spending could merely result in an increase in Federal expenditures. Such an increase in expenditures would offset whatever effect a tax increase would have in dampening inflationary pressures.

Under the provisions of the bill approved by the conferees, expenditures and net lending during the fiscal year 1969 are not to exceed $180,062 million except by the amount by which expenditures and net lending for any of the following exceed the budget estimates presented for it in January:

(1) Amounts which the President may determine are necessary for special support of Vietnam operations (the amount included in the budget is $26,264 million; see p. 83 of the budget document);

(2) Amounts for interest on Federal Government debt (the amount included in the budget is $14,400 million; see p. 53 of the budget document);

(3) Amounts for veterans benefits and services (the amount included in the budget is $7,342 million; see p. 161 of the budget document); and

(4) Amounts for payments from trust funds established by the Social Security Act (the amount included in the budget is $36,042 million; see outlays of first four funds in table C–4, p. 488, of the budget document).

The budget submitted by the President in January proposed expenditures totaling $186,062 million (budget document, p. 55). Thus, this provision requires that proposed spending be reduced by $6 billion. Actual spending may exceed $180,062 million if expenditures in the four excepted categories in total exceed the amounts proposed in the January budget, but in the absence of this limitation, any such increases would presumably also have been added to the total of $186,062 million.

It is the hope of the conferees that the reduction in expenditures will be achieved by Congress through its action on the appropriations bills. It was realized, however, that congressional action might fail to reduce expenditures by the full required amount. For this reason, the conferees have approved a provision which requires that the President reserve from expenditure and net lending such amounts as may be necessary to carry out this provision. Therefore, to the extent that congressional action on appropriations bills does not reduce expenditures to the required amount, the President is to make reductions, in the manner which he considers most appropriate, until the $6 billion reduction is reached.

Section 203. Reduction of $10 billion in new obligational authority

Attempts to reduce exepnditures will achieve little success in the long run unless they are accompanied by reductions in new obligational authority. Unless reductions are made in authorizations to spend, expenditure reductions may be merely temporary because they postpone rather than actually eliminate expenditures. The conferees, therefore, concluded that a reduction in expenditures should be accompanied by reductions in obligational authority.

Under the terms of this provision, total new obligational authority and loan authority provided in the fiscal year 1969 are not to exceed $191,723 million, except for authority in excess of the amounts proposed in the 1969 budget for the following:

(1) Amounts necessary in the judgment of the President for special support of Vietnam operations ($25,405 million as reported by the Bureau of the Budget);

(2) Amounts for interest on Government debt ($14.4 billion; see p. 168 of the budget);

(3) Amounts for veterans benefits and services ($7,817 million; see p. 161 of the budget); and

(4) Amounts for payments from trust funds established by the Social Security Act ($41,765 million; see receipts of first four funds shows in table 4–C, p. 488 of the budget).

This is a reduction of $10 billion below the level of $201,723 million of proposed new obligational authority shown in the budget. (See p. 53 of the budget.)

As in the case of expenditures, the conferees urge Congress to reduce requests for new obligational authority to the extent necessary to meet the limitation imposed by this provision. In this connection, it should be noted that congressional action on appropriation bills directly determines the amounts of new obligational authority whereas it has only an indirect effect on expenditures in a given fiscal year. In the event that congressional appropriations of new obligational authority exceeds the limitation, however, the President is to be required to reserve amounts of obligation and loan authority, in the manner he deems appropriate, to the extent necessary to reduce total grants of authority to the limitation imposed. The amounts which the President reserves in this manner (other than any amounts received from trust funds) are rescinded as of the close of the fiscal year 1969. The President, at the time of the submission of his budget for the fiscal year 1970, is to make a report to Congress identifying the amounts he has reserved under this provision.

Section 204. Specific recommendations for $8 billion recission in old obligational authority

As indicated in connection with the prior provision, attempts to make expenditure reductions effective will achieve little success in the long run unless they are accompanied by reductions in obligational authority, since otherwise expenditures may be merely postponed to subsequent years. The reduction of $10 billion in new obligational authority specified in the prior provision gives assurance that grants of new authority will not give rise to sharply increased expenditures in future years. However, to be sure that obligational authority created in prior years is not available after the fiscal year 1969 to maintain higher expenditure

levels, it is also necessary that carryovers of obligational authority be reduced. It is difficult, however, to determine in advance the specific areas in which these reductions can be made.

Therefore, this provision provides that the President is to make a specific study and analysis of unobligated balances of appropriations and other obligational and loan authority which remain available for obligation or commitment after the fiscal year 1969. He is to make a report on these unobligated balances to Congress and include specific recommendations for legislation rescinding not less than $8 billion of these unobligated balances. This report is to be submitted at the time of the submission of the 1970 budget to Congress.

The budget document estimates that there will be unspent authorizations enacted in prior years totaling $222,301 million available for expenditure or net lending at the start of the fiscal year 1969. Of this amount $140,063 million is expected to be unobligated at the beginning of the fiscal year 1969. By the end of 1969 unspent obligational authority is expected to have increased to $236,380 million and of this $145,672 million is expected to be unobligated. It is out of this latter unobligated balance that the recommended $8 billion of rescissions is to be made.

Section 205. Applications of certain formulas

Under present law, in the case of certain appropriations, the grant or other distribution of the funds among the recipients of the funds is determined automatically under the law by the application of a formula involving the amount appropriated or made available for distribution.

With regard to the expenditure reduction set forth in section 202, and the reduction in new obligational authority set forth in section 203, it is hoped that Congress will make most of those reductions itself, but failing that, it is believed imperative that the President make the remaining reductions. To the extent that the distribution of funds among recipients occurs automatically under a formula relating to the amount appropriated, the President presumably could not under present law reserve any such funds. This section enables him to do so by specifying that after the President has reserved any appropriations where these formulas apply in order to bring about the $6 billion expenditure reduction or the $10 billion obligational reduction, the amount after the reduction by the President is to be substituted for the amount appropriated or otherwise made available under the formula in determining the amount which is to be distributed to the recipients.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Section 301. Limitation on Federal financial participation with respect to aid to families with dependent children (sec. 14(a) of the Senate bill)

Present law.—The Social Security Amendments of 1967 set a limitation of Federal financial participation in the AFDC program which is related to the proportion of the child population under age 18 in a State who may receive aid because of the absence of a parent from the home. Under the limitation, this proportion is based upon the ratio of the average monthly number of children in a State dependent because of the absence of a parent during the first calendar quarter of 1968 to the child population in such State on January 1, 1968. This limitation would become effective July 1, 1968.

Explanation of conference provision.—The Senate bill would have deleted the limitation of present law. The conferees postponed the effective date of the provision in present law from July 1, 1968, to July 1, 1969.

In addition, the ratio which determines the percentage limitation of Federal Government financial participation is to include a higher average monthly number of cases when the caseload is increased because of a State's complying with a judicial decision by a U.S. court of competent jurisdiction with respect to State laws establishing duration of residence requirements or the so-called man-in-the-house rules. In this event, the average monthly number of cases is to include the additional children who receive assistance under the AFDC program during the calendar quarter beginning on April 1, 1969, as a result of a State's complying with such court decisions.

For example, a particular State with a child population of 1 million in January 1968 might have 30,000 children on its welfare rolls during January, February, and March 1968 because of the absence of their father from the home. Under present law, Federal participation in AFDC payments to this type of child would be limited to 3 percent of the child population of this State (30,000 is 3 percent of 1 million). Under the amendment agreed to by the conferees, if a subsequent court decision results in an addition of 10,000 such children to the rolls during April, May, and June 1969, these 10,000 children will be added to the original 30,000, and the percentage limitation will be increased from 3 to 4 percent (40,000 is 4 percent of 1 million).

Section 302. Unemployed fathers—unemployment compensation (sec. 14 (c) and (d) of the Senate bill)

Present law.—Under present provisions of the AFDC program, assistance payments under the unemployed fathers provision are prohibited for any month for which the father receives any unemployment compensation for any part of the month.

Explanation of conference provision.—The Senate bill would have eliminated this prohibition, permitting AFDC to be received in the same month as unemployment compensation. The conferees provided that assistance payments under the AFDC program with respect to an unemployed father are to be denied only with respect to any week or part of a week for which the father receives unemployment compensation. Thus, if the unemployment compensation is received for the first week in a month, this is not to prevent AFDC payments with respect to later weeks in the month.

Section 303. Medical assistance (medicaid) program (sec. 16 of the Senate bill)

Present law.—Present law prohibits, effective January 1, 1968, the payment of Federal matching funds under title XIX toward the cost of services which would have been covered under the supplementary medical insurance program if a State had purchased such coverage for its medicaid eligibles.

Explanation of conference provision.—The conferees accepted the Senate provision under which the effective date of the provision described above has been postponed until January 1, 1970. This action coordinates the effective date with the date on which States are required under existing law to have title XIX programs in operation and the date until which they may exercise their option to purchase supplementary medical insurance on behalf of aged medically needy persons under title XIX.

IV. SENATE AMENDMENTS NOT INCLUDED IN CONFERENCE SUBSTITUTE

Income from advertising in periodicals of exempt organizations (sec. 11 of the Senate bill)

This section, which the conferees deleted, would have provided that the advertising income which an exempt organization receives in publishing a periodical is to be exempt from the tax on unrelated trade or business income if the publication of the periodical is substantially related to the exempt activities of the organization. Under Treasury regulations adopted on December 11, 1967, advertising income from publishing an exempt periodical is subject to tax effective for taxable years beginning after December 12, 1967. Under the regulations, advertising income is taxable to the extent it exceeds any deductions properly attributable to it, plus any losses on the feature or editorial portions of the magazine in excess of subscription income.

The section would have applied to all taxable years to which the Internal Revenue Code of 1954 applied.

Import quotas on textile articles (sec. 18 of the Senate bill)

The Senate amendment contained a section, which the conferees deleted, imposing import quotas on textiles. The quotas were to apply to natural and manmade fibers (but not to unprocessed natural fibers such as raw cotton and raw wool). The quotas were to be based on the average imports in each category during the 6-year period 1961 through 1966. Adjustments in the quotas established by this procedure were to be permitted if domestic consumption of the textiles in a given category increased (or decreased). In such cases, the quota would be increased (or decreased) in proportion to the increase (or decrease) in domestic consumption provided the annual change was more than 5 percent.

A provision of the Senate amendment specified that the quotas were not to apply if the President was able to obtain agreements with the foreign countries supplying textiles under which shipments of foreign textiles into the United States would be limited. To give the President time to negotiate these agreements, the quotas were to become effective 180 days after the date of enactment.

Concurrently with the announcement of the conference decision, Chairman Wilbur D. Mills, of the House Ways and Means Committee, announced that on June 4 the Committee on Ways and Means would begin extensive public hearings on the subject of the foreign trade of the United States. These hearings include not only the administration trade bill, but also a broad variety of proposals relative to both imports and to exports. Such subjects, for example, as quotas, either on an across-the-board or an item-by-item basis, American selling price, and antidumping are included.

Foreign nations indebted to the United States (sec. 19 of the Senate bill)

The Senate amendment contained a section which would have required the Secretary of the Treasury to demand payment, from all countries that are more than 90 days in arrears, of principal or interest on debts owed to the United States, including debts which arose from either World War I or World War II. The amendment would also have prohibited redemption in gold of dollars presented to the Treasury by a country that is in arrears by requiring that the dollars be credited against the debts owed to this country.

The conferees deleted this provision subject to an understanding that the Secretary of State and the Secretary of the Treasury would make a study of appropriate and practical terms and conditions for payment of the amounts of indebtedness of foreign countries to the United States which are past due and unpaid and report the results of this study to the Congress.

Prior work for unemployed fathers under AFDC program (sec. 14(b) of the Senate bill)

Present law provides that a father must have a specified history of prior employment in order for the family to be eligible for aid to families with dependent children by reason of the father's unemployment. The Senate bill would have eliminated this prior work

requirement. The conference agreement by omitting this provision retains the work requirement of present law.

Effective date of family planning services requirement under AFDC (sec. 15 of the Senate bill)

The Social Security Amendments of 1967 provided that family planning services be offered to all appropriate AFDC participants. The Senate provision provided that in the case of a State which does not now provide the required family planning services, the amendment in the Social Security Amendments of 1967 would not apply to that State until after the close of the State's first regular legislative session beginning after April 1, 1968.

The conferees omitted this provision. The conference committee did this because it does not believe that the provisions of existing law in this regard require any State to provide family planning services contrary to State statute and expects the Department of Health, Education, and Welfare to so interpret and administer this provision.

Mr. MILLS. Mr. Speaker, I ask unanimous consent that an explanation of the bill as agreed to in conference be printed in the RECORD immediately following the statement of the managers on the part of the House.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

Mr. GROSS. Mr. Speaker, reserving the right to object, this is the conference report on the tax bill which is now tentatively scheduled to come up on June 19; is that correct?

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. GROSS. Yes; of course.

Mr. MILLS. I am not advised as to the exact date next week that it will come to the floor. That is a matter for the majority leader and others to determine. I do hope to go to the Committee on Rules on Tuesday, June 18, to request a rule that will make the conference report debatable for 4 hours rather than 1 hour, but I do not know that it will come on the 19th or the 20th.

Mr. GROSS. That is the question I would have asked the gentleman; that is, if he is going to seek a rule for more than 1 hour of debate. The gentleman says he will seek a rule for 4 hours of debate?

Mr. MILLS. Yes. And, if the gentleman will yield further, it is also my intention to ask that the 4 hours be equally divided between the ranking Republican member of the committee, the gentleman from Wisconsin [Mr. BYRNES], and myself.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

OMNIBUS CRIME BILL

(Mr. POOL asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include extraneous matter.)

Mr. POOL. Mr. Speaker, the omnibus crime bill as passed by the Senate Judiciary Committee, but not the Senate, included provisions which would preclude the Supreme Court and other Federal courts having jurisdiction to review, revise, vacate, modify, or disturb in any way a ruling in any trial court in any State in any criminal prosecution admitting in evidence as voluntary, a confession of an accused if the ruling had been affirmed or otherwise upheld by the higher court of the State involved. Also, it would curtail in the same manner the Supreme Court's or other Federal court's jurisdiction on the reviewability or admissibility of eye witness testimony where the State court had made a final ruling. Also, the original bill passed by the Senate Judiciary Committee took from the Federal courts the power to revise, vacate, or modify the highest State court decision in respect to questions of law or fact which were determined by that court and which had been brought to the Federal court through habeas corpus action. The Senate bill left this provision out.

The bill I am introducing today would amend the present statutes to include the provisions as originally passed by the Senate Judiciary Committee which were left out of the bill as passed by the Senate and the House.

I feel that Congress has the right to act on this under the provisions of article 3, section 2, paragraph 2, of the Constitution which provide for the Congress to set the appellate jurisdiction of the Federal courts.

Law enforcement officials in our country are today hamstrung by Supreme Court decisions which deny them powers necessary for the protection of our citizenry. For this reason I believe it imperative that the Congress limit the appellate jurisdiction of the Supreme Court as the authors of our Constitution expected us to do long before this.

CORRECTION OF VOTE

Mr. WILLIAMS of Pennsylvania. Mr. Speaker, on rollcall No. 170 I am recorded as not voting. I was present and voted "yea." I ask unanimous consent that the permanent RECORD and Journal be corrected accordingly.

The SPEAKER. Is there objection to the request of the gentleman from Pennsylvania?

There was no objection.

TAX INCREASE AND SPENDING CUT

(Mr. GROSS asked and was given permission to address the House for 1 minute, to revise and extend his remarks, and to include extraneous matter.)

Mr. GROSS. Mr. Speaker, early in May, President Johnson stood before the television cameras, shook his fists and denounced as blackmailers and phonies those Members of Congress who insisted on more than a $4 billion spending cut as part of the so-called tax package.

Later in May, he again appeared before the television cameras but that time there was no fist shaking and no castigation of Members of Congress. The President reckoned as how there could be a $6 billion cut after all.

It would be interesting to know what caused him to change his mind in less than 30 days. But of importance now is when the President and the Democrat leadership in Congress propose to provide a bill of particulars as to where and when the $6 billion reduction in spending is to be made.

A vote on the tax package has now been put over until June 19. This Member has no intention of buying a pig in a poke. He has no intention of voting for a tax increase without specific assurance of a minimum $6 billion cut in spending and where those reductions are to be made.

TO REMOVE CERTAIN LIMITATIONS ON OCEAN CRUISES—CONFERENCE REPORT

Mr. GARMATZ submitted the following conference report and statement on the bill (H.R. 12639) to remove certain limitations on ocean cruises:

CONFERENCE REPORT (H. REPT. No. 1534)

The committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 12639) to remove certain limitations on ocean cruises, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the House recede from its disagreement to the amendment of the Senate numbered 2 and agree to the same.

Amendment numbered 1: That the House recede from its disagreement to the amendment of the Senate numbered 1 and agree to the same with an amendment as follows:

In lieu of the matter proposed to be inserted by the Senate amendment insert the following: ": *Provided, however,* That no such vessel may cruise for more than seven months of each year to ports which are regularly served by another United States-flag passenger vessel pursuant to an operating-differential subsidy contract".

And the Senate agree to the same.

EDWARD A. GARMATZ,
THOMAS N. DOWNING,
JOHN M. MURPHY,
W. S. MAILLIARD,
THOMAS M. PELLY,
Managers on the Part of the House.

WARREN G. MAGNUSON,
E. L. BARTLETT,
DANIEL B. BREWSTER,
NORRIS COTTON,
ROBERT P. GRIFFIN,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 12639) to remove certain limitations on ocean cruises, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: Senate amendment numbered 1 added a proviso to the revision of section 613(b) of the Merchant Marine Act, 1936, contained in the first section of the House bill which reads "That no operator may cruise for more than five months of each year on any essential trade route assigned to another United States-flag steamship company". The House recedes with an amendment which increases the time to seven months, and otherwise clarifies the language of the proviso.

The conferees were unanimous in their concern that the Secretary in administering the cruising authority provided by the Merchant Marine Act, 1936, as amended, should be specially scrupulous in supporting the rights of existing operators so that their services performed with American-flag passenger vessels will not be adversely affected

by cruises approved for other operators in areas other than their own existing services.

In this connection, the Managers on the part of the House wish to go on record as concurring with the sentiments expressed in the following paragraph from Senate Report No. 1081, accompanying H.R. 12639.

"* * * the committee is mindful that the competitive impact of increased off-route cruising is as yet unclear and urges that the Secretary of Commerce apply the "substantially adverse affect" test with a realization that the extension of off-route cruising provided by the legislation may well have a competitive impact upon existing operators somewhat different than experienced under the 4-month cruising authority. Careful attention must be paid to the cumulative effect of repeated cruises as the cumulative effect may be substantially adverse while each isolated cruise may appear not of that nature. Off-route cruising must not so affect the operator upon an assigned trade route that he is unable to adequately perform the services required by his contract. Nor should the authority to be conferred by this proposed legislation be allowed to lead to fare cutting that seriously impairs the existing operator's revenue upon his assigned trade route. In all cases the Secretary must carefully balance the clear purpose of this legislation to increase and expand U.S. cruise service with the contractual and economic requirements of those servicing essential trade routes."

Amendment No. 2: Senate amendment numbered 2 struck out section 3 of the House bill which would repeal section 613 of the Merchant Marine Act, 1936, three years from the date of enactment of this Act. The House recedes.

EDWARD A. GARMATZ,
THOMAS N. DOWNING,
JOHN M. MURPHY,
W. S. MAILLIARD,
THOMAS M. PELLY,
Managers on the Part of the House.

SEA LEVEL CANAL BETWEEN ATLANTIC AND PACIFIC OCEANS—CONFERENCE REPORT

Mr. GARMATZ submitted the following conference report and statement on the bill (H.R. 15190) to amend sections 3 and 4 of the act approved September 22, 1964 (78 Stat. 990), providing for an investigation and study to determine a site for the construction of a sea-level canal connecting the Atlantic and Pacific Oceans:

CONFERENCE REPORT (H. REPT. NO. 1535)

The committee of conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 15190) to amend sections 3 and 4 of the Act approved September 22, 1964 (78 Stat. 990), providing for an investigation and study to determine a site for the construction of a sea-level canal connecting the Atlantic and Pacific Oceans, having met, after full and free conference, have agreed to recommend and do recommend to their respective Houses as follows:

That the Senate recede from its amendment.

EDWARD A. GARMATZ,
JOHN M. MURPHY,
W. S. MAILLIARD,
JAMES R. GROVER, JR.,
Managers on the Part of the House.

WARREN G. MAGNUSON,
E. L. BARTLETT,
NORRIS COTTON,
Managers on the Part of the Senate.

STATEMENT

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendment of the Senate to the bill (H.R. 15190) to amend sections 3 and 4 of the Act approved September 22, 1964 (78 Stat. 990), providing for an investigation and study to determine a site for the construction of a sea-level canal connecting the Atlantic and Pacific Oceans, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

The House bill extended the Commission created by the Act of September 22, 1964, which authorizes an investigation and study to determine a site for the construction of a sea-level canal connecting the Atlantic and Pacific Oceans until December 1, 1970, and increases the authorization to carry out that Act from $17,500,000 to $24,000,000. The Senate amendment proposed to strike out the increased authorization.

The Senate recedes from its amendment.

EDWARD A. GARMATZ,
JOHN M. MURPHY,
W. S. MAILLIARD,
JAMES R. GROVER, JR.,
Managers on the Part of the House.

PERMISSION FOR COMMITTEE ON WAYS AND MEANS TO FILE REPORT ON H.R. 17325, TO AMEND THE INTERNAL REVENUE CODE OF 1954

Mr. MILLS. Mr. Speaker, I ask unanimous consent that the Committee on Ways and Means may have until midnight tonight to file a report on the bill (H.R. 17325) to amend the Internal Revenue Code of 1954 with respect to advertising in a convention program of a national political convention.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

CALL OF THE HOUSE

Mr. ARENDS. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 172]

Abernethy	Dow	Kelly
Andrews, Ala.	Downing	Kluczynski
Annunzio	Dulski	Kupferman
Ashley	Evins, Tenn.	Kyros
Ayres	Farbstein	Landrum
Bell	Fino	Long, La.
Biester	Flynt	McMillan
Bingham	Frelinghuysen	Mayne
Blanton	Galifianakis	Moorhead
Bolton	Gallagher	Morris, N. Mex.
Bow	Gardner	Moss
Brasco	Gettys	Murphy, Ill.
Bush	Giaimo	Murphy, N.Y.
Button	Gibbons	Nix
Cabell	Gilbert	O'Hara, Ill.
Carter	Green, Oreg.	O'Hara, Mich.
Clausen,	Gubser	O'Neal, Ga.
Don H.	Gurney	O'Neill, Mass.
Cleveland	Hagan	Pelly
Conyers	Halpern	Pepper
Corbett	Hansen, Idaho	Pike
Corman	Hardy	Podell
Cowger	Harrison	Price, Texas
Curtis	Hawkins	Pryor
Daddario	Hébert	Quillen
Dawson	Herlong	Resnick
Dent	Holland	Rhodes, Pa.
Derwinski	Hungate	Rivers
Diggs	Jarman	Ronan
Dingell	Jonas	Rooney, N.Y.
Donohue	Jones, N.C.	Rooney, Pa.
Dorn	Karsten	Rostenkowski
Roudebush	Stephens	Vander Jagt
St Germain	Taft	Whitten
Satterfield	Teague, Tex.	Winn
Scheuer	Thompson, Ga.	Wyman
Sisk	Thompson, N.J.	Zwach
Snyder	Thomson, Wis.	
Stanton	Tuck	

The SPEAKER. On this rollcall 321 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

PROVIDING FOR CONSIDERATION OF H.R. 3400, AIRCRAFT NOISE ABATEMENT

Mr. MADDEN. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 1203 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 1203

Resolved, That upon the adoption of this resolution it shall be in order to move that the House resolve itself into the Committee of the Whole House on the State of the Union for the consideration of the bill (H.R. 3400) to amend the Federal Aviation Act of 1958 to authorize aircraft noise abatement regulation, and for other purposes. After general debate, which shall be confined to the bill and shall continue not to exceed one hour, to be equally divided and controlled by the chairman and ranking minority member of the Committee on Interstate and Foreign Commerce, the bill shall be read for amendment under the five-minute rule. It shall be in order to consider the amendment in the nature of a substitute recommended by the Committee on Interstate and Foreign Commerce now printed in the bill, and such substitute shall be considered under the five-minute rule as an original bill for the purpose of amendment. At the conclusion of such consideration, the Committee shall rise and report the bill to the House with such amendments as may have been adopted, and any Member may demand a separate vote in the House on any amendment adopted in the Committee of the Whole to the bill or committee amendment in the nature of a substitute. The previous question shall be considered as ordered on the bill and amendments thereto to final passage without intervening motion except one motion to recommit with or without instructions.

The SPEAKER. The gentleman from Indiana [Mr. MADDEN] is recognized for 1 hour.

Mr. MADDEN. Mr. Speaker, House Resolution 1203 provides an open rule with 1 hour of general debate for consideration of H.R. 3400 to authorize aircraft noise abatement regulations, and for other purposes. The resolution also provides that it shall be in order to consider the committee substitute as an original bill for the purpose of the amendment.

H.R. 3400 defines the role of the Federal Government as to control and abatement of aircraft noise and sonic boom. Its specific purpose is to afford present and future relief and protection to the public from unnecessary aircraft noise and sonic boom.

The purpose of the bill is to be achieved through implementation of provisions which amend the Federal Aviation Act of 1958.

Mr. Speaker, I urge the adoption of House Resolution 1203 in order that H.R. 3400 may be considered.

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
U. S. DEPARTMENT OF AGRICULTURE

OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY;
NOT TO BE QUOTED OR CITED)

Issued June 19, 1968
For actions of June 18, 1968
90th-2nd; No. 104

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HIGHLIGHTS: House Rules Committee cleared farm bill and conference report on tax and expenditure-control bill. House passed bill to provide fringe benefits for CCC county committee employees. House committee voted to report school lunch bill. Senate subcommittee approved intergovernmental cooperation bill.

HOUSE

1. FARM PROGRAM. The Rules Committee reported a resolution for the consideration of H. R. 17126, to amend the Food and Agriculture Act of 1965. p. H5095

2. TAXATION; EXPENDITURES. The Rules Committee reported a resolution for the consideration of the conference report on H. R. 15414, the revenue and expenditure control bill. ~~p. H5095~~

3. COUNTY COMMITTEES. Passed, 353-13, with amendments S. 1028, to extend certain benefits to former employees of county committees (pp. H5054-5, H5059-66). Rejected, 136-228, a motion by Rep. Derwinski to recommit the bill (pp. H5064-66). For provisions of the bill see Digest 83.

4. SCHOOL LUNCHES. The Education and Labor Committee voted to report (but did not actually report) H. R. 17873, amended, to amend the National School Lunch Act. p. D567

5. PERSONNEL. The Post Office and Civil Service Committee reported with amendment H. R. 13844, to grant time off for employees to arrange funerals of their children lost in hostile military action (H. Rept. 1560). p. H5095

6. WILDLIFE. The Rules Committee reported a resolution for the consideration of S. 322, to restrict the disposition of lands acquired as part of the national wildlife refuge system (H. Rept. 1564). p. H5095

7. RESEARCH. Concurred in Senate amendments to H. R. 15856, the NASA authorization bill (pp. H5052-3). This bill contains items for research, including that conducted in cooperation with this Department on earth resources satellites providing information on agriculture and forestry through remote sensing devices, including identification and analysis of crop species, soil types, crop conditions, environmental conditions, tree identification, forestry density, forest conditions, etc. This bill will now be sent to the President.

8. LANDS. Passed as reported H. R. 3306, to grant to the Pueblo de Taos Indians in New Mexico trust title to 50,000 acres of federally owned land which the United States took from the Indians without the payment of any compensation. pp. H5054-9

   Passed without amendment H. R. 17320, to authorize the Secretary of Agriculture to grant an easement over certain lands to the Saint Louis-San Francisco Railway Company. pp. H5050-1

9. HIGHWAYS. The Public Works Committee voted to report (but did not actually report) H. R. 17134, the 1970-1 highway authorization bill. p. D568

10. ECONOMY. Rep. Conte stated "a combination of events has brought us today to a critically dangerous financial position," which he said demanded "an immediate enactment of the tax increase--expenditure cuts and a continuation of our important social programs." He inserted several editorials on the subject. pp. H5071-5

11. CENSUS. Rep. Olsen called the "attacks" against the Census Bureau questions "unwarranted and ill-conceived." pp. H5075-82

90TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 1565

CONSIDERATION OF THE CONFERENCE REPORT ON H.R. 15414

JUNE 18, 1968.—Referred to the House Calendar and ordered to be printed

---

Mr. COLMER, from the Committee on Rules, submitted the following

REPORT

[To accompany H. Res. 1220]

The Committee on Rules, having had under consideration House Resolution 1220, report the same to the House with the recommendation that the resolution do pass.

85-008

House Calendar No. 270

90TH CONGRESS
2D SESSION

H. RES. 1220

[Report No. 1565]

IN THE HOUSE OF REPRESENTATIVES

JUNE 18, 1968

Mr. COLMER, from the Committee on Rules, reported the following resolution; which was referred to the House Calendar and ordered to be printed

---

RESOLUTION

Resolved, That upon the adoption of this resolution it shall be in order to consider the conference report on the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, and all points of order against the conference report are hereby waived; that debate on said conference report shall continue not to exceed four hours, to be equally divided and controlled by the Chairman and ranking minority member of the Committee on Ways and Means, and at the conclusion of the debate the previous

question shall be considered as ordered on agreeing to the conference report.

House Calendar No. 270

90TH CONGRESS
2D SESSION

H. RES. 1220

[Report No. 1565]

RESOLUTION

Providing for consideration of the conference report on H.R. 15414 to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

By Mr. COLMER

JUNE 18, 1968

Referred to the House Calendar and ordered to be printed

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HIGHLIGHTS: House agreed to conference report on revenue expenditure control bill. House committee voted to report bill to establish commission on hunger. House committee voted to report housing bill.

HOUSE

1. TAXATION; EXPENDITURES. Agreed to, 268-150, the conference report on H. R. 15414, the proposed Revenue and Expenditure Control Act of 1968 (pp. H5220-H5320). A motion to recommit the report to the conference committee was rejected (p. H5320). The rule under which the conference report was considered was agreed to, 321-86 (pp. H5220-30).

During the debate on a resolution by Rep. Gross to return the bill, with the Senate amendments, to the Senate with a message that the Senate amendments are an infringement of the privileges of the House, Rep. Gross cited tradition to support his position including a reference to the 1905 agriculture appropriation bill when a Senate amendment would have reinstated a tax on imported wheat, and stated that the House lost no time in returning that bill to the Senate with the observation that the amendment was an infringement upon the right of the House to initiate revenue bills (p. H5231). A motion by Rep. Mills to table the resolution was agreed to 257-162 (pp. H5237-8).

Some provisions of the conference report are as follows:

Title I of the conference report imposes the surcharge of 10 percent per calendar year on corporate and individual taxpayers. For corporations, the beginning date is Jan. 1, 1968. For individuals the beginning date is April 1, 1968. The surtax terminates for all taxpayers on June 30, 1969. This means that for individuals the effective rate of surtax is 7.5 percent during the remainder of 1968 and 5 percent for the first half of 1969. Exemptions are provided for taxpayers in the lowest tax brackets.

Excise taxes on automobiles and telephones are continued at current rates rather than being permitted to fall as scheduled.

Title II contains the expenditure limitations and controls. It sets the employee ceiling in the executive branch at the level existing in each department and agency as of June 30, 1966, and provides that no full-time permanent employee may be hired if the department or agency is above that figure. Part-time and temporary employees are limited to the number in the particular department or agency during the same month of 1967. The Budget Bureau may assign existing vacancies to agencies as it believes necessary for efficiency of operations.

Requires the rescission of $8 billion in existing but uncommitted and unused old obligational authority. A study and recommendations of possible rescissions must be reported to the Congress when the 1970 Budget is presented to Congress.

Expenditures and net lending for fiscal year 1969 are limited to an overall figure of $180,062,000,000 - a reduction of $6 billion from the budget figure. Exceptions are made for Vietnam, interest payments, veterans' benefits and Social Security Act payments.

Title III amends various provisions of the Social Security Act including postponement for 1 year (to July 1, 1969), the enforcement of the limitation on the number of children in a state receiving welfare payments under the AID to Families with Dependent Children program.

2. PERSONNEL. The Post Office and Civil Service Committee reported with amendment H. R. 16558, to amend title 5, United States Code, to promote the efficient and effective use of the revolving fund of the Civil Service Service Commission in connection with functions and services of the Commission, and to facilitate improvements in program administration and financial management (H. Rept. 1573). p. H5333

3. APPROPRIATIONS. The Appropriations Committee reported H. R. 18037, making appropriations for the Departments of Labor, and Health, Education, and Welfare, and related agencies, for fiscal year 1969 (H. Rept. 1575), and H. R. 18038, making appropriations for the legislative branch for fiscal year 1969 (H. Rept. 1576).

Please return to
Division of Legislative Reporting
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United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 90th CONGRESS, SECOND SESSION

Vol. 114 WASHINGTON, THURSDAY, JUNE 20, 1968 No. 106

Senate

The Senate was not in session today. Its next meeting will be held on Friday, June 21, 1968, at 9 a.m.

House of Representatives

THURSDAY, JUNE 20, 1968

The House met at 11 o'clock a.m.

Rev. John H. Albrecht, St. Katherine's Episcopal Church, Williamston, Mich., offered the following prayer:

Almighty God, Ruler of all the peoples of the earth, help us to understand that most of our problems of uncertainties, edginess, and upheaval are increased by the rapid acceleration of the pace of our lives.

Help us to understand that we must, therefore, respond to our problems quickly, decisively, and bravely.

Help us to understand that we must rid ourselves of pampered permissiveness, lawlessness, and the idea that anything goes.

Help us to understand that what is now needed is soundness, stability in the Nation, confidence, respect, order, and responsible action.

For the Members of the U.S. House of Representatives we ask Your fairest gifts. Grant to them a vision equal to the tasks that lie before them, and strength and courage adequate to their vision. Amen.

THE JOURNAL

The Journal of the proceedings of yesterday was read and approved.

MESSAGE FROM THE SENATE

A message from the Senate by Mr. Arrington, one of its clerks, announced that the Senate had passed without amendment bills of the House of the following titles:

H.R. 5199. An act for the relief of James E. Denman;

H.R. 9568. An act for the relief of Lucien A. Murzyn;

H.R. 10050. An act for the relief of Capt. Russell T. Randall;

H.R. 10058. An act for the relief of Mrs. Esther D. Borda;

H.R. 10199. An act for the relief of Lloyd W. Corbisier;

H.R. 10655. An act for the relief of Arthur Anderson;

H.R. 11166. An act for the relief of Earl S. Haldeman, Jr.; and

H.R. 12073. An act for the relief of John Allunario.

The message also announced that the Senate had passed with amendments in which the concurrence of the House is requested, bills of the House of the following titles:

H.R. 14907. An act to amend the Federal Credit Union Act; and

H.R. 15345. An act to provide security measures for banks and other financial institutions.

The message also announced that the Senate had passed bills of the following titles, in which the concurrence of the House is requested:

S. 839. An act for the relief of the village of Orleans, Vt.;

S. 986. An act for the relief of Edward L. Pickren;

S. 1274. An act for the relief of Donald C. Goewey;

S. 1299. An act to amend the Securities Exchange Act of 1934 to permit regulation of the amount of credit that may be extended and maintained with respect to securities that are not registered on a national securities exchange;

S. 2499. An act to extend the act of September 7, 1957, relating to aircraft loan guarantees;

S. 2860. An act for the relief of Maj. Clyde Nichols (retired); and

S. 3656. An act to extend the life of the Advisory Commission on Parcel Distribution Services, and for other purposes.

PERMISSION FOR COMMITTEE ON BANKING AND CURRENCY TO HAVE UNTIL MIDNIGHT, JUNE 25, TO FILE A REPORT ON H.R. 17989, THE HOUSING AND URBAN DEVELOPMENT ACT OF 1968

Mr. PATMAN. Mr. Speaker, I ask unanimous consent that the Committee on Banking and Currency may have until midnight Tuesday, June 25, to file a report on H.R. 17989, the Housing and Urban Development Act of 1968.

The SPEAKER. Is there objection to the request of the gentleman from Texas?

There was no objection.

THE PROBLEM OF POVERTY ON INDIAN RESERVATIONS

(Mr. BERRY asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. BERRY. Mr. Speaker, as I have previously pointed out in my comments with regard to H.R. 10218, this bill would solve the problem of poverty on Indian reservations by granting a tax incentive to any industry which would move onto an Indian reservation and provide employment for the Indian people.

It is the answer and the only answer to Indian poverty. It is the answer and only answer to creating incentive to improve the individual Indian's outlook on life.

The program proved itself in Puerto Rico where Government agencies reported in "The Stricken Land" that the island today has the highest per capita income of any Latin American country only because a similar tax incentive was provided. This can be done on every Indian reservation in the country. These people can lift themselves up by their own bootstraps if a tax incentive is provided.

The Department in their report of June 6 on H.R. 10218 tells Congress that it is doing a tremendous job of getting industry onto reservations without such an incentive. There are approximately 240 Indians employed on reservations in South Dakota through industries for which the Bureau was at least partly responsible. With an Indian population of some 35,000—240 is a pretty sad record.

(Mr. CHAMBERLAIN asked and was given permission to address the House for 1 minute and to revise and extend his remarks and include extraneous matter.)

[Mr. CHAMBERLAIN addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

PERSONAL ANNOUNCEMENT

Mr. CHAMBERLAIN. Mr. Speaker, it was necessary for me to be absent on May 28 during rollcalls Nos. 156 and 157. I would like the RECORD to show that had I been present, I would have voted in the affirmative on each rollcall.

CALL OF THE HOUSE

Mr. PATMAN. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

Mr. ALBERT. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 196]

Bolton	Hawkins	Passman
Bow	Holifield	Pool
Cohelan	Holland	Rarick
Conyers	Kastenmeier	Resnick
Cunningham	Kelly	Roybal
Dingell	King, Calif.	Selden
Dulski	McCulloch	Teague, Calif.
Evins, Tenn.	McMillan	Thompson, N.J.
Flood	Minshall	Willis
Griffiths	Nedzi	

The SPEAKER. On this rollcall 403 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

VOTING REPRESENTATION IN CONGRESS FOR CITIZENS OF THE DISTRICT OF COLUMBIA

(Mr. GUDE asked and was given permission to address the House for 1 minute and to revise and extend his remarks.)

Mr. GUDE. Mr. Speaker, achieving the solution to the complex problems of security in our country and developing comprehensive programs to remedy the root causes of poor housing, unemployment, and substandard education for certain rural and urban sections of our Nation is very difficult. I know my colleagues share with me the urgency and need to press for the enactment of programs to achieve these ends.

However, an act of simple justice has been reported by the Judiciary Committee which we, in the House, should consider immediately and move to the Senate. This act involves granting voting representation in Congress to the nearly million American citizens who live in the District of Columbia. It is a measure also of long-overdue justice. We should now make a reaffirmation of dedication to the basic democratic concept that all citizens of our great land must participate in its Government and be represented in the legislative body of that Government.

We in the House should immediately consider this bill, and I urge my colleagues on the Rules Committee to grant a rule and report it to the floor so we can quickly send it to the Senate.

PERMISSION TO FILE REPORT ON H.R. 17735, PROVIDING FOR BETTER CONTROL OF THE INTERSTATE TRAFFIC IN FIREARMS, UNTIL MIDNIGHT, JUNE 22

Mr. CELLER. Mr. Speaker, I ask unanimous consent that the Committee on the Judiciary have permission to file by midnight Saturday, June 22, a report on H.R. 17735, to amend title 18, United States Code, to provide for better control of the interstate traffic in firearms.

The SPEAKER. Is there objection to the request of the gentleman from New York?

There was no objection.

APPOINTMENT OF CONFEREES ON H.R. 15189, AUTHORIZING APPROPRIATIONS FOR CERTAIN MARITIME PROGRAMS OF THE DEPARTMENT OF COMMERCE

Mr. GARMATZ. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H.R. 15189) to authorize appropriations for certain maritime programs of the Department of Commerce, with Senate amendments thereto, disagree to the Senate amendments, and request a conference with the Senate thereon.

The SPEAKER. Is there objection to the request of the gentleman from Maryland? The Chair hears none, and appoints the following conferees: Messrs. GARMATZ, DOWNING, LENNON, MAILLIARD, and PELLY.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

Mr. COLMER. Mr. Speaker, by direction of the Committee on Rules, I call up House Resolution 1220 and ask for its immediate consideration.

The Clerk read the resolution, as follows:

H. RES. 1220

Resolved, That upon the adoption of this resolution it shall be in order to consider the conference report on the bill (H.R. 15414) to continue the existing exercise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, and all points of order against the conference report are hereby waived; that debate on said conference report shall continue not to exceed four hours, to be equally divided and controlled by the Chairman and ranking minority member of the Committee on Ways and Means, and at the conclusion of the debate the previous question shall be considered as ordered on agreeing to the conference report.

The SPEAKER. The gentleman from Mississippi is recognized for 1 hour.

Mr. COLMER. Mr. Speaker, I yield the usual 30 minutes to the distinguished and able gentleman from California [Mr. SMITH]. Pending that, Mr. Speaker, I yield myself 10 minutes.

Mr. Speaker, House Resolution 1220 provides for consideration of the conference report on H.R. 15414, waiving points of order, with 4 hours of general debate.

Technically there are a number of changes which may have been subject to points of order, and this is primarily the reason for the rule. The report provides a later beginning date for the provisions of the bill relating to estimated tax payments by corporations than either the House version of the bill or the Senate version. Also, the effective date of the excise taxes was changed.

In the provision limiting the authority of departments and agencies as to clerk hire, the base date of the limitation was changed.

The procedure being followed here does not establish a precedent, as it has been followed before on tax bills.

In brief, the bill now provides an income tax surcharge at an annual rate of 10 percent. Provision is made for a speedup of corporate tax payments by increasing the percentage of estimated tax which a corporation must pay currently and by gradually eliminating the present corporate exemption from estimated tax. The excise tax rates on new passenger automobiles and telephone services are continued. Interest on so-called industrial development bonds generally is to be taxable with respect to issues on or after May 1, 1968. Deductions are to be available for advertising expenses in a presidential convention program under certain limited circumstances. Cooperative-type entities providing joint services solely for tax-exempt hospitals are to be treated as tax-exempt organizations where only limited, specified types of services are provided.

In the case of full-time permanent employees in the executive branch only three out of four vacancies in agencies or departments may be filled during any month when the employment level for the executive branch exceeds the June 30, 1966, level. Temporary and part-time employees in any department or agency generally are limited to the number of similar employees on the rolls in the corresponding month of 1967.

Federal expenditures and net lending in the fiscal year 1969 are to be reduced by $6 billion except for increases which may occur for expenditures related to Vietnam operations, interest on the debt, veterans services and benefit payments, and payments from social security trust funds.

Total new obligational and loan authority provided for fiscal year 1969 is to be reduced by $10 billion, with the same exceptions as referred to above.

The President is to make a report including specific recommendations for legislation rescinding not less than $8 billion of unobligated balances at the time he sends up the 1970 budget.

The limitation on Federal financial participation in the aid-for-dependent-children program applicable under present law is postponed for 1 year—to July 1, 1969. The allowable level for any State under the program is to take into account any addition in the average monthly number of dependent children in a State who come within this category

as a result of a court decision with respect to the State's residency or man-in-the-house requirements.

The prohibition under present law on payments of assistance with Federal participation to a family when the father receives unemployment compensation during any part of the same month is modified so that the family may receive assistance during any weeks that the father does not receive unemployment compensation.

The period in which the Federal Government is to continue making payments under title XIX coverage for medical services to aged medically needy persons in a State which has not purchased supplementary medical insurance on their behalf is extended from January 1, 1968, to January 1, 1970.

Mr. Speaker, I appear here this morning in the well of this House as a rather unhappy American. I am unhappy, Mr. Speaker, because I realize, as you, my colleagues in the House must realize, that today we have reached a day of decision. It is not a question of what we are going to do tomorrow or what we are going to do next week; it is a question of what we are going to do in this House here today.

We have been moving along here now for more than two decades in a wild orgy of spending, fiscal irresponsibility, raising taxes, raising the debt limit ceiling, and proceeding on our merry way spending, spending, spending, raising the ceiling on the debt limit repeatedly, and taxing and taxing.

Mr. Speaker, I say that we have reached the point of decision. Today we either change this course that we have been traveling or we go on heading toward ruinous inflation and national bankruptcy. We cannot put the decision off any longer.

Now, I repeat, I am unhappy about the situation. I say that as one who has opposed most of these programs that bring us into the position that we find ourselves in today. On that theory I would be perfectly justified in voting against this conference report and this tax increase.

On the other hand, I find it most difficult, Mr. Speaker, to find so many of my colleagues who have voted for these programs that bring on all of this spending who now say that they are unwilling to vote for the tax increase. They have been perfectly willing to dance but they are not interested in paying the fiddler. To me, that is most difficult to rationalize.

Five years ago, lacking 3 months, this House debated and passed the largest income tax reduction bill in the history of this country. I voted against that bill at that time because I was basically opposed to tax reduction when we were engaged in deficit spending.

I also voted against the tax reduction bill 5 years ago because I did not think it would painlessly and expeditiously lead us to a balanced budget, as it was designed and intended to do. It is true that subsequent to its passage there was an immediate stimulus to the economy and the expected, attendant upsurge in national income and tax revenues. But what happened to these increased revenues in the Treasury's coffers? I can tell you the sad story. The so-called fiscal dividend from our expanding economy was consumed year after year by accelerated and, in my judgment, sometimes downright profligate Federal spending.

As I predicted, we have never achieved the objectives and goal of that 1964 tax reduction legislation. As a matter of fact, our progress in the years since its enactment can be summed up in the melancholy and tired words of a familiar song. Our country is simply and regrettably just "a little bit older and deeper in debt" than it was 5 years ago.

Let me just show you where we are today in comparison with our situation in 1963. At that time I pointed out on the floor of this House that the national debt was then nearing the then astronomical figure of $310 billion. Today, the national debt has long since and very greatly surpassed that figure. We are $46 billion deeper in debt now than then, our national debt having skyrocketed to $356 billion. Moreover, we have been compelled to raise the so-called "permanent" debt limitation from $285 billion to $358 billion, and we are hellbent on our way to obliterating that ceiling almost before the ink on the last public debt extension legislation is dry on the books.

The baldfaced fact of the matter is that since the House's passage of that tax reduction bill 5 years ago the Congress has had the dismal and distasteful task on six occasions—more than an average of once a year—of raising the debt ceiling. Let me just call the roll of these public laws:

Public Law 88–187, approved November 26, 1963, raised the limit to $315 billion.

Public Law 88–327, approved June 27, 1964, raised the limit to $324 billion.

Public Law 89–49, approved June 24, 1965, raised the limit to $328 billion.

Public Law 89–472, approved June 24, 1966, raised the limit to $330 billion.

Public Law 90–3, approved March 2, 1967, raised the limit to $336 billion.

Public Law 90–39, approved June 30, 1967, raised the permanent ceiling from $285 billion to $358 billion with a flexibility feature of $7 billion, making a ceiling of $365 billion within any given fiscal year.

That is the record in the past 5 years. It is not a commendable one, and I do not think that any of us here today are proud of it.

But when I look back on the full 35-year period that I have served in this body, the overall statistics are equally disconcerting and shocking. During that time, the national debt has increased from less than $20 billion at the beginning of 1933 to the present $356 billion. By actual count, we have enacted legislation on 29 different occasions during that period to keep the debt from going through the ceiling. To put the picture in perspective, the cost for running the entire Government when I first came to Congress was around $4½ billion. That was the cost of everything—that was the extent of the Federal budget, $4½ billion. Today, the interest on the national debt alone, now running at about $14.4 billion, is over three times the entire budget for 1933.

I do not need to cite these figures to you. We all know them, and we all know the root cause of our predicament. We are receiving the wages of uncontrolled Federal spending. We are reaping the results and consequences of the same old vicious circle of spending and then taxing and borrowing to cover it, with ever-mounting interest obligations on the ever-mounting Federal debt adding to the burden.

And let me say that we cannot charge or assign this sustained and unremitting upsurge in Federal spending to the defense program, even though we have been engaged in a war in Vietnam. As I pointed out to the House on previous occasions, the record shows that we have spent at a greater rate on the domestic scene than on national defense. I wish I could say that this increase in expenditures was necessary in greatest measure for the support of our fighting forces and boys in Vietnam, but regrettably this has not been the case.

Just where are we today? What is the true picture as far as the budget and our economy are concerned? I believe we have finally arrived at the point where I have predicted repeatedly our prodigal course would take us. We are having our comeuppance in the spectral forms of almost runaway inflation, loss of confidence in the dollar abroad, interest rates the highest in a century, very serious deterioration in our balance of trade, and the prospect and probability of back-to-back deficits in the current fiscal year and next year of $25 billion or even higher.

We are in very, very deep trouble, my friends in this House. We simply must get our fiscal affairs in order or the whole national structure is very likely to collapse on us.

I have done some real soul searching in considering the position I should take on this legislation. I can truthfully and in clear conscience say that I have done my best to keep us from the edge of the abyss where we find ourselves at this moment. I have not supported in my 35 years of service all of these New Deal, Fair Deal, and Great Society programs that have come to the Congress for authorization and appropriation. I have opposed most of them—I would say over 90 percent of them. So in a way, I do not feel an overwhelming compulsion to vote for a tax increase bill, the necessity for which, I believe, is a direct result of unwise and ill-advised spending on these programs.

At the same time, however, I have never been one to shirk my duty, as I have been given to see it, to vote for necessary tax increase legislation. Even though I sincerely believe that the philosophies and convictions I have held over the years and my record in this body shows, beyond peradventure or doubt, that I am not responsible for bringing on this day of reckoning that is now upon us. I cannot avoid my responsibility. And I am just as firmly persuaded that those who have consistently advocated and voted for these spending programs that I have opposed

cannot in good conscience shirk theirs either. We have to pay the bills that have been run up. Although I have not had the pleasure of calling the fiscal tunes to which this Nation has wildly and madly danced here into the wee hours, I think the fiddler has to be paid. He must be paid if this Government is to continue. It is as simple as that.

I shall, therefore, vote for the conference report. Because I am supporting it does not mean that I like or approve of everything that is in it. On the contrary, if a number of its provisions were coming up separately, I would be compelled to vote against and take a position in active, and I would hope successful, opposition to them. They are not presented separately, however, and there is no such opportunity available to us.

We really have no alternative to the prompt approval of this legislation. If we do not vote to raise revenue by taxation, we are going to have to borrow money to pay the bills that are now due. To continue on that road of deficit financing would surely aggravate and compound the almost disastrous circumstances in which we have placed ourselves. We have an overriding and transcending responsibility to put our fiscal house in order. We must approve this legislation. We cannot afford to do otherwise.

Now, it is a question of whether we stabilize the situation or whether we let ruinous inflation take over, as it is rapidly doing. Yes, it can happen in this country, it has happened in other countries. The stability of our economy, the stability of our Government, the stability of the future of this young Republic is involved in this fiscal crisis.

What do we do about it? You know, it is a queer thing to me that the people who pay the most taxes are the people who seem to be for this legislation, so-called big business, their taxes are going to be increased just as yours and mine and those of our constituents who make even less than we do.

The SPEAKER. The time of the gentleman from Mississippi has expired.

Mr. COLMER. Mr. Speaker, I yield myself 3 additional minutes.

Mr. Speaker, I will now yield to my friend, the gentleman from Iowa [Mr. GROSS].

Mr. GROSS. Mr. Speaker, I thank my friend, the distinguished chairman of the Rules Committee for yielding.

I wonder if the gentleman could give the House any assurance—apparently the gentleman is for this tax increase—any assurance that if another $10 or $12 billion is dug out of the pockets of the taxpayers of this country, that there will not be another debt increase?

Mr. COLMER. Let me say to my friend from Iowa, who has been as diligent as any man in this House in trying to hold down this debt—and I pay tribute to him again, as I have on previous occasions——

Mr. GROSS. I thank the gentleman.

Mr. COLMER. That, No. 1, we will never know until we try, and, No. 2, I have great confidence in the man who heads the powerful and responsible Committee on Ways and Means of this House, the gentleman from Arkansas [Mr. MILLS], who has largely worked this matter out, and who has brought about this provision for these reductions, and I am sure that in his time that he will be able to answer the inquiry of the gentleman from Iowa in more detail, and with greater expertise than I can. I also should like to compliment the chairman of the Ways and Means Committee for his stalwart courage, under great pressure, in resisting a tax increase without a substantial cut in expenditures.

Mr. GROSS. Mr. Speaker, will the gentleman yield for one more quick question?

Mr. COLMER. Very well.

Mr. GROSS. The gentleman mentioned the support of big business for this legislation. Is it not true that the big businesses of this country pass any increases in taxes right on down to the consuming public?

Mr. COLMER. I am afraid that the gentleman is correct in that assumption, very largely. I am sure that in the final analysis the little man we are trying to protect is the man who is going to bear an unequal proportion of the burden in the long run. So they get it in the neck either way it goes, I say to the gentleman from Iowa [Mr. GROSS].

There are many things, Mr. Speaker, I want to say, and I want to say particularly to my friend, the gentleman from Iowa [Mr. GROSS], who has questioned me about this matter—and I should be the very last man in this House, bearing in mind the great confidence and respect I have for the gentleman, to question his motives or his position—or we are going to take the other. there at that crossroad where I am; where the Members of this House are; where that little man that we all want to protect is, and where the people generally of this country are.

We are either going to take one direction—or we are going to take the other.

Mr. Speaker, there are many things I would like to say about this bill but I am going to conclude this attempt here to analyze this situation with you just where I started. I am just as unhappy about this situation as I know all of you are. But I recognize we have to do something about it and I say again to my friend, the gentleman from Iowa, and others that I would not vote—I would not consider voting for this bill to raise taxes unless there was coupled with it these reductions which we have reason to believe will be made.

Finally, Mr. Speaker, some 15 years ago, concerned as I was then about deficit spending, I predicted that this day of reckoning and decision would come in an address to this body.

On that occasion I respectfully submitted to the House a blueprint to avoid it. I have constantly followed the program to the best of my ability.

That program is as follows:

If the Congress is to regain its constitutional control of the purse strings; if the budget is to be balanced; if we are ever to liquidate this enormous debt, I respectfully suggest and urge that the following formula be adopted:

First. Our legislative committees, as well as Committees on Appropriations, must cease reporting out bills except those which are absolutely essential to our economy and national defense.

Second. Every Member of this body must recognize that the objective of balancing the budget is his most important assignment.

Third. Sectionalism, partisan politics, responsiveness to highly organized minorities must give way to the national need for a sound financial policy.

Fourth. Every dollar appropriated must be considered as carefully as if it were coming out of the pockets of the Members themselves, as indeed the Members' proportionate share is.

Fifth. Our congressional committees, particularly the Appropriation Committees, must be staffed with an adequate staff of experts equal in efficiency to the staffs of the various governmental agencies who appear before them seeking appropriations.

Sixth. The Congress and the country must recognize that financial solvency is as important as military might in preparing ourselves against any potential foreign aggressor, a fact which our military captains should be made to understand.

Seventh. Our foreign friends must be made to understand that there is a limit to the resources of America.

Eighth. The system of permitting the carryover of unspent funds from the current fiscal year into the new year must be abandoned. A meticulous study of the 1,200 pages of the President's budget this year will show that the carryover of unspent funds from the current fiscal year will exceed $60,000,000,000.

Ninth. The procurement of military requirements, which constitute more than 50 percent of our expenditures, must be placed in the hands of trained civilians who appreciate the value of the dollar.

Tenth. And finally, the citizens of the Republic, now conscious as never before of the burdens of taxation, must practice the doctrine of States' responsibility as well as States' rights. The practice of looking to Washington for Federal aid in civil responsibilities of their own must cease. They must realize that there is no State, county, or city whose financial statement is not sounder than that of the Federal Government.

Mr. Speaker, I reserve the balance of my time.

Mr. SMITH of California. Mr. Speaker, I yield myself such time as I may consume.

(Mr. SMITH of California asked and was given permission to revise and extend his remarks.)

Mr. SMITH of California. Mr. Speaker, this resolution (H. Res. 1220) provides for 4 hours of debate which will be divided equally between the gentleman from Arkansas [Mr. MILLS], the chairman of the Committee on Ways and Means, and the gentleman from Wisconsin [Mr. BYRNES], the ranking minority member of the Committee on Ways and Means.

All points of order are waived.

This is a unique situation so far as I am concerned. A conference report is

generally brought to the House, discussed and voted up or down. Additional time was needed on this so they requested 4 hours and requested that all points of order be waived.

Briefly, I can give you the details of it. Throughout the conference report there are sections generally dealing with the effective dates, of various provisions which do not correspond with the bill passed by the Senate or passed by the House. So they probably would be subject to a point of order and in order to have the conference report here in front of us, we have waived the points of order.

At the conclusion of the hour's debate on the rule, the question will be on the previous question. If the rule is adopted, then after 4 hours of debate the previous question under this resolution has already been ordered and the vote will then come on the motion to recommit, if the same is made.

Then there will be the final vote on the conference report.

Mr. ADAMS. Mr. Speaker, will the gentleman yield for a question at this point?

Mr. SMITH of California. I yield to the gentleman.

Mr. ADAMS. Under this rule, as it is provided, am I to understand there is or is not a motion to recommit available—since under the rule the language provides that at the conclusion of debate the previous question shall be ordered on agreeing to the conference report.

Mr. SMITH of California. The previous question is ordered and at that time before the vote on the conference report, a motion can then be made to recommit the conference report and then finally vote up or down the conference report.

Mr. ADAMS. I thank the gentleman.

Mr. SMITH of California. Mr. Speaker, the conference report contains two main titles. Title I amends the Internal Revenue Code to impose a 10-percent surtax on corporate and individual taxpayers, retains excise taxes on automobiles and telephones at current levels, and exempts industrial development bond issues from income taxation. Title II limits the total number of civilian Federal employees, limits expenditures and net lending in fiscal 1969 to $180,062 million—$6 billion below budget estimates for the year, reduces new obligational authority from $201,723 million to $191,723 million—a reduction of $10 billion—and requires a rescission of $8 billion in existing obligational authority which has not as yet been obligated and remains available.

Title I imposes the surcharge of 10 percent per calendar year on corporate and individual taxpayers. For corporate taxpayers, the beginning date for the surtax is January 1, 1968. For the individual taxpayer, the beginning date is April 1, 1968. The surtax terminates for all taxpayers on June 30, 1969. This means that for an individual the effective rate of surtax is 7.5 percent during the remainder of 1968 and 5 percent for the first half of 1969. The conference report contains exemptions from the surtax for those taxpayers in the lowest tax brackets.

New wage withholding tables are created to take effect by July 1, 1968. They, too, are to be in effect until June 30, 1969, when the surtax will expire.

The excise taxes on automobiles and telephones are continued at current rates rather than being permitted to fall as scheduled. The excise tax on autos remains at 7 percent through 1969, and then falls 2 percent a year until by 1973 it reaches 1 percent—its permanent level. The excise on telephones remains at 10 percent through 1969, falls to 5 percent during 1970, 3 percent in 1971 and 1 percent thereafter.

The conference report also provides that those who advertise in a national political convention program may treat the cost of such advertisement as a tax deduction if the proceeds from the program are used solely to pay the convention costs.

Finally, title I provides a tax exemption for certain industrial development bonds to return the tax treatment of such State-issued bonds to the situation prior to a recent IRS ruling holding them to be taxable. All such issues of under $1 million are protected and for larger issues a set of rules is spelled out which covers the situation as it applied prior to the IRS ruling and thus exempts such bonds.

Title II contains the expenditure limitations and controls. It sets the employee ceiling in the executive branch at the level existing in each department and agency as of June 30, 1966, and provides that no full-time permanent employee may be hired if the department or agency is above that figure. The conference report limits part-time and temporary employees to the number in the particular department or agency during the same month of 1967. The Bureau of the Budget may assign existing vacancies to agencies as it believes necessary for efficiency of operations.

Expenditures and net lending for fiscal 1969 are limited to an overall figure of $180,062,000,000—a reduction of $6,000,000,000 from the budget figure. Exceptions are made for Vietnam, interest payments, veterans' benefits and Social Security Act payments.

New obligational authority is reduced from a Budget figure of $201,723,000,000 to $191,723,000,000—a reduction of $10,000,000,000. The same four exceptions listed above are repeated here.

Finally, title II requires the rescission of $8,000,000,000 in existing but uncommitted and unused old obligational authority. A study and recommendations of possible rescissions must be reported to the Congress when the Budget of fiscal 1970 is presented.

Title III amends various provisions of the Social Security Act. It postpones for 1 year—to July 1, 1969—the enforcement of the limitation on the number of children receiving AFDC assistance in a State. This will have the effect of permitting more recipients to get on the rolls before the base period is established which will determine the top number of recipients on a State's rolls at any one time. The conference report also amends the act to prohibit any AFDC assistance to a family in any month that the father is also receiving unemployment compensation.

I wish to make some personal comments on the matter. I commend the gentleman from Mississippi on the statements he has made. I certainly agree that I too have never voted to increase the debt, nor have I voted for the authorization of any project which I thought was not necessary; in turn, I have not voted for the appropriation. But my great concern here is as to whether or not we are simply kidding ourselves from the standpoint of $6 billion actually being cut.

I have been looking for information from the Administration, the Secretary of the Treasury, the Ways and Means Committee, or anyone else as to whether they are going to cut $1 billion off foreign aid, or something off Public Law 480, or whether they are going to reduce the Arms Control Agency, for which $18.5 billion was authorized, defer the SST or other programs. Will the Vietnam war be ended, or how long will it continue and at what cost?

I also wonder whether they are going to cut the school milk program, or some of the other programs which are very important to us. The veterans' program, as is listed in the bill, is exempt, but before I vote for this bill today I am going to have to have definite assurance from those who are handling this debate that this $6 billion is going to be cut, because otherwise the first half of fiscal 1969 will be past by the end of the year, and if the expenditures are not cut, then it will have to come in the first half of next year of a new administration.

The language in the bill, according to the information before the Rules Committee, states that the maximum amount that can be spent is listed therein. Now, supposing they spend more. Are you going to throw someone in jail? What are you going to do about it? If they go ahead and spend it, then in January there will be a supplemental appropriation bill to take care of the amount that has been spent. We will then be in a worse fiscal situation than we are now; and it is certainly critical today.

I have had calls from the officials of large corporations saying that this is the only thing we can do, that is, to have the surtax and make the cuts. That is fine for presidents and officers of corporations getting $150,000 or $200,000 a year. If they do not get enough money to pay a surtax, they simply put in another stock benefit plan for them, increase their retirement, or their salaries, or their expense accounts. But the little fellow, the stockholder will then suffer. His dividends will be less.

I am concerned about the person who makes $8,000, $12,000, $15,000 or $20,000 a year. Those are the people who pay the bulk of the tax to the Federal Government. The person who gets $10,000 or $12,000 and who has a couple of children is trying to save a little money to put them through college and pay for his house. Maybe, if he has bought it in the last month or two, he is paying 7.2 percent interest or some such rate. He is paying State and city and county taxes in addition to Federal taxes. We will be taxing these people to death.

I think we have reached the point where we are going to have to eliminate some of the programs and get our fiscal house in order or go completely bankrupt. Maybe this will give us a couple or three or more months, but I do not think it will be any salvation. I think it will be only temporary. I think this will be temporary until June of next year, and then it will probably become permanent, and then we will have to have an additional tax or cut spending.

This reminds me of an appendicitis attack I had. The doctor gave me some medicine to help ease the pain, but later I had a worse pain. He said, "Go to the hospital and get a blood count." It was 22,000 or 23,000—I forget the number. The doctor said, "You stay there. We are going to have to operate." I said, "I cannot. I have to go to court tomorrow morning." So the doctor said, "Go home and place an icebag on it." I did. In a few hours, I felt fine. But then the doctor came the next morning and said, "We are just kidding ourselves. If we postpone this a week or two, then some time you might have another attack and not be here the next time." The doctor said, "Get up and go to the hospital and we will operate." I did, and I had the operation.

I believe we are in a position here where we are kidding ourselves by thinking we will be reducing the amount and adding taxes, by which we hope to take care of it, but until we face the issue, we are postponing it until next year or thereafter, and then we will have to raise the debt. Sometime we will have to operate, or our Great Republic may not survive.

As I said before, I will listen to the debate carefully, and unless I am personally assured—and I have great confidence in the gentleman from Arkansas. He was extremely honest, as he always is in his presentation before the Rules Committee. The gentleman from Arkansas said he did not think this would be a cure-all but in his best judgment it is the thing to do, and we will have to do it at the present time and we hope we can make some changes in the future. I believe that is what the gentleman said. He said he believed this was more symbolic than anything else. I would like some assurance in this debate that these cuts will be made and some information about where they will be made. Otherwise I cannot support this conference report placing this additional tax burden on our already overtaxed middle-income citizens.

Mr. LATTA. Mr. Speaker, will the gentleman yield?

Mr. SMITH of California. I yield to the gentleman from Ohio.

Mr. LATTA. Mr. Speaker, I read yesterday where the ADA has come out in opposition to this bill claiming the spending cut is too great. I also read where some of the large labor unions in the United States have come out in opposition to this bill. As the gentleman well knows, the labor unions of this country and the ADA have always been out front in supporting and urging the passage of these big spending programs which have, in my humble judgment, gotten us into the financial mess we are in. Would the gentleman explain to me and to the House how these organizations can now in good conscience be against a bill to pay for the programs they have supported?

Mr. SMITH of California. That is not within the knowledge of the gentleman from California.

Mr. LATTA. I thought the gentleman might be able to shed some light on this reasoning for the benefit of the Members of this House. There are always some Members of this House who always follow the leadership of these organizations. I hear by the grapevine that these Members will be against a tax increase to pay for the big spending programs that they advocated and supported. Can the gentleman explain their logic or reasoning?

Mr. SMITH of California. I can explain only my own vote. I voted against these programs and I informed my constituents that this day we are arrived at today would some day be here. But I cannot attempt to comment on the vote of any other Member, even on the vote of the gentleman from Ohio.

Mr. LATTA. If the gentleman from California will permit me, let me say that I have not supported these big-spending programs which have brought on this financial crisis nor have I supported the foreign aid bills which has been exporting our dollars and has contributed greatly to our balance-of-payments deficit. I feel that the Members who have been voting for these programs, should now be compelled to stand up and vote the taxes to pay for them. The people in my district are already carrying a heavy taxload and should not be further taxed to give this administration more money to spend for programs they do not want nor need. I would prefer and would support a greater reduction in Federal spending than the $6 billion provided for in this bill in order to avoid a tax increase.

However, Mr. Speaker, this is impossible under the parlimentary situation under which we are operating. I would vote today to defer all foreign aid until we have a balanced budget. I would vote today to bring our troops and their families home from Europe and other places around the world where they are not needed. I would vote today to substantially reduce our space program and especially those post moon missions. If we would take these three actions, we would not need a tax increase and we would eliminate our balance-of-payments deficit at the same time. These are the votes I would like to cast but the opportunity to do so will not present itself today.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. SMITH of California. I yield to the gentleman from Iowa.

Mr. GROSS. I thank the gentleman for yielding.

Does the gentleman agree with me it is more than passing strange that the proponents of this legislation have given no explanation of one vital element of this bill, which is the fact that the Senate has invaded the constitutional prerogatives of the House of Representatives by converting a simple extension of excise taxes into a general revenue bill.

Mr. SMITH of California. I assume that the gentleman from Arkansas will explain that when he presents his remarks.

Mr. GROSS. I hope that the capitulation on the part of those who represented the House will be fully explained this afternoon.

Mr. SMITH of California. Mr. Speaker, I urge the adoption of the rule.

I will say to the gentleman from Mississippi that I do have a couple of requests for time.

Mr. COLMER. Mr. Speaker, I yield such time as he may consume to the gentleman from Florida [Mr. BENNETT].

(Mr. BENNETT asked and was given permission to revise and extend his remarks.)

Mr. BENNETT. Mr. Speaker, I favor this legislation and the rule. I believe this must be done.

Mr. Speaker, it is a basic principle of government that we should not spend more dollars than we take in over a long period of time. Since 1960 our country's expenditures have more than doubled from $92 billion in 1960 to $186 billion in fiscal year 1969. Defense expenditures account for only $34 billion of this increase, and the more than 125 new Federal programs instituted since 1961 account for most of the balance. During the same period, the public debt rose from $286 billion to $350 billion. The total of the planned deficits for the last fiscal year and fiscal year 1969 is over $40 billion.

This represents to me not one iota of self-discipline in financing our Government. I have not been a party to these huge domestic spending increases, because of this dangerous trend in spending, debt and continued deficits. In the 90th Congress I have voted against actual appropriations of $39 billion. I will continue my efforts for fiscal responsibility.

Now, Mr. Speaker, we are faced with a tax increase. Last September, the President called Congressmen to the White House to outline his plans for a 10-percent surtax to partly cover the planned deficit. He asked me what we could do about our deficit. I responded:

I think any increase in taxes should be accompanied by or preceded by severe cuts in expenditures, including the many new and expensive Federal programs, foreign aid and some aspects of Defense Department spending.

This conversation was reported in my October 1, 1967, newsletter.

The proposed tax increase is not just for financing the Vietnam war. In the last 4 years, nonmilitary spending has increased almost 40 percent, while military spending increased 34 percent.

The handwriting about our fiscal situation has been on the wall for the last couple of years. In October 1966 I spoke to a State convention of the Florida realtors in Jacksonville, Fla. At that time, I said:

Federal taxes are almost sure to go up sharply because Congress as a whole seems reluctant to apply self-discipline to postpone

and reduce expenditures. Tight money and inflation are the twin devils besetting your industry and the country. The best tools your Federal Government has with which to fight these devils are tax increases and reduced expenditures.

That was in October 1966.

Today, we are faced with critical decisions on Government finance. I support a temporary tax increase and as large a cut in Federal spending at this time as we can achieve. The expenditure cuts should be substantial. It is vital to fiscal responsibility that we do this.

Our gross national product jumped $41.7 billion from 1966 to 1967, from $743.3 billion to $785 billion, and Treasury Secretary Fowler has reported the first quarter growth in the GNP "an extraordinary" $20 billion, exceeding all previous records. We are in a fast-rising economy, which Secretary Fowler has described as follows:

In the hothouse atmosphere of excessive demand, prices and wages were bound to rise sharply. The evidence that this is already happening is as plain as can be. In the first quarter, the GNP deflator rose at more than 4 percent at an annual rate. The consumer price index has advanced about 3.75 percent in the past year, and wholesale prices recently have shown very rapid advances. Wage settlements have become more inflationary. All of these developments, of course, create serious burdens and inequities at home and are a major detriment to our international competitive position.

Unless a tax increase is soon imposed—with a substantial cut in Government spending—prices will be driven upward, contributing to an inflationary price spiral. During the last half of 1967, consumer prices increased by almost 4 percent.

Under inflation, the poor and elderly living on meager or fixed incomes are especially penalized as they find their limited dollars buying less and less of the necessities of life. The tax increases and reduced expenditures therefore represent a needed alternative to rising prices and is better than wage increases with consequent price increases.

The following figures given to me by the Treasury Department are revealing as to the relative hurt coming to middle-income families from inflation as compared with a tax increase. An average American family with two children and income of $7,500 paid an income tax in 1966 of about $686. The President's 10-percent surtax proposal would add $70 to their tax bill, or about $5.83 per month. Leading economists believe that without the surtax, prices will rise 4 percent more than they otherwise would have. This will mean that $100 of consumer purchases—food, clothes, appliances—will cost $104 even if it can be kept that low. If our average family spends one-third of its $7,500 income, or some $2,500 for purchases of consumer goods, it would cost them $2,600 with the 4 percent increases in prices. This means an additional monthly cost to our average family of $8.33, compared with the added cost I referred to earlier of $5.83 per month which would result from the surtax. The surtax would save the family money—about $30 a year—if you compare the cost of projected inflation which could of course go much higher if uncontrolled.

The tax increase will have a more modest impact on your family financial position than many now believe, and it is the lesser alternative to inflation.

This tax increase would be temporary and hopefully would remain in effect for only a brief duration of time—until June 30, 1969. It would simply restore, on a temporary basis, less than one-half of the $24 billion in tax cuts which Congress voted to American taxpayers during the past 4 years. I supported the tax reduction bill in 1963.

The tax increase combined with a cut in Federal spending has wide support among economists and business leaders throughout the Nation.

The Jacksonville Area Chamber of Commerce's Congressional Action Committee has sent me a resolution:

We join the Florida Bankers Association in calling upon the President and the Congress ". . . to take immediate action to eliminate the huge deficit in the federal budget and the chronic deficit in the balance of payments." It is imperative that such action requires an immediate major reduction in governmental spending, combined with an increase in taxes.

The committee also states in its resolution, that:

New domestic programs be held in abeyance until the present financial crisis has been resolved.

The National Association of Manufacturers supports the 10-percent income tax surtax and the $6 billion cut in spending.

The NAM has repeatedly stated its position—

A statement by W. P. Gullander, president reports—

that a temporary tax increase must be considered only in conjunction with a real commitment to restrain federal spending. Therefore, we strongly endorse the combining of mandatory expenditure reduction with the new tax legislation.

Mr. Speaker, we must have a tax increase coupled with a cut in Federal spending.

We must pay our way in financing the Government and attempt to balance the budget.

A special justification of this fiscal solution is the war in Vietnam, costing our Nation $2 billion a month.

We must postpone vast new programs until we get our fiscal house in order and we must cutback on some already on the books.

I believe we must also have complete reform of our tax laws to close loopholes.

The adoption of an item veto—which over 40 States now have—would allow the President to approve and disapprove any appropriation, and this would also help. I have a bill pending to do this.

Legislation I have drafted should be approved requiring all authorizing committees of Congress to make a 5-year estimate of the cost of proposed programs before approving them for passage.

My bill to establish a Congressional Budgetary Information Service, to promote fiscal responsibility in the Federal Government, should be enacted into law.

We should do all of these things to regain fiscal integrity in the United States.

Mr. COLMER. Mr. Speaker, I yield 5 minutes to the gentleman from Indiana [Mr. MADDEN].

(Mr. MADDEN asked and was given permission to revise and extend his remarks.)

Mr. MADDEN. Mr. Speaker, H.R. 15414, the pending surtax increase legislation, has been one of the most controversial bills coming before the Congress in many years.

NATION'S ECONOMY

I have been shocked at the recent statements of some of our leaders with their scare declarations that "we are in the midst of the worst financial crisis since 1931." I cannot agree with their tactics in pushing the panic button in the midst of the obvious economic prosperity which our Nation is enjoying today. Only recently the country's newspapers had headlines setting out that big business enjoyed the most fabulous profits during the first quarter of 1968 that it has received in history.

DEMOCRATIC PROSPERITY

I am going to quote very briefly a few figures on our gross national product expansion compared to the public debt. I mention this angle of our Federal financial status to reveal that if the Congress would resurvey our antiquated and inequitable tax structure—loopholes, and so forth—this tax increase would not be necessary. Let us compare the year 1946 with 1968.

	Billion
1946 gross national product	$201.6
1946 public debt	269.9
1968 gross national product	826.7
1968 public debt	352.5

These same figures of other years during the 1940's compared to the middle 1960's will show the same relative comparison of the terrific expansion of the gross national product as compared with the increase of our public debt. In other words, in the last 20 years our gross national product has increased approximately $625.1 billion, while our national debt has increased approximately $82.6 billion. In other words, the experts in criticizing the public debt fail to mention our multibillion-dollar expansion of our economy compared with the relatively small expansion of our public debt, which is infinitesimal compared with the 1940's period of our Nation's financial instability.

All the great progressive programs which have been enacted during the last 25 years have been instrumental in bringing about this great era of prosperity.

If the statements of the large financial interests are true that this tax increase bill is a necessity many Members of Congress wonder why, these groups have not organized a public information service so that the American people can become acquainted with the true facts of our deplorable Federal tax structure which has needed a complete overhauling for many years.

Highly paid lobbyists have been operating in Washington for many years pressuring the Ways and Means Committee and the Members of Congress for

tax concessions, fraudulent loopholes, tax credits, and depletion exemptions until today experts state that almost two-thirds of our Federal taxes are paid by millions of salaried and wage earners who are under the $15,000 annual salary bracket. As a member of the Rules Committee I have for several years been urging the chairman and members of the Ways and Means Committee to create a special subcommittee and have a complete tax resurvey and recommend legislation to equalize the tax burden on the salary and wage citizens.

LOOPHOLES

It is my firm belief that if just 50 percent of the fantastic and excessive tax loopholes and exemptions extended to large tax "foundations" were eliminated, this legislation would not be necessary.

I will mention but a few tax loophole exemptions, to wit:

First, the notorious oil and other unjustifiable mineral depletion allowances that permit corporations with millions of profits to pay little or no taxes;

Second, the gift and inheritance rules which permit huge tax dodging;

Third, tax-free interest from State, county, municipal, and local bonds that enables investors in them to exempt taxes;

Fourth, capital gains loopholes and inexcusable bonanza exemptions on stock market and real estate transactions; and

Fifth, the additional exemptions and credits of other lines of business are many and all should be resurveyed.

There are many other large tax loopholes which could be included with the above.

Private tax services and so-called tax experts flagrantly advertise in newspapers that they should be consulted before taxpayment time and they can assure the taxpayer that he will save a great percentage of his assessment.

The New York Times last year in an article on Federal taxes states that approximately 130 taxpayers in our Nation with an annual income of over $1 million annually paid no Federal taxes.

TAX-EXEMPT FOUNDATIONS

The studies of tax-exempt foundations which have been conducted by a subcommittee of the House Small Business Committee have been widely quoted in the press. Here are a few highlights of those press stories.

Secretary of the Treasury Fowler testified last October that there were 25,000 tax-exempt foundations in the country. In 1964, Secretary Dillon had testified that the Treasury didn't really know how many foundations there are.

The subcommittee has had 596 foundations under study. They had gross receipts of $1.3 billion in 1966, compared to $559.7 million in 1951.

The assets of the 596 foundations were valued at $15.1 billion at the close of 1966 compared to $10.2 billion at the end of 1960, a 50-percent increase in 6 years.

The subcommittee's review of the records of 25 of the 596 foundations under study shows that 22 of those 25 foundations exported $176.6 million, in dollars, during the period January 1, 1965, to November 20, 1967, thus adding to our balance-of-payments problems. Translating this into hardships imposed on our tourists, the aggregate outlay of $176.6 million is equal to the amount of duty-free goods that 1,766,000 Americans would be permitted to bring into this country at $100 a person.

Many millionaires escape estate taxes by leaving their fortunes to their personal foundations, while the average American carries an increasingly heavy tax burden. Here are a few conspicuous examples of prominent Americans who have died in recent years and whose personal foundations will receive at least $293.4 million, which will, of course, escape estate taxes:

[In millions of dollars]

Donor	Donee	Approximate amount that will pass to the foundation, valued as of date of death
Archibald G. Bush, St. Paul, Minn	The Bush Foundation, St. Paul, Minn	118.0
Henry R. Luce, New York, N.Y	Henry Luce Foundation, Inc., New York, N.Y	68.0
Arthur Vining Davis, Pittsburgh, Pa	Arthur Vining Bavis Foundation No. 2, Pittsburgh, Pa	15.0
Do	Arthur Vining Davis Foundation No. 3, Miami, Fla	30.0
George Gund, Cleveland, Ohio	The George Gund Foundation, Cleveland, Ohio	20.0
Mr. and Mrs Stephen Currier, New York, N.Y	Taconic Foundation, New York, N.Y	20.0
Billy Rose, New York, N.Y	Billy Rose Foundation, Inc., New York, N.Y	20.0
Walt Disney, Los Angeles, Calif	The Disney Foundation, Los Angeles, Calif	2.4
Total		293.4

Many foundations are being used as multimillion-dollar shelters from antitrust law and taxes. For example, in January 1912, in compliance with a Supreme Court dissolution decree under the Sherman Antitrust Act, the Standard Oil trust was chopped up and the Standard Oil Co. was forced to distribute prorata to stockholders its holdings in 33 companies.

Today, 56 years later, the Rockefeller foundations, and many other foundations, are operating in the very fashion that the trustbusters of Theodore Roosevelt's day meant to forbid. Now, the multimillion-dollar Rockefeller foundations have replaced the Standard Oil Co. trust which was broken up in 1912. Rockefeller-controlled foundations own significant amounts of not only Standard Oil Co. of New Jersey, but also of Mobil Oil Corp., Continental Oil, Ohio Oil, and Standard Oil Co. of Indiana. Through the supposedly benevolent foundations, the Rockefellers are today still violating the spirit if not the letter of the Federal antitrust statutes. At the close of 1966, nine Rockefeller-controlled foundations owned common stock of Standard Oil of New Jersey, with a market value of $363 million.

An increasing number of foundations hold substantial interest in commercial enterprises. One hundred thirty-six of the 596 foundations under study held sizable amount of stock in 288 corporations at the close of the year 1966. Those stockholdings ranged from 5 percent to 100 percent of the outstanding shares of at least one class of stock. The estimated market value of those shares is $4.9 billion. This $4.9 billion market valuation may be considerably understated because, in many instances, the securities are those of closely held companies that are not traded.

If many large foundations were to pay their just taxes on their incomes, billions of dollars could be added to our Federal Treasury.

The powerful oil lobbies over the years have succeeded in securing congressional enactment of depletions, credits, exemptions to such a degree many large companies with a net income of multimillions are, in some cases paying taxes as low as 1 percent on net annual income. One large company with profits ranging from $61,110,000 in 1962 and similar increased amounts of income in 1963, 1964, and 1965 paid no Federal taxes whatsoever.

Standard Oil of New Jersey in 1962 with $1,271,903,000 annual income paid sixtenths of 1-percent tax on their fabulous profits. In the following 4 years their percentage tax on similar profits ranged as follows:

	Year	Net income before tax	Percent tax paid to Federal Government
Standard Oil (New Jersey).	1962	$1,271,903,000	0.6
	1963	1,584,469,000	4.3
	1964	1,628,555,000	1.7
	1965	1,679,675,000	4.9
	1966	1,830,944,000	6.3
Atlantic Oil	1962	61,110,000	0
	1963	56,747,000	0
	1964	61,081,000	0
	1965	105,299,000	0
	1966	127,384,000	

I could go on and name other large companies who are in the same category as the above two mentioned.

On the other hand, as a comparison as to what some large companies paid in taxes, I might mention three coal companies. Evidently the coal companies do not have the powerful lobby in Washington as "big oil." These statistics follow:

	Year	Gross profit	Percent tax paid to Federal Government
Consolidation Coal Co	1964	$44,863,073	26
	1963	39,568,573	28
	1962	32,918,065	26
Pittston Co	1946	13,721,024	30
	1963	(1)	
	1962	14,699,420	35
Island Creek Coal Co	1964	7,713,060	18
	1963	5,149,930	24
	1962	3,459,563	21

[1] Lost by SEC.

The House of Representatives 2 years ago repealed the unjust section of 14(b)

of the Taft-Hartley law so as to equalize wages and salaries in all States in the Union. When this bill got over in the other body a filibuster led by seven or eight Senators tied the legislation up for weeks and the Senate Members were unable to vote on the same. During the last 20 years thousands of industries have either left the North or located in the 14(b) States to take advantage of cheap wages. Millions working on low wages in 14(b) States are not paying the Federal taxes on a par with workers in higher wage States.

These lobbyists from the 14(b) States have succeeded in securing tax exemptions on industrial and municipal bonds so as to offer further inducement for industries locating in the cheap labor and cheap wage States.

Recently the Internal Revenue revoked these exemptions, but in the pending bill the 14(b) States have had power enough to reinstate exemptions for municipal and industrial bonds. This tax concession will further deplete the Federal tax treasury if this section is not stricken from the pending bill.

Time does not permit me today to go into all the inexcusable and fraudulent loopholes that must be corrected. We have presidential and congressional elections this fall and the American voters should demand that every Congressman, Senator, and presidential candidate go on record as to his position on reconstructing and readjusting our cumbersome, preferential, and impractical Federal tax system.

The Ways and Means Committee appeared before the Rules Committee, of which I am a member, Tuesday of this week. At that time I inquired of the chairman and ranking member as to why steps have not been taken for this House tax committee to make a complete resurvey and investigation of all companies or organizations as to the type and legitimacy of some of their tax loopholes, exemptions, and otherwise.

I am opposing the tax bill now under consideration. I have a live pair with Congressman JOE EVINS, of Tennessee, who is supporting the legislation.

Mr. SMITH of California. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. CURTIS].

(Mr. CURTIS asked and was given permission to revise and extend his remarks.)

Mr. CURTIS. Mr. Speaker, I want to talk about the procedural aspects, which I believe is appropriate under the rule. I will have quite a bit to say later during the debate about the substance of the conference report.

First, I am pleased that we do have 4 hours for debating this serious matter and that the time is equally divided. This is unusual for a conference report, and I commend the leadership for that, because what I am now about to say is far from commending the leadership of the House.

This is the third time this year the House has been asked to set aside orderly procedures, procedures that have been time tested so far as developing good legislation is concerned.

We are all familiar with the first occasion, on the so-called civil rights bill. Expediency was the argument.

We then experienced the so-called—whatever it is called—1968 Crime Act, when the House of Representatives had no opportunity and no committee of the House had an opportunity to study the Senate amendments, yet we were told it had to be done in order to move forward for the sake of expediency.

This is what creates the overpromising, I might say. This is what creates bad legislation.

In the other two instances all we were waiving were congressional procedures, so, although I thought it was ill-advised, it was certainly within the power of the Congress to do that.

Today, though, we are being asked to waive constitutional restrictions, and this House of Representatives has a responsibility to the people of this country under the Constitution to live up to its responsibilities and to these restrictions.

The Constitution clearly says that tax measures can only originate in the House of Representatives. It does no good to use the specious argument that what we are talking about, this essential revenue bill, is an amendment by the Senate and that the Senate has the power to amend. The bill did not originate in the House. There is no question about it. The spirit of the Constitution and the whole reason for having tax legislation originate in that body of the Congress which is closest to the people has been obviated. At least in this instance, unlike the civil rights and crime bills, five Members of the House of Representatives, those of us who were privileged to be on the conference committee, have had an opportunity to go over these Senate amendments. However, this is no substitute, I might say, for 25 members of the Committee on Ways and Means going into this kind of study and holding public hearings, as we surely should do when we seek to impose taxes of this nature on our people. There have been no public hearings on this bill with regard to this aspect in the Senate. This was a floor amendment essentially. This is something I plead with my colleagues to pay attention to. The argument here is expediency. I will get into that, in the substantive aspects of why I believe it is not even expedient during debate. What have we been doing all of these months after the conference committee first met? Why could not the Committee on Ways and Means have assumed its responsibility? We all know what the practical reasons today are for our defaulting. It is because the administration did not think that they could get the tax bill through in a proper, orderly, and constitutional fashion. So we have been asked twice now to disregard orderly congressional procedures in these two other instances, and now we are being asked in the name of expediency to ignore a very basic constitutional provision. All of this, I emphasize again, results in poor legislation, poorly conceived legislation, I think I will be able to point out to everyone here today that what we do here today has very little meaning on the serious fiscal problems which face our country. What we do today voting this measure up or down will have very little impact on the world. The rest of the world has already discounted this administration's changing its fiscal policies to really grapple with the problems of inflation. They are not looking to what we are doing now here today but are looking 4 months away to November to see whether the American people are going to express themselves toward changing the basic fiscal policies of their Federal Government.

Again I say I am glad that the conference report is here under a 4-hour debate rule and that we will have an opportunity to dig into it at some depth, but I express my feeling of tragedy that here for the third time this year the House of Representatives has capitulated on its responsibilities to the people of this country. This is a major issue, because if the Congress of the United States is going to be a coequal independent branch of Government, it has to start doing its homework and start assuming its responsibilities to the people of this country.

Mr. COLMER. Mr. Speaker, I yield 4 minutes to the gentleman from New York [Mr. SCHEUER].

Mr. SCHEUER. Mr. Speaker, I oppose this rule. I do not think this rule gives our Congress a chance to work its will.

Of course, there are responsible and legitimate pressures for expenditure reduction. I say let Congress work its will here; let us bite the bullet here on the vast spectrum of Federal expenditures. This Congress fought the Executive item veto for 150 years. If anybody is "doing in" the integrity of this House, it is not the Senate, it is not the executive branch, but it is the Members of this House who are handing over carte blanche to the executive branch our responsibility and our authority to legislate.

The chairman of the Committee on Rules has said that those of us who are interested in the urban programs are willing and eager to dance, but that we do not want to pay the piper. I suggest that what we do not want to do is bust the piper over the head with his own fiddle.

I believe this Congress ought to have an opportunity to scrutinize the tax bill itself apart from the package, encumbered as it is, with a mandate for drastic cuts in legislative programs and expenditures.

There is not a single reputable economist in the United States who now advocates a $16 billion package of fiscal restraint. The chairman of the Committee on Rules mentioned the fact that we have raised the debt limit several dozen times in the more than 3 decades that he has been in Congress. Let me recall that in 1946 our national debt was 132 percent of the gross national product. Today it is about 43 percent of our gross national product.

In other words, the extraordinary economic strength and vitality of our country is three times what it was 22 years ago, in terms of our capacity to support the current national debt, and at the same time finance desperately needed urban programs that the Kerner Com-

mission recommended as essential to the general welfare of the country. These programs are indispensible and our economy can support them.

Mr. Speaker, let us make cuts ourselves where necessary, by intelligent cost-benefit analysis and let us support the programs which are most essential and vital to the survival of our cities.

Mr. GERALD R. FORD. Mr. Speaker, will the gentleman yield?

Mr. SCHEUER. I yield to the gentleman from Michigan [Mr. GERALD R. FORD].

(Mr. GERALD R. FORD asked and was given permission to revise and extend his remarks.)

Mr. GERALD R. FORD. Mr. Speaker, I was concerned about a statement that the gentleman from New York made to the effect that no reputable economist was advocating this combination of a 10-percent tax increase and a $6 billion reduction in Federal spending in fiscal year 1969. We can differ as to who is reputable and as to who is not reputable. But I would suggest to the gentleman from New York that I very recently heard two economists considered reputable by many, such as Dr. Walter Heller and Dr. Steve Saulnier and both have endorsed this conference report.

Mr. SCHEUER. It is my recollection that Dr. Heller endorsed this conference report only in the absence of any demonstrated ability of the Congress to work out a more sensible alternative to meet this situation. He has endorsed not a $16 billion program for fiscal restraint as the best answers to our current economic and fiscal dilemma. He has supported the $10 billion surtax. He does not advocate the $6 billion reduction in the spending programs which so brutally affect our cities.

Let me remind the minority leader of a major speech Dr. Heller made before the Economic Club of Detroit last October, where he spoke of the danger to the American democracy of a tax package involving spending cuts and suggested there could be a "real crisis of confidence" if the Congress should issue a "drastic you-cut-it-we-can't budget directive to the President"—the very directive we will be issuing if we pass this bill today. Dr. Heller said, on October 2, 1967:

> In its understandable frustration, Congress is trying to pass the buck to the White House. Not that it is so difficult to draw up a list of wasteful or postponable expenditures that ought to get the axe or at least the pruning knife. Mine would include many a maritime and irrigation subsidy, impacted school aids, rivers and harbor projects, and so on. . . . Others would have their own pet lists. But the plain political fact is that few, if any, of these cuts are likely to show up on the voting lists of 51 Senators and 218 congressmen.
>
> In desperation, Congress turns to the expenditure ceiling or percentage-cut instruction to the White House. The outcome of a blind economy drive is less likely to be a pruning of the programs I have just listed—all of which have strong and well-financed constituencies—and more likely to be a slowdown in our vital wars on poverty and crime, urban rot and degradation, and pollution of our air, water and land—programs which have traditionally had the least political muscle, yet just the programs where the real battle for American democracy will be won or lost.
>
> It would not be crying havoc to suggest that there could be a real crisis of confidence in the Congress if today's rebellious mood leads to a gutting of the surtax or a deep and drastic you-cut-it-we-can't budget directive to the President. It would be a dramatic contrast with the responsible Congress of 1950–51, which took the fiscal bit in its teeth after war broke out in Korea, enacting $8 billion of new taxes in 1950 and another $6 billion in 1951 (together the equivalent of $36 billion in today's economy).

Mr. BOGGS. Mr. Speaker, will the gentleman yield?

Mr. SCHEUER. I yield to the gentleman from Louisiana.

(Mr. BOGGS asked and was given permission to revise and extend his remarks.)

Mr. BOGGS. Mr. Speaker, I never like to put myself in the position of quoting another man, but I can tell the gentleman from New York that I spoke specifically to Dr. Heller within the past several weeks with reference to this exact matter, the conference report that is now pending before us, and he told me that it is essential that the Congress act promptly upon the matter.

Mr. COLMER. Mr. Speaker, I yield 4 minutes to the gentleman from California [Mr. REES].

(Mr. REES asked and was given permission to revise and extend his remarks.)

Mr. REES. Mr. Speaker and Members of the House, I ask for a "no" vote on the rule. As a member of the Committee on Banking and Currency which deals with the problems of monetary policy, I believe we have to have a revenue-budget cutting package. The present monetary crisis we have both here in the United States and in International Finance is real and we must take steps now to solve our dilemma. We must have new taxes and some spending restraint. I would disagree, though, with the emphasis on the surtax because any tax package should be a more balanced tax package. The surtax affects just mainly the average income wage earner.

I also disagree in the House of Representatives giving to the executive branch of the Government the right to cut the budget on a line item veto. If we are concerned about the cutting of spending in this House, then we should be able to take care of budget cuts in the Committee on Appropriations. Here we say that we really do not know where to cut the budget, therefore we are going to give the power to the President to cut it on a line item basis. I do not believe we are following our responsibilities as Members of the House of Representatives in allowing this.

Mr. Speaker, if the rule were to be defeated, I would hope to persuade the Committee on Rules, as I attempted to do 2 days ago, to ask for a rule which would give to a Member the privilege to offer a motion to recommit with instructions, and the instructions would be to instruct the conferees to ask that if there was to be a 10-percent surtax, that there should also be a tax on those people who today have substantial income and are not paying taxes at all, because of many exemptions that now exist. I would like to outline the plan which was submitted in the amendment I offered to the Committee on Rules.

The plan would affect all of those who have a spendable income in excess of $40,000, and would require that these individuals would have to pay at least 10 percent of their income for taxes, just 10 percent.

The amendment would affect those who have income in tax-exempt interest income. Income received from stock options.

It would affect income earned in foreign countries, and excluded from gross income.

The deduction for long-term capital gains.

The excess of percentage depletion over cost depletion.

The excess of fast depreciation on real property over straight-line depreciation.

Intangible oil drilling and development costs.

And amounts deducted as development expenditures in the case of mines.

Mr. Speaker, my feeling is that if the average taxpayer, the wage earner has to help support this economy, that the person who is now receiving substantial tax exemptions and is not paying 10 percent of their income should line up right with you and me and say "all right, I am willing to pay for the cost of government, and I am willing to pay to help in the current fiscal-monetary crisis." That is all the amendment does.

Therefore, Mr. Speaker, I would ask for a "no" vote on this rule.

Mr. BYRNES of Wisconsin. Mr. Speaker, will the gentleman yield?

Mr. REES. I yield to the gentleman from Wisconsin.

Mr. BYRNES of Wisconsin. Mr. Speaker, I thank the gentleman for yielding.

I believe what the gentleman is overlooking, and what we all must recognize as we deal with this rule and the situation before us, is that this is a conference report—this is not a matter of starting a bill off and amending a bill, or changing it, and it would then go to the other body, and then eventually back in conference. This is a conference report.

I believe the chairman of the conferees would agree with me that we are faced with either accepting this conference report or there is no bill, there is no legislation, there is no other conference report that will be forthcoming. I believe that that is what we have to recognize as we debate this matter.

What the gentleman is saying, frankly, without getting into the merits of what the gentleman is proposing, by the farthest stretch of the imagination, would not be in conference, and could not even be considered in the conference on this bill.

Mr. REES. If we instruct our conferees to go back to conference——

Mr. BYRNES of Wisconsin. If the gentleman will yield further, we cannot instruct the conferees to go beyond what the conferees can do, because the other body has no authority to go beyond that either. There are limitations as to what a conference can do.

The SPEAKER. The time of the gentleman from California has expired.

Mr. COLMER. Mr. Speaker, I yield 1 additional minute to the gentleman from California.

Mr. REES. Mr. Speaker, I thank the gentleman for yielding.

Mr. ADAMS. Mr. Speaker, will the gentleman yield?

Mr. REES. I yield to the gentleman from Washington.

Mr. ADAMS. Mr. Speaker, I thank the gentleman for yielding.

Mr. Speaker, I want to associate myself with the remarks of the gentleman from California [Mr. REES] and to say in response to some of the others who have been addressing themselves to this problem that by this rule being completely closed, so there is no chance to amend it at all, we are unable to put any tax reform changes into this package. I believe it is a shame that those of us who believe that we need an increase in taxes have an inability to work our will to produce a fair tax bill on this floor under this rule.

I hope the Members will vote against the rule. I hope the package suggested by the gentleman from California [Mr. REES] will be adopted.

With regard to the conference report, it can go back to conference under the procedures for reporting on disagreements here, and the conferees can meet again.

I do not know why we have to be told again and again that this body cannot work its will—that it is not capable of drawing tax legislation—that is is not capable of talking about things that we think America needs.

With reference to spending, I would ask each of the gentlemen on the other side to examine our records on appropriations for agriculture, on public works, and on the Vietnam supplemental to send more men, and other appropriation bills, and to check their records in each case to see who has advocated cuts and voted for reductions. It is a question of priorities of where our money should be spent and I believe our priorities are better.

Mr. COLMER. Mr. Speaker, I yield 2 minutes to the gentleman from New York [Mr. OTTINGER].

Mr. OTTINGER. Mr. Speaker, I join my colleagues, the gentleman from Washington [Mr. ADAMS], the gentleman from California [Mr. REES], and the gentleman from Missouri [Mr. CURTIS], in objecting to the procedures under which this legislation is brought to us.

I feel strongly that we should have had an opportunity for hearings. This is certainly as critical a matter as can come before this House of Representatives.

The measure that we are about to consider could well throw this country into a very serious depression and could have dire consequences financially for every single citizen of the United States. I think that it will. To preclude orderly consideration of a measure of such magnitude is highly unfortunate. Furthermore, this bill contains a great number of widely different and unrelated provisions. To consider the bill under procedures which preclude separate consideration of these provisions and under which proposals for tax reforms such as have just been made by the gentleman from California [Mr. REES] cannot be considered, I think is very wrong.

I would support enthusiastically a number of measures in this bill.

I happen to support the expenditure cut of $6 billion that is included, the employee cutbacks, the speeding up of corporate collections, the extension of the excise taxes and the removal of the very unfair exemption for industrial revenue bonds.

On the other hand, I oppose very strongly the tax surcharge as being both uneconomical and unfair, an additional penalty on the overburdened middle income taxpayer, leaves the myriad of special interest loopholes and exemptions untouched.

Mr. Speaker, I think a good many Members of the House support different parts of this package, but we have had no opportunity to express our will for the benefit of the people of this country. We cannot support the provisions we like and try to defeat those we oppose. We are forced to take this package on an all-or-nothing basis and without any consideration of the measure.

One further issue is the constitutional issue—of these important tax provisions being added by amendment in the Senate instead of being initiated in the House. This constitutional provision is nullified if the Senate can add new tax measures to any tax bill passed by the House, as a demonstration of this evil, the procedures used, there was not even any consideration of the tax measure by the Senate committees and no hearings there at all. So on one of the most major bills coming before us, and a revenue bill that should have commenced in the House, there have been no hearings at all and no committee consideration.

Mr. Speaker, I strongly urge that this rule be voted down so as to permit the proper kind of consideration of these matters.

Mr. COLMER. Mr. Speaker, I yield 2½ minutes to the gentleman from Missouri, a member of the Committee on Rules [Mr. BOLLING].

Mr. BOLLING. Mr. Speaker, I have been very seriously disturbed by the debate that I have heard on this rule as I have been seriously disturbed by the private conversations I have had over the last several months on this matter.

Mr. Speaker, it is extraordinarily easy for anybody to find an excuse to vote against a tax increase. Now, I am well aware of the fact that there are a few people in this Chamber who can conscientiously oppose this legislation for a variety of reasons. Some of them are on my left on the Republican side and some of them are on my right on the Democratic side. It is not to them that I address these few words I am about to say.

But I have listened to people get up today and on other days, and in private conversation, and say they intend to oppose the legislation because it did not contain this or that provision which they favored.

Now I do not pretend to judge the sincerity or the lack of sincerity of any Member. That is something within their own consciences.

But, Mr. Speaker, I have been in favor of tax reform not just for the 20 years that I have served as a Member in the House of Representatives but for 30 years. This Congress is as little likely to pass tax reform legislation as any Congres that I have ever seen.

So I do not think that is a realistic consideration.

I consider the cuts in expenditures proposed in this package as being too high. I voted for a lower level of cut—but I consider a tax increase of such overriding significance and importance to the Nation that I intend to vote for the package.

Frankly, I have been shocked to hear some of my Republican friends—and in fact they are friends—say that their vote would be decided on the basis of how many Democrats supported the conference report. That clearly is not a vote on any kind of conviction or principle.

I do not think that this vote is of that minor significance. I have no objection to anybody playing politics. I play a little myself. But I think it would be a ghastly mistake for Members not to recognize, on the Democratic side and on the Republican side, that this is one of those relatively rare occasions when in truth a very large part of the fate of the future of this Nation rides on this one vote.

Mr. COLMER. Mr. Speaker, I move the previous question on the resolution.

The previous question was ordered.

The SPEAKER. The question is on the resolution.

The question was taken; and the Speaker announced that the ayes appeared to have it.

Mr. REES. Mr. Speaker, I object to the vote on the ground that a quorum is not present and make the point of order that a quorum is not present.

The SPEAKER. Evidently a quorum is not present.

The Doorkeeper will close the doors, the Sergeant at Arms will notify absent Members, and the Clerk will call the roll.

The question was taken; and there were—yeas 321, nays 86, not voting 26, as follows:

[Roll No. 197]

YEAS—321

Abbitt	Burleson	Donohue
Abernethy	Burton, Utah	Dorn
Adair	Bush	Downing
Albert	Button	Dulski
Anderson, Ill.	Byrne, Pa.	Duncan
Andrews, Ala.	Byrnes, Wis.	Dwyer
Arends	Cabell	Edwards, Ala.
Ashley	Carey	Erlenborn
Ashmore	Carter	Esch
Aspinall	Cederberg	Eshleman
Ayres	Celler	Evans, Colo.
Barrett	Chamberlain	Everett
Bates	Clark	Fallon
Battin	Clausen,	Fascell
Belcher	Don H.	Feighan
Bell	Clawson, Del	Findley
Bennett	Collier	Fino
Berry	Colmer	Fisher
Betts	Conable	Flynt
Blackburn	Conte	Foley
Blanton	Corbett	Ford, Gerald R.
Blatnik	Corman	Fountain
Boggs	Cowger	Frelinghuysen
Boland	Cramer	Friedel
Bolling	Culver	Fulton, Pa.
Bray	Curtis	Fulton, Tenn.
Brinkley	Daddario	Fuqua
Brock	Daniels	Galifianakis
Brooks	Davis, Ga.	Gallagher
Broomfield	Davis, Wis.	Gardner
Brotzman	Dawson	Garmatz
Brown, Mich.	de la Garza	Gathings
Brown, Ohio	Delaney	Gettys
Broyhill, N.C.	Dellenback	Giaimo
Broyhill, Va.	Denney	Gonzalez
Buchanan	Dent	Goodell
Burke, Fla.	Dickinson	Goodling
Burke, Mass.	Dole	Green, Oreg.

Grover	Martin	Rostenkowski
Gubser	Mathias, Calif.	Roth
Hagan	Mathias, Md.	Roudebush
Hamilton	Matsunaga	Roush
Hammer-schmidt	May	Ruppe
	Mayne	St. Onge
Hanley	Meeds	Sandman
Hanna	Meskill	Satterfield
Hansen, Idaho	Michel	Schadeberg
Hansen, Wash.	Miller, Calif.	Scherle
Hardy	Miller, Ohio	Schneebeli
Harrison	Mills	Schweiker
Harvey	Mize	Schwengel
Hays	Monagan	Shriver
Hébert	Montgomery	Sikes
Henderson	Moorhead	Sisk
Herlong	Morgan	Skubitz
Hicks	Morris, N. Mex.	Slack
Holifield	Morse, Mass.	Smith, Calif.
Horton	Morton	Smith, Iowa
Hosmer	Mosher	Smith, N.Y.
Hull	Murphy, Ill.	Smith, Okla.
Hungate	Murphy, N.Y.	Snyder
Hunt	Myers	Springer
Hutchinson	Natcher	Stafford
Ichord	Nelsen	Staggers
Irwin	Nichols	Stanton
Jarman	Nix	Steed
Joelson	O'Hara, Ill.	Steiger, Ariz.
Johnson, Calif.	O'Hara, Mich.	Stephens
Johnson, Pa.	O'Konski	Stratton
Jonas	O'Neal, Ga.	Stubblefield
Jones, Ala.	O'Neill, Mass.	Sullivan
Jones, Mo.	Passman	Talcott
Jones, N.C.	Patman	Taylor
Karsten	Patten	Teague, Calif.
Karth	Pelly	Teague, Tex.
Kazen	Pepper	Tenzer
Kee	Perkins	Thompson, Ga.
Keith	Pettis	Thomson, Wis.
Kelly	Philbin	Tuck
King, N.Y.	Pickle	Udall
Kirwan	Pirnie	Ullman
Kleppe	Poage	Utt
Kluczynski	Poff	Vander Jagt
Kornegay	Pollock	Waggonner
Kuykendall	Price, Ill.	Waldie
Kyl	Price, Tex.	Wampler
Laird	Pryor	Watkins
Landrum	Pucinski	Watson
Langen	Purcell	Watts
Latta	Quie	Whalley
Lennon	Quillen	White
Lipscomb	Railsback	Whitener
Lloyd	Randall	Whitten
Long, Md.	Reid, Ill.	Widnall
McCarthy	Reid, N.Y.	Wiggins
McClory	Reifel	Williams, Pa.
McCloskey	Reinecke	Willis
McClure	Reuss	Wilson, Bob
McCulloch	Rhodes, Ariz.	Wilson,
McDonald,	Rhodes, Pa.	Charles H.
Mich.	Riegle	Winn
McEwen	Rivers	Wright
McFall	Roberts	Wyatt
Macdonald,	Robison	Wylie
Mass.	Rodino	Young
Madden	Rogers, Colo.	Zablocki
Mahon	Rogers, Fla.	Zion
Mailliard	Rooney, N.Y.	Zwach
Marsh	Rooney, Pa.	

NAYS—86

Adams	Gilbert	Ottinger
Addabbo	Green, Pa.	Pike
Andrews,	Griffiths	Podell
N. Dak.	Gross	Pool
Annunzio	Gude	Rarick
Ashbrook	Haley	Rees
Baring	Hall	Ronan
Bevill	Halpern	Rosenthal
Biester	Harsha	Roybal
Bingham	Hathaway	Rumsfeld
Brademas	Hawkins	Ryan
Brown, Calif.	Hechler, W. Va.	St Germain
Burton, Calif.	Heckler, Mass.	Saylor
Cahill	Helstoski	Scheuer
Clancy	Howard	Scott
Cleveland	Jacobs	Shipley
Derwinski	Kastenmeier	Taft
Devine	Kupferman	Tiernan
Dingell	Kyros	Tunney
Dow	Leggett	Van Deerlin
Dowdy	Long, La.	Vanik
Eckhardt	Lukens	Vigorito
Edmondson	McDade	Walker
Edwards, Calif.	MacGregor	Whalen
Eilberg	Machen	Wolff
Farbstein	Minish	Wydler
Ford,	Mink	Wyman
William D.	Moore	Yates
Fraser	Moss	
Gibbons	Olsen	

NOT VOTING—26

Anderson,	Diggs	King, Calif.
Tenn.	Edwards, La.	McMillan
Bolton	Evins, Tenn.	Minshall
Bow	Flood	Nedzi
Brasco	Gray	Resnick
Casey	Griffin	Selden
Cohelan	Gurney	Steiger, Wis.
Conyers	Halleck	Stuckey
Cunningham	Holland	Thompson, N.J.

So the resolution was agreed to.

The Clerk announced the following pairs:

Mr. King of California with Mr. Minshall.
Mr. Selden with Mr. Bow.
Mr. Brasco with Mr. Cunningham.
Mr. Thompson of New Jersey with Mr. Halleck.
Mr. Evins of Tennessee with Mrs. Bolton.
Mr. Flood with Mr. Steiger of Wisconsin.
Mr. McMillan with Mr. Gurney.
Mr. Casey with Mr. Nedzi.
Mr. Diggs with Mr. Gray.
Mr. Cohelan with Mr. Stuckey.
Mrs. Griffiths with Mr. Anderson of Tennessee.
Mr. Edwards of Louisiana with Mr. Holland.
Mr. Resnick with Mr. Conyers.

Mr. EILBERG changed his vote from "yea" to "nay."

The result of the vote was announced as above recorded.

The doors were opened.

A motion to reconsider was laid on the table.

Mr. MILLS. Mr. Speaker, I call up the conference report on the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations, and ask unanimous consent that the statement of the managers on the part of the House be read in lieu of the report.

The Clerk read the title of the bill.

The SPEAKER pro tempore (Mr. PRICE of Illinois). Is there objection to the request of the gentleman from Arkansas?

RESOLUTION OFFERED BY MR. GROSS—PRIVILEGE OF THE HOUSE

Mr. GROSS. Mr. Speaker, I rise to a question of privilege of the House and offer a resolution.

The SPEAKER pro tempore. The Clerk will report the resolution.

The Clerk read the resolution, as follows:

H. RES. 1222

Resolved, That Senate amendments to the bill, H.R. 15414, in the opinion of the House, contravene the first clause of the seventh section of the first article of the Constitution of the United States, and are an infringement of the privileges of this House, and that the said bill, with amendments, be respectfully returned to the Senate with a message communicating this resolution.

The SPEAKER pro tempore. The gentleman from Iowa [Mr. GROSS] is recognized for 1 hour.

CALL OF THE HOUSE

Mr. HALL. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER pro tempore. Evidently a quorum is not present.

Mr. MILLS. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 198]

Belcher	Gubser	Minshall
Bolton	Gurney	Nedzi
Bow	Hanna	Pool
Casey	Harsha	Resnick
Cohelan	Holifield	Rivers
Conyers	Holland	Selden
Corman	Ichord	Smith, Okla.
Cunningham	Irwin	Stafford
Davis, Wis.	Kee	Steed
Dellenback	King, Calif.	Teague, Tex.
Diggs	Kleppe	Thompson, N.J.
Downing	Kornegay	Tuck
Evins, Tenn.	Leggett	Udall
Flood	McMillan	Willis
Fuqua	MacGregor	

The SPEAKER pro tempore (Mr. PRICE of Illinois). On this rollcall 388 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

The SPEAKER pro tempore. The gentleman from Iowa [Mr. GROSS] has the floor.

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

Mr. GROSS. Mr. Speaker, I wish to open my remarks by re-reading the resolution which I have offered and which is pending before the House:

Resolved, That Senate amendments to the bill, H.R. 15414, in the opinion of the House, contravene the first clause of the Seventh Section of the first article of the Constitution of the United States, and are an infringement of the privileges of this House, and that the said bill, with amendments, be respectfully returned to the Senate with a message communicating this resolution.

Mr. Speaker, the legislation now before us, H.R. 15414, represents one of the most direct attempts in the history of the Republic to cut away and destroy one of the most fundamental privileges and rights of this House—the right, the responsibility, and the duty, under the Constitution, to initiate revenue measures.

Section 7 of article 1 of the Constitution conferred this privilege on the Members of this body, and there are numerous precedents upholding the right of the House—and the House alone—to originate revenue bills.

For example, in 1807 the House refused to agree to Senate amendments that greatly enlarged the scope of a revenue bill. The record of the debate in the House on that day shows that John Randolph of Virginia, assailed the Senate amendments because they went far beyond merely amending the details of the bill as passed by the House.

Randolph believed, and rightly so, that under the Constitution the Senate had no power to amend a money bill by varying the objects of that bill.

I do not claim, of course, that the Senate has no power whatsoever to amend a revenue bill of the House. But I do say it cannot, under the guise of an

amendment, propose new revenue legislation.

And that is exactly what has happened in this instance.

It is not a new device, to be sure, and, here again, we have much precedent for sending this bill back to the Senate.

In 1872, for instance, the House had passed a very specific bill "to repeal existing duties on tea and coffee." It went to the Senate where it was promptly seized upon and virtually replaced by a bill that contained a general revision, reduction, and repeal of a flock of laws imposing both import duties and internal taxes.

Representative Henry L. Dawes of Massachusetts, introduced a resolution which passed by an overwhelming vote, and which declared the Senate action "is in conflict with the true intent and purpose of that clause of the Constitution which requires that 'all bills for raising revenue shall originate in the House of Representatives'."

Let me quote the words of a distinguished Member of the House who took part in this debate—Representative James A. Garfield of Ohio.

It is clear to my mind—

Said Mr. Garfield—

that the Senate's power to amend is limited to the subject matter of the bill. That limit is natural, is definite, and can be clearly shown.

If there had been no precedent in the case, I should say that a House bill relating solely to revenue on salt could not be amended by adding to it clauses raising revenue on textile fabrics, but that all the amendments of the Senate should relate to the duty on salt.

To admit that the Senate can take a House bill consisting of two lines, relating specifically and solely to a single article, and can graft upon them in the name of an amendment a whole system of tariff and internal taxation, is to say that they may exploit all of the meaning out of the clause of the Constitution which we are now considering, and may rob the House of the last vestige of its rights under that clause.

Continuing, he said:

Now I will not say, for I believe it cannot be held, the mere length of an amendment shall be any proof of invasion of privileges of the House. True, we sent to the Senate a bill of three or four lines, and they have sent back a bill of twenty printed pages.

I do not deny their right to send back a bill of a thousand pages as an amendment to our two lines. But I do insist that their thousand pages must be on the subject matter of our bill.

Mr. Speaker, the artfulness of the Senate in such proceedings as has happened is well known. And just as well known is the traditional insistence by this House on the rule of germaneness. I submit that major Senate amendments to this bill have nothing whatever to do with the original purpose of H.R. 15414, which was a simple extension of certain excise taxes.

The amendments are about as germane as the Senate amendment attached to H.R. 18329, a 1905 agriculture appropriation bill. The Senate amendment would have in that bill reinstated a heavy tax on imported wheat.

Members of the House, on February 16, 1905, lost no time in voting 263 to 5 to send that bill back to the Senate with the observation that the amendment was an infringement on the right of the House to initiate revenue bills.

In the Senate of that day was Mr. John C. Spooner of Wisconsin, and his well-founded arguments led the Senate to retract its wheat taxing amendment. In closing his argument here is what he said:

I think the House of Representatives, in a very respectful and dignified way, has called our attention to a real invasion of its constitutional privilege and that the Senate is proceeding to do in a dignified and proper way what it ought to do in eliminating this amendment from the bill.

Mr. Speaker, I submit that the case before us today is strikingly similar to that of 1905.

Senator Spooner has not been the only Member of the other body to recognize and uphold the constitutional right of the House in the matter of initiating revenue bills.

In 1912 Senator John Sharp Williams of Mississippi made a lengthy, exhaustive study of the rights of the two Houses of Congress in regard to initiation of revenue bills. His study is regarded as a classic. Let me quote from his study:

If this Senate could originate general supply bills, then it could commit the Government to a course of expenditure that would coerce the House not only into originating but into passing tax bills.

Along those same lines are these excerpts from the report of the House conferees on a tax measure in 1871—a measure that had been improperly amended by the Senate.

I quote from that committee report:

But it seems to your committee clear that if the Senate can repeal one tax they can repeal another, and thus originate measures affecting the entire system of taxation.

If, instead of repealing the income tax, the Senate had originated and passed a measure repealing all laws imposing duties on imports, it would at once become necessary for the House to originate another measure imposing taxes to make up for the deficiency created by this great loss of revenue. It seems to us plain that this would be an interference with the present system of taxation . . .

Mr. Speaker, how interesting that those words were written nearly 100 years ago and yet have the same validity today as they had originally.

Take that first sentence: "If the Senate can repeal one tax they can repeal another" and make it read, as in the case before us today, "If the Senate can initiate one tax they can initiate another, and thus originate measures affecting the entire system of taxation."

Can anyone in this House argue with the truth of that statement?

The report by the House conferees in 1871 concluded in this manner:

It seems clear to your committee, therefore, that the only way to preserve, in its fullness, the power to originate bills for raising revenue is to insist upon the right of the House to originate all bills relating directly to the revenue, whether imposing or remitting taxes that the House should, in the first instance, be the judge of the manner, the measure, and the time, of such impositions or remissions.

Mr. Speaker, what is at issue here today is not the merit or demerit of the Senate amendments. Whether they are wise or unwise, prudent or imprudent, hasty or considered, enforceable or unenforceable. These are questions that can be answered later.

Now Mr. Speaker, and Members of the House, I ask that you give special attention to the following words on this subject that were uttered by one of our former colleagues. He said:

The important question is whether that clause of the Constitution of the United States which declares that all bills for raising revenue shall originate in the House of Representatives shall be cherished as one of the privileges handed down to us by the Constitution of the United States. . . .

Continuing he said further:

Mr. Speaker, I might cite other precedents. They are numerous, and they are all to the same effect. Our predecessors have held inviolate the right of the House of Representatives to originate revenue bills. It is guaranteed to us by the Constitution. . . .

It is the sacred right left us by the framers of the Constitution as representing the people, as coming from the body of the people, and as being nearer to the people than the other body, to originate these bills, and none of them can be originated and none should be originated, and none will be originated in the other body if the House of Representatives stand by their right and by their privileges as guaranteed by the Constitution of the United States.

Mr. Speaker, those are my sentiments, but, as I said before, they are not my words. They are the words of Congressman Sereno Payne of New York, who was, when he spoke them in 1905, chairman of the House Ways and Means Committee.

It is to be noted, Mr. Speaker, that the resolution I have offered today is almost identical to that offered by the former chairman of the House Ways and Means Committee, Mr. Payne, who was outraged by the attempt of the other body to invade the privileges and responsibilities of the House.

It should also be noted the House adopted Mr. Payne's resolution by a vote of 263 to 5. In those days there was the determination to protect the rights of the House and the Members translated that determination into action.

Mr. Speaker, I ask that the House again assert its constitutional prerogatives by adopting my resolution by an overwhelming vote.

Mr. Speaker, for purposes of debate only, I yield 5 minutes to the distinguished gentleman from Arkansas [Mr. MILLS].

Mr. MILLS. Mr. Speaker, I appreciate the gentleman from Iowa yielding to me.

The gentleman's motion is a privileged motion expressing the sense of the House with respect to the question of whether or not certain Senate amendments adopted by the Senate and agreed to in conference contravene the provision of article I, section 7, clause 1 of the Constitution.

If the Members of the House will turn to the Constitution to refresh their recollection of article I, section 7, clause 1, they will observe that it reads as follows:

All bills for raising revenue shall originate in the House of Representatives; but the Sen-

ate may propose or concur with amendments as on other bills.

There have been several instances where the question of the constitutionality involving this issue has been argued before the Supreme Court and where the Court has rendered decisions. Let me go back in history for two instances—and in these cases not as far back as the gentleman from Iowa went for his precedents in support of his argument.

I would like to point out how the Supreme Court has ruled on this matter. In *Flint* v. *Stone Tracy Co.*, 220 U.S. 107, 143, in 1911, the court held that the substitution of a corporate tax by the Senate for an inheritance tax passed by the House was constitutional.

I have before me the actual opinion of the Court and I can read if it is desired that I do so. But I have given you the holding of the Court in that instance.

In another case also the Supreme Court upheld an amendment by the Senate of a tax bill. In this case the Senate added a section imposing an excise tax upon the use of foreign-built pleasure yachts. The Supreme Court in this case, *Rainey* v. *United States*, 232 U.S., 310 (1914), decided that the amendment did not contravene article I, section 7, clause 1 of the Constitution.

There also have been other instances where the Court has acted upon amendments offered by the Senate to a House-passed bill.

If this bill before us had been a measure originating in the Senate and had borne a Senate number, there would have been no question about it having contravened the provision of the Constitution we have been talking about. This would have been true because it would have been a bill involving revenue which did not originate in the House of Representatives, as the Constitution requires.

It may be recalled that on some occasions—I have forgotten the exact number—I have offered a similar resolution to protect the integrity of the House from contravention of the House's prerogatives by action on the part of the Senate.

But now, if we do what the gentleman from Iowa suggests—and, of course, we can do that if we want to, regardless of whether our action is borne out by article I, section 7, clause 1 of the Constitution—we will have perhaps prevented the adoption later on today of a conference report involving an important tax measure. We will have, I think, perhaps stirred up a procedural argument with the other body about its authority to concur, or agree to, amendments to a House-passed bill involving revenue.

I would hope the House would not adopt this resolution, because I think it is completely without foundation in fact, as I will develop later in detail that the bill represents a contravention by the Senate of the prerogatives of the House. I would hope we could defeat it and proceed to the consideration of what I think is perhaps one of the most important issues that we have had before us in a number of years.

The SPEAKER. The time of the gentleman from Arkansas has expired.

Mr. GROSS. Mr. Speaker, does the gentleman desire additional time?

Mr. MILLS. No. I thank the gentleman for yielding.

Mr. GROSS. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. CURTIS] for purposes of debate only.

(Mr. CURTIS asked and was given permission to revise and extend his remarks.)

Mr. CURTIS. Mr. Speaker, I must strike a personal note. I was saddened to hear the chairman of the Ways and Means Committee present the position that he has. If we will analyze the full extent of his arguments, the constitutional provision can be gotten around through the sheerest of technicalities. All we have to do is preserve the House number on a revenue bill, and all can be taken out and anything can be put in by the Senate.

The Constitution was not written that lightly. I think it is important for us, if we can, to project our minds to 1787, when this power of taxation, of raising revenue, and the origination of it was placed in that branch of the Government that is closest to the people.

I might say, related to present times, as to whether or not those reasons are not as compelling—and I would argue they are—but even were those reasons not as compelling and there were reasons why we might want to alter our basic structure of government, the correct way to do it is not through this clear and obvious violation of the principles involved.

Why do we have the body closest to the people maintain the responsibility to them of originating revenue measures? It is because in a society such as ours, the people must respond and be in accord with the laws we pass and particularly those that so affect our welfare. The power to tax is the power to destroy. The power to tax is the basic power that makes the decisions of how much shall be done in the private sector versus the public sector.

We need cooperation. We in the Congress, as we write laws in behalf of the people, need their cooperation in order to see that they are carried out. So it is a practical matter, among other reasons, why this power was so vested.

If there is any question in anyone's mind about whether this measure we are considering originated in the Senate and not in the House, I suggest he look on pages 2, 3, and 4, to see the schedules of how we are going to tax our people. Neither the Ways and Means Committee nor the House has even looked into these things. We have not thought in terms of whether it is wise to ask our people to pay over $10 billion more in taxation to the Federal Government. We have held no public hearings—nor did the Senate, I might add—on this grave move.

To my good colleague, the gentleman from Missouri [Mr. BOLLING], who rightly pleaded with both sides of the House to put the country's welfare first, let me say entirely apart from the grave issue involved in our fiscal policy now presented to us here, there is one even more grave—the structure of our society and whether or not, if we are going to change it, we change it in an orderly way or whether we change it here today because some think it is expedient because we have a fiscal problem.

I would urge all Members to think this over entirely apart from any preconceived notions or whatever they might have had as to how they were going to vote on this measure coming from the conference report.

Mr. FULTON of Tennessee. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Tennessee.

Mr. FULTON of Tennessee. The gentleman in the well has stated that the Ways and Means Committee did not hold hearings. I should like to refer to the four volumes of hearings we did hold, and which the gentleman attended.

Mr. CURTIS. I do not yield further, until I respond, and then I will yield. Those were not hearings on this tax bill, and the gentleman knows it. They were on the general subject matter. We hold hearings on a great many things.

Mr. FULTON of Tennessee. On all four volumes it says "The President's Surtax Proposal, 1967."

Mr. CURTIS. All right. This is a case of mere labeling that we have been going through. Is that label properly descriptive of what we are going to accept as a tax measure? We carefully write out tax measures in the Ways and Means Committee, not by labels.

The SPEAKER pro tempore. The time of the gentleman from Missouri has expired.

Mr. GROSS. Mr. Speaker, I yield the gentleman 5 additional minutes.

Mr. CURTIS. Mr. Speaker, this is, again, so much of what has happened in recent months and in recent years, of getting a good label, and stopping our studies at this point. This is where we are overpromising, to the people in the ghettos, I might say, by putting a label on saying, "This is what our good intentions are."

The road to hell is paved with good intentions.

It is important we get beneath the labels of these measures. This bill before us in its embodiment has not been presented to the House of Representatives, and again I say it has not been studied in an orderly fashion by the Ways and Means Committee. We have studied the subject matter of taxation, but not this particular tax bill.

Mr. FULTON of Tennessee. Mr. Speaker, will the gentleman yield further?

Mr. CURTIS. I yield.

Mr. FULTON of Tennessee. At the opening of the hearings on Monday, August 14, 1967, I would like to read what the chairman said as to the precise purpose of the public hearings. It is very clear and unambiguous.

Mr. CURTIS. Mr. Speaker, I do not yield for that purpose.

Mr. FULTON of Tennessee. It is very short.

Mr. CURTIS. I will not yield for this purpose, and I will tell the gentleman why.

I know the chairman says things. What I have said essentially is true. The Ways and Means Committee did not hold hearings on the legislation that is before us here from the conference report, and there is no question about it.

Now I want to get along, because I am anxious to talk a little bit—just a little bit—lest there be some who, in spite of what I have been trying to urge, are not convinced. I urge that we cast our vote on this important issue on the constitutionality of this matter and the integrity of the House of Representatives, but not so much our integrity as our responsibility to the people of this country to be the originators of tax measures.

There may be some who think and have thought otherwise, because there has been a lot of lobbying going on behind closed doors, I might say, saying that the fiscal security of this country depends on what your vote is here today. And I challenged the majority leader when he said something the other day, and I was glad he withdrew his remarks, that a vote the other way was irresponsible.

I am here to debate anybody at any time, here and now and afterward, about the responsibility of a vote either way on this particular fiscal issue. I was one 2 years ago who said he thought we had to have, even after expenditure cuts, some tax increase. But I felt it was essential that it be in conjunction with expenditure reform. There is no value in hitting at the inflationary forces by simply passing the power to spend from the private sector, of $10 billion, over to the governmental sector, if the Government just goes on and spends it. This is the significance of a tax increase being tied to expenditure cuts.

I said when we started our conference, Mr. Speaker, that I would vote for the tax increase—I said it before then—if we could spell out where we were going to cut by line items.

It was not just to spell it out by line items, because otherwise we are giving up an even more important prerogative of the House, perhaps, or a responsibility to the people to be sure as to where we cut back on expenditures. Without this it gives the President the item veto. It is very clear that if we do not tie these expenditure cuts down, this is just what occurs—the item veto.

However, I am even more concerned about whether this is really an Expenditure Control Act, as it is presented. There is nothing in here that I can see that would prevent the President from continuing to spend at these levels. Already the expenditure level of the 1969 budget has been increased during these months to $189 billion from $186 billion. So let us not talk lightly about who is playing politics here. The administration to this very day has not, with the help of the congressional leaders or anyone else, spelled out what is going to be cut or where we are going to cut expenditures in fiscal 1969.

Fiscal 1969 begins in 14 days on July 1. Does anyone here believe that you can actually be cutting in the first month of 1969; namely, the month of July, the level of expenditures without word leaking out as to where these cuts are? Does anyone know where cuts have been made? I question whether there are any cuts at all. So, many of you on this side of the aisle who are afraid that the cuts will be in certain areas in this sense might relax, because I have not seen any evidence of any cutting. Only an increase of $3 billion in expenditure estimates from $186 to $189 billion.

The SPEAKER pro tempore (Mr. PRICE of Illinois). The time of the gentleman has again expired.

Mr. GROSS. Mr. Speaker, I yield the gentleman 2 additional minutes.

Mr. CURTIS. I see no evidence as to where this cutting is coming about with 6 months of fiscal 1969 under a new administration. The fiscal responsible position is for the President—and I will support his tax increase bill if he will spell out right now where we are going to cut. It makes an economic difference where we cut. So in conclusion let me say that the issue as far as our fiscal policy is concerned will not be decided here today. It does not make much difference to the people in Western Europe. They have already discounted this administration's changing its fiscal policy. They are looking to November to see whether this country is going to change its fiscal policy at the election. The issue before us now is even more serious than that to come in November. It involves the constitutional form of government that has brought this country to the highest standard of living of any in the world today.

Mr. TAFT. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman from Ohio.

Mr. TAFT. I would like to ask the gentleman if in discussing this power in the Constitution which is given exclusively to the House of Representatives, is it not true that this stems largely from the fact that actually the House was the only directly elected body under the Constitution under the original constitutional provisions?

Mr. CURTIS. That is right.

Mr. TAFT. I am not sure that that point has been made.

Mr. CURTIS. I thank the gentleman for bringing that out.

Mr. TAFT. The Senators were then elected from the States to represent them by the State legislatures and not by the people. I think this makes very clear the reason for and the nature of this limitation.

Mr. CURTIS. Yes. Let me say another thing, because this is in the same context. That is why the Congress is given the power to declare war, because you have to have your people standing behind their Government. We cannot any longer ignore the basic constitutional structure in our society if we are going to move forward to solve the problems that face us.

Mr. GROSS. Mr. Speaker, I yield for the purpose of debate only to the gentleman from Ohio [Mr. HAYS].

Mr. HAYS. Mr. Speaker, I not too often, I would say, although I do sometimes, agree with the gentleman from Iowa, and this happens to be one of those times. I intend to vote for his resolution. I made up my mind that I would vote for a tax increase reluctantly, but I happen to agree that this House should originate it, and the least they should do is to have some hearings on it, because the Members do not get any other chance under the procedures of the Ways and Means Committee. They bring in a closed rule every time, and you take it or leave it. The only chance we have is to have some public hearings and make some expressions of opinion. What we need instead of a tax increase, really, is some tax reform. I understand there is going to be some prearranged dialog today in which the chairman is going to promise to have some hearings on tax reform. Of course, I am sure that is about as far as it will go. I have great admiration for the chairman. I like him as an individual. I respect him as a legislator. And, he does have a powerful job and handles it well. But I have another reason for voting for this resolution. I am satisfied to let him and his committee handle tax legislation. But I am not satisfied to let him and his committee usurp the prerogatives of the Committee on Appropriations. That statement may not appeal too much to my friends on my left, but they already can support the gentleman from Iowa [Mr. GROSS] for other reasons which I have set forth. But some of you on the right ought to carefully consider whether you want this prestigious committee to handle not only taxes, appointments to committees, all of these matters such as tax matters, matters of appropriations, and so forth. If so, we might give them the rest of it if you want to go that far. But, we have an Appropriations Committee. We ought to have it, and if they make appropriations we ought to stand by them; if they want to cut, we ought to cut them.

Mr. GROSS. Mr. Speaker, I yield 2 minutes to the distinguished gentlewoman from Michigan [Mrs. GRIFFITHS] for the purpose of debate only.

(Mrs. GRIFFITHS asked and was given permission to revise and extend her remarks.)

Mrs. GRIFFITHS. Mr. Speaker, I certainly support the motion of the gentleman from Iowa. I agree that this legislation should originate in the House. Not only did this legislation not originate in the House but part of it did not even originate in the Senate. This legislation originated in the conference committee. This legislation not only usurps the powers of the Committee on Ways and Means and of the Committee on Appropriations, this legislation usurps the powers of the Committee on Post Office and Civil Service. This legislation limits the number of employees that can be employed by the Federal Government, right at a time when we are voting on legislation to register guns, and when you are doing other things that require civil service employees.

Mr. Speaker, I sincerely hope that for once in our lives we stand up for ourselves and that the gentleman from Iowa wins this vote overwhelmingly.

Mr. GROSS. Mr. Speaker, I yield 5 minutes to the gentleman from Michigan [Mr. GERALD R. FORD] for the purpose of debate only.

(Mr. GERALD R. FORD asked and was given permission to revise and extend his remarks.)

Mr. GERALD R. FORD. Mr. Speaker, I do not think anyone in this body is more dedicated to the prerogatives of the House of Representatives than myself. I have on more than one occasion stood up for the rights of the House in its various differences with the other body where certain prerogatives of the House of Representatives were involved. I can recall one instance a few years ago when the issue arose as to whether or not the other body under the Constitution had the prerogative to initiate appropriation bills. After a long, long controversy which many of us may remember, the House of Representatives prevailed. I was one of the either five or seven appointed to mediate that controversy, and by being firm we did prevail.

But let me say that on this occasion when you balance the dire situation that we face as a country if this conference report is not approved, and the feeling on the part of many on both sides of the aisle that now is the time to stand up, insist upon and support the constitutional prerogatives of the House which I basically agree with, I firmly believe the scales tip and tip sharply in favor of the conference report.

I do not believe that those of us who feel as we do about the prerogatives of the House are compromising our basic constitutional views at all, and I certainly believe that the ill effects to our economy that might—and I believe will—transpire if this conference report is not approved, far outweigh the issue presented in the resolution by the gentleman from Iowa.

Mr. Speaker, I hope and trust under the circumstances we will continue to maintain our integrity as to the prerogatives of the House, but that we will also look at the broader picture. I hope we are as concerned as I believe a great many Americans are about what happens to the economy of our country and the free world in the next 24, 48, or 72 hours. None of us wants America to fall into economic or fiscal chaos. A vote against the conference report or a vote to roadblock its immediate consideration would be most unfortunate.

Furthermore, Mr. Speaker, I am convinced that the men who drafted the Constitution about 180 years ago never intended that this body should be so inflexible in the meeting of a practical problem that they would put the prestige of this body at such a level that its Members at any time in our Nation's history would be prevented from meeting a practical problem head on.

Therefore, Mr. Speaker, I urge the disapproval of the resolution offered by the gentleman from Iowa [Mr. GROSS] and the approval of the conference report.

Mr. GROSS. Mr. Speaker, I yield for the purpose of debate only 2 minutes to the gentleman from Ohio [Mr. VANIK].

Mr. VANIK. Mr. Speaker, what the gentleman from Iowa proposes is a recognition of orderly legislative process.

As a Member of the House of Representatives, as a member of its tax-writing committee, I deplore the bypassing of regular and constitutional procedures. The shortcut procedures to the conference on the tax bill are deservedly short circuited by the resolution of the gentleman from Iowa.

Mr. Speaker, the grave sense of urgency which some Members of this House attach to this legislation does not change our obligation to do what must be done in a proper way. We are here with this problem, and we should stay with it.

We delayed action on this bill time and time again to accommodate every important primary election. We can delay it today, long enough to do what must be done in a proper legislative way. We can reconsider this matter, and we can have a new bill back here by Monday or Tuesday through the regular processes.

Mr. Speaker, there is something else profoundly wrong with the conference report. First of all, under our procedures, the House by approving closed-rule procedures on tax bills, assigns, in effect, all of the discretion for draftsmanship to the 25 members of the House Committee on Ways and Means.

When the draftsmanship of the broad features of this type of proposal is further assigned to five conferees of the House and five conferees of the Senate, the other 525 Members of the Congress have given up their most fundamental right to legislate.

Does the present urgency necessitate this abdication of responsibility by 525 Members of the Congress, and the resulting concentration of decision in the hands of 10 men?

Furthermore, the conference report includes legislative provisions which were not included or acted upon by either Chamber—I refer to the new conference-created tax loopholes on tax-free industrial development bonds.

If a conference committee can assume the powers exercised in the development of this conference report, there are no limits.

The resolution should be adopted.

Mr. GROSS. Mr. Speaker, I yield myself 1 minute.

Mr. CURTIS. Mr. Speaker, will the gentleman yield?

Mr. GROSS. I yield to the gentleman.

Mr. CURTIS. In light of what has been said here, there is no reason why a bill like this could not be introduced right away.

Let me point out, one of the measures in this bill which originated in the Senate; namely, to permit our two party conventions to have advertising revenues from their programs that was not taxed, was yanked out of this bill introduced as a separate bill in the House and passed in the House of Representatives and the Senate the other day. The President has already signed it into law.

Now look how we can accommodate the two political parties when we want to and yet it is said Congress cannot accommodate this Nation.

Mr. GROSS. Mr. Speaker, I yield 3 minutes to the gentleman from Wisconsin [Mr. BYRNES] for the purposes of debate only.

Mr. BYRNES of Wisconsin. Mr. Speaker, in many respects the bringing of this resolution before us and the discussion and debate, is very salutary, because in my judgment there is no question but that the Senate of the United States on many occasions, and I think even in this bill that is before us, if it has not gone beyond the limits of the Constitution, it has gone beyond the spirit of section 7 of article 1 of the Constitution.

I hope that this discussion today will at least serve notice on the Senate—because that notice has to be served. The Senate must stop making shopping baskets out of revenue bills coming from this body.

I want to compliment the gentleman from Missouri who has constantly been raising this point—at least with the Senate conferees, and also on the floor of the House—and has brought to the attention of Members of the other body the fact that we were aggrieved by the actions that they were taking.

I would hope that this discussion here would serve notice on them that they must exercise more restraint in adding amendments to revenue bills.

But, Mr. Speaker, I would hope that we would not use this particular occasion to raise this issue and throw into complete confusion the question of whether we are going to face up to the very serious fiscal problem confronting the Nation.

Let us recognize this fact. The Members of this House must recognize the blood, sweat and tears that have gone into trying to develop a tax-expenditure reduction package to present to the House and to the Senate and to the President that could become law. It has taken months and months and months.

Now anybody who suggests that we can, if this resolution is adopted now, just start all over again and have a bill ready to present to the President in a short time is just dreaming.

This conference report contains not just one or two little items. This is a package. It was very difficult to work it out. All one has to do, I think, is to visit with anybody who had any part in it—whether it is from the administration's standpoint—or down through the leadership in the Congress to get some idea of the blood and sweat involved in reaching this compromise.

What I am trying to say is not that we in this House do not have a grievance or that notice should not be served on the Senate of the United States. But I do suggest that this is not the most appropriate time or the most appropriate bill—when you recognize the terrific problems that would be involved if we have to begin from scratch and start over again at this late date—to raise the issue.

Let it be remembered that what we are facing now is not just a simple matter of tax levels or expenditure levels. We face a crucial issue so far as the basic fiscal policy of this Nation is concerned. This conference report represents a program of action looking toward a solution of this problem. We are now ready to face up to that decision. To divert our attention and get into a wrangle with the Senate and get into the complications of new legislation. I think that would be a most serious mis-

take. I trust that this resolution will be tabled.

Mr. GROSS. Mr. Speaker, I yield myself 1 minute to ask the gentleman from Wisconsin a question.

The gentleman says that this is not the appropriate time.

Let me ask the gentleman, if there is ever an inappropriate time to defend the prerogatives, the rights and responsibilities of the House of Representatives?

Mr. BYRNES of Wisconsin. I think we can defend the prerogatives of this House—and I think that it is salutary that this discussion is taking place, in an effort to defend this House.

But, No. 1, I think we have to recognize a certain comity between the House and Senate, if the Congress is to function as a unit that can effectively act in the public interest.

If we start at this point a wrangle between the House and the Senate over the prerogatives of the Senate and House—I ask you to remember what we have seen during minor wrangles. We are simply asking for trouble and a Congress that will be unable to work its will and serve the needs of the Nation. I think the needs of the Nation come first.

Mr. YATES. Mr. Speaker, will the gentleman yield?

Mr. GROSS. I yield to the gentleman from Illinois.

Mr. YATES. This is also a wrangle in the House. It is not only between the House and the Senate. The House has had no chance to consider this bill.

Mr. HAYS. Mr. Speaker, will the gentleman yield?

Mr. GROSS. I yield to the gentleman from Ohio.

Mr. HAYS. Mr. Speaker, I would merely like to make an observation, if I may, on the statement of the minority leader in which he said that he was worried about what might happen in 24, 48, or 72 hours. I do not believe everything I read in the Washington Post. Some days I do not believe anything if I have been here and have seen it happen.

But they have kept writing stories over and over and over about the poker-playing proclivities of the chairman in this matter, that he was playing a game of poker, that he was outwitting the other side, that he was holding fast, that he was staring them down, that he was going to wait until he got what he wanted, and this did not go on for 24, 48, or 72 hours; this went on for weeks, for 2 or 3 months. So I think there is a week or two to spare here that we could get a bill and get it passed.

As I said, I would vote for it if it comes out in the proper way. I do not think anything is going to happen in the next 48 or 72 hours.

Mr. GROSS. Mr. Speaker, I yield for purposes of debate only 1 minute to the gentleman from New Jersey.

Mr. JOELSON. Mr. Speaker, I stand before this House as one who has decided to vote for the measure under consideration, namely, the package of tax surcharge and a spending cut.

But I am disturbed about the constitutional question, and I am disturbed to hear people suggest that we brush aside the Constitution because this is a moment of crisis.

Ladies and gentlemen, this is a century of crisis. This is certainly a decade of crisis. If we want to brush aside the Constitution because there is an outcry against communism, we can do it. If we want to brush aside the Constitution because there is concern about crime in the streets, we can do it. Similarly we can disregard the Constitution in the face of fiscal crisis. But if we ever adopt the theory that in times of crisis the Constitution can be disregarded, I say to you in the 20th century, which is a century of crisis, we will have no Constitution and we will be in trouble.

Mr. GROSS. Mr. Speaker, I yield 1 minute to the gentleman from Mississippi [Mr. WHITTEN] for purposes of debate only.

(Mr. WHITTEN asked and was given permission to revise and extend his remarks.)

Mr. WHITTEN. Mr. Speaker, may I make the point that I would like to have made earlier that the Constitution in providing that revenue measures should originate in the House means that they shall originate with the people. There is that distinction, because this is the one body where we have to come from the people.

As I make that statement in relation to the bill before us today, to retain the rights of people far outweighs the other dangers that I have heard expounded here today.

I do not have time to say how much I think of the chairman of the committee and other members. It is plenty. But I would say we proved last year that the Appropriations Committee and the Congress can act. I offered the measure which cut appropriations by some $7 billion. It passed this House by a vote of 239 to 164 on October 18. I also supported the measure that later passed. It went to the other body, and they sat on it.

We finally agreed on a measure providing that we could cut across the board. Unfortunately $2.4 billion of our cut went later into increased salary. But that was the fault of Congress, or at least a majority of the Congress.

I repeat again. I am not speaking without having studied the question. We have had Mr. Martin before our committee. We have had the Comptroller, the Budget Director; we have had the Secretary of the Treasury, and so far they have not given us one answer as to where they propose to apply any cuts.

I say again the writers of the Constitution retained this matter of revenue in the hands of the people, and I know that the Bureau of the Budget does not want this responsibility. I feel certain the President does not want it.

But if we turn over to the executive department the revenue matters of this country—as this would do—we are going contrary to good judgment and we are going contrary to those who wrote the Constitution.

Mr. Speaker, like many others, I have not been responsible for many of the things which have brought about our present serious financial situation. I have voted against many of the programs, many of the appropriations leading to expenditures and have voted against the recommendations of the Ways and Means Committee on numerous occasions both with regard to tax reductions, the sale of participation certificates where we mortgage our mortgages to have more money to spend, and where we have placed copper in our silver so as to have even more money to spend, which has helped generate inflation.

Notwithstanding this fact of my personal voting record, again I recognize that we face a serious situation—a situation that I feel our Committee on Ways and Means should face up to so far as taxes are concerned and that our Appropriations Committee, of which I am third-ranking member out of 51, should face up to so far as appropriations are concerned. I would mention here that in the bill making appropriations for the Department of Agriculture, which was handled by the subcommittee of which I am chairman, which has already passed, we reduced and the House approved cuts of obligational authority by $1.4 billion and expenditures by some $414 million.

As to the statement that you have to have a commitment, in a package, to get the Appropriations Committee and the House of Representatives to cut expenditures, I would call attention to the fact that on last October 18, as shown on pages H13617 through H13620, the House of Representatives adopted a motion of which I was the author, reducing expenditures—with certain essential exceptions—back to the preceding year's level. This was adopted by a vote of 239 in favor of the motion with only 164 against it. It was estimated that this motion would save from $6 to $7 billion below that which otherwise would have been available.

It is true, Mr. Speaker, that the other body refused to pass this measure and after repeated conferences with the other body, we finally had to settle for a compromise provision which was adopted by the House on December 11, 1967—as shown by pages H16571 and H16572—by a vote of 247 for and 149 against—Public Law 9218. The effect of this proposal was to require a reduction in civilian department and agency personnel by 2 percent, plus an amount of money equal to 10 percent of the budget request for all other controllable items, and with the exception of the war in Vietnam, Defense Department, interest on the debt, and certain corporations and other activities, the total estimated further reduction was $3 billion—which, added to the $6 billion which the Committee on Appropriations had already sponsored, meant a reduction of $9 billion from the budget last year. This was enacted into law—Public Law 9218.

It is true that due to the fact that a majority of the Congress voted salary raises, a major part of it has been taken up since that time—$2.4 billion; and may I point out that any action the Congress takes today would be subject to future actions by the Congress.

Mr. Speaker, as I explained to my good friend, WILBUR MILLS, chairman of the Ways and Means Committee, we are facing a serious situation. The writers of our Constitution anticipated that we would face such serious situations, but they tried to provide safeguards; and under the stress of the moment, we must not yield and remove the control of the

purse strings from the people's branch of the Government—the House of Representatives. This is not necessary, and it is my belief that we will rue the day that we took such step. Remember that of the Members of the other body, only one-third come up any particular election, which leaves two-thirds to sit out the people's branch, or the House of Representatives.

Mr. Speaker, if the resolution of the gentleman from Iowa is adopted we will be following the constitutional processes; we will be, in my opinion, saving the Government.

Following that action the gentleman from Arkansas [Mr. MILLS], chairman of the Ways and Means Committee, can immediately call his committee together to take appropriate action so far as tax needs are concerned.

Immediately, too, the chairman of our Committee on Appropriations, Hon. GEORGE MAHON, could call together the Committee on Appropriations to take such further actions as the circumstances may require, and a resolution somewhat similar to that which I hereby present could be acted upon immediately—and I am sure would be acted upon favorably.

RESOLUTION

Whereas the authority and responsibility for initiating appropriation bills which make funds available for expenditure by the Federal Government rests with the Appropriations Committee of the House of Representatives; and

Whereas the authority and responsibility for recommending to Congress the amount of funds available for expenditure rests with the respective Committees on Appropriations of the House and Senate; and

Whereas the present fiscal situation is sufficiently serious to justify and virtually require that expenditures be reduced below the 1968 level, excluding trust funds, military costs in Vietnam, interest on the public debt, veterans' benefits and indemnities, and farm price supports; and

Whereas to surrender such right by the legislative, or people's branch, to the executive branch as proposed in the so-called package deal of tax and spending legislation now before Congress would be to further center control and line-item veto in the executive branch, in violation of the Constitution; and

Whereas for the Committee on Appropriations to vacate its responsibilities to the Committee on Ways and Means, with its customary procedure of considering legislation under closed rules, under which amendments except when sponsored by the committee are not even in order, would be to abdicate its responsibility and surrender its right and duty to propose and limit appropriations even when necessary: Therefore,

The Committee on Appropriations of the House of Representatives hereby resolves, That to the extent that the sum total of all funds appropriated or authorized for expenditure in fiscal year 1969 in the regular appropriations bills fails to limit expenditures to at least $1 billion below budget expenditures for fiscal year 1969, the committee resolves to meet and take such additional action and make such additional recommendations to the Congress as will require further reductions in appropriations as may be required to meet the overall objective of this paragraph.

The reason I know it could be done is that we took such action last year, and it was approved by the House on my motion as I pointed out.

Mr. Speaker, if the Mills package is adopted, just as sure as we stand here, more than half of the reductions will have to be made by the Bureau of the Budget. This is an authority that the Bureau of the Budget has not sought and I am sure does not want. It is a responsibility and authority that I am sure the President of the United States has not sought and does not want. It is being forced upon them and in the process I think we are taking one more step toward the destruction of constitutional government.

I have mentioned much of the background of this resolution. May I add to what I have said the fact that I have met with Mr. Martin, head of the Federal Reserve Board; Secretary of the Treasury, Mr. Fowler; and the Director of the Budget. Mr. Zwick, together with Mr. Zwick's predecessor, on numerous occasions as is shown in the printed hearings which our Appropriations Committee held early in this year and designated as hearings before the Committee on Appropriations, House of Representatives, 90th Congress, second session, numbered 93 to 801. You will see that under strong questioning which I made to each of these gentlemen we got no indication and no recommendations as to where the reductions on budget recommendations should be made. Certainly this is no way for this House of Representatives to legislate.

I hope the resolution of the gentleman from Iowa will be adopted and that this will not go down as a red-letter day in the history of this country where one more step was taken toward the destruction of the rights of the people as they were set out in the original Constitution.

Mr. GROSS. Mr. Speaker, I yield 5 minutes to the gentleman from Missouri [Mr. HALL].

(Mr. HALL asked and was given permission to revise and extend his remarks.)

Mr. HALL. Mr. Speaker, it has been properly said this is a salutary debate. I think it is a fine hour for the House of Representatives. I speak as a member for the past 3 years of the Joint Commission for the Reorganization of the Congress and its related agencies.

Mr. Speaker, under the question of privilege, Speaker Reed said years ago:

The rights and privileges of the Members of the House, in the discharge of their functions, are sacred and the House can undertake no higher duty than the conservation of those rights and privileges . . . it is proper for the House to pause and give suitable heed to any question which any Member raises with regard to his rights and privileges as a Member.

There are two classes of privileges, I will say parenthetically—those of personal privilege and those of the privileges of the House. This resolution comes today, Mr. Speaker, as a question of privilege of the House, and it is properly introduced. I compliment the opposition for making no point of order, because in their hearts they must know that this privilege is being violated. Without repeating again section 7 of the first article of the Constitution, I compliment the Chair on recognizing the gentleman from Iowa when he properly asserted that the privileges of the House have been invaded.

Mr. Speaker, as a member of the joint committee, I have seen arguments advanced for the past 3 years offering to "trade out" terms of service of duly elected representatives, for the right of the other body to originate trade, tariffs, taxes, or levies. We all know that the committees of this House on Appropriations and Banking and Currency are historically splitoffs from the Committee on Ways and Means.

We know further that this requires the process of orderly change in the Nation's Constitution and our Rules of Procedure.

Mr. Speaker, this is not a question of approval of the content of this bill or any amendments. This is a question of principle involving the people's personal representatives. All of us know full well that the various phases covered under this bill could be brought back expeditiously to the House under proper circumstances after due hearings and due reports being rendered by proper committees.

It has been said, Mr. Speaker, that this is in essence simply a series of amendments to the bill. I have before me the notes I made on the original legislation, and the title of H.R. 15414 on February 28, 1968, when it did pass this body. This is an excise tax bill or amendments and extensions thereof. I ask Members to see, when it was reconsidered on May 29, 1968, the same entitlement. The title of the other body's bill is quite different. The very title of this conference report is "Revenue and Expenditure Control Act of 1968," with the titles being such as the Internal Revenue Code Amendments, Expenditure and Related Controls, and Social Security Act Amendments. This has little to do with the original House action on excise taxes.

I recall in the opening statement concerning the resolution offered by the gentleman from Iowa, in quoting a past Member of this body, about Senate amendments being pertinent or not to a bill of two lines on salt, that former Member said:

I should say that a House bill relating solely to revenue on salt could not be amended by adding to it clauses raising revenue on textile fabrics, but that all the amendments of the Senate should relate to the duty on salt.

One of our former colleagues also said:

The important question is whether that clause of the Constitution of the United States which declares that all bills for raising revenue shall originate in the House of Representatives shall be cherished as one of the privileges handed down to us by the Constitution of the United States.

Continuing the quote:

Now, Mr. Speaker, I might cite other precedents. They are numerous, and they are all to the same effect. Our predecessors have held inviolate the right of the House of Representatives to originate revenue bills. It is guaranteed to us by the Constitution.

I shall not reread the Constitution. It has been done in full on the floor today. But I submit to all the Members, Mr. Speaker, that the question involved here is the sacred prerogatives of the House of Representatives, Members of which represent the people and are elected directly therefrom. They do not represent the

States of the Union as our colleagues across the Capitol do. The latter have their especial duties such as advising and consenting with the President and confirming treaties, and so forth.

It is not our decision to decide whether the status of the contents of the conference report is important today. It is not our decision to decide whether we will be expeditious in passing a needed bill here today, a conglomerate added to by the Members of the other body.

Yes, I say to you, it is our collective responsibilities and solemn duty to vote this resolution up or down, and I certainly hope you will vote it up and protect the principles of our Founding Fathers, because the Supreme Court, be it as it may today, through many years when it has been a strong organization has ofttimes decided in favor of the House's prerogatives on this issue, and it behooves us nothing to throw away this oft decided constitutional question.

Mr. GROSS. Mr. Speaker, I yield myself 1 minute.

Mr. Speaker, when the word was messaged over that the Senate had adopted the excise tax bill and had written into it a general revenue measure, the gentleman from Iowa presently speaking at that time suggested to the leaders of the Ways and Means Committee that they might want the benefit of instruction to hold fast on the House bill and reject the constitutional violation by the Senate. I am confident that had the House been given the opportunity at that time to vote on a motion to instruct the conferees not to capitulate, not to bend the knee to the Senate in its initiation of a general revenue bill as a part of a simple excise tax bill, we would not here today be confronted with this situation. I regret at that time there was the response to the effect that "We do not need instructions; we are not going to accept the Senate action."

The SPEAKER pro tempore. The time yielded by the gentleman from Iowa has expired.

GENERAL LEAVE

Mr. GROSS. Mr. Speaker, I yield myself 1 additional minute.

Mr. Speaker, in bringing this debate to a close I ask unanimous consent that all Members have 5 legislative days in which to revise and extend their remarks on this subject.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Iowa?

There was no objection.

Mr. GROSS. In conclusion, Mr. Speaker, I ask only that Members remember the oath of office they took to support and defend the Constitution of the United States.

Mr. McCLORY. Mr. Speaker, the economic crisis in which this Nation finds itself has been created by this administration. Irresponsible policies of deficit spending have contributed to cruel inflation, balance-of-payment deficits and loss of confidence in the American dollar.

Mr. Speaker, the recommendations contained in the conference report on H.R. 15414 are a partial step toward restoring fiscal integrity and economic stability in our Nation. Much more needs to be done. I hope that the action taken today will serve as a signal to the President and all who serve under this administration that the very structure of our Nation is threatened—and the freedom of the free world is in jeopardy.

Mr. Speaker, we need a rededication in the principles of the U.S. Constitution and to the responsible prerogatives of representative government upon which the future of this Nation and its people depend. Responsible economic policies are basic to our Nation's survival.

I hope the resolution of the gentleman from Iowa [Mr. GROSS] will be defeated, and that the House will proceed to adopt the conference report on H.R. 15414.

Mr. RARICK. Mr. Speaker, I commend the gentleman from Iowa for his courage and foresight, and join in supporting his resolution to uphold the Constitution of the United States and the prerogative reserved by that document to this House.

This resolution brings before us more than personal feelings, commitments, or political expediency. Rather, it raises the basic question of our organized Government. Are we going to uphold the Constitution of the United States or surrender our obligation and responsibility to another system—more political power?

Had this bill been returned to the House with the Senate amendments, rather than to a conference committee, could not a point of order raised by any Member have stricken the amendment? Can the tax provisos initiated in the Senate be any less defective because they are supported by a ranking committee of a minority of our Members?

The emotional cries of urgency and crisis might not surround us today had the Constitution of our country been more closely followed in the past.

This is no fight with any other body nor with personal whims of unelected Supreme Court Justices. This is our affair to defend with jealous devotion to our own House.

Each of us, as elected spokesmen for our people, has taken a solemn oath to preserve and defend the Constitution. That oath must be to preserve it as written—without reservation or exceptions. Some may seek ways to justify deviation but excuses are without foundation in a matter of this magnitude.

Disrespect for law and order is rampant in our land today. If we here violate our duty, are we not notifying our people that we, too, only agree with those laws we personally desire to follow?

This is where we can start leadership on the long road back to respect for law and order by restoring the public confidence of our people through upholding law and order ourselves.

There can only be two votes. One for the Constitution by supporting the resolution. To vote "no" can only be to reject the Constitution and repudiate our duty.

It is time we stand up for America.

Mr. GROSS. Mr. Speaker, I move the previous question on the resolution.

Mr. MILLS. Mr. Speaker, I move to lay the resolution offered by the gentleman from Iowa on the table.

The SPEAKER pro tempore. The question is on the motion offered by the gentleman from Arkansas.

The question was taken; and the Speaker pro tempore announced that the noes appeared to have it.

Mr. MILLS. Mr. Speaker, on that question I demand the yeas and nays.

The yeas and nays were ordered.

Mr. BOGGS. Mr. Speaker, a parliamentary inquiry.

The SPEAKER pro tempore. The gentleman will state it.

Mr. BOGGS. Am I correct in understanding that a vote "yea" is in favor of the motion offered by the gentleman from Arkansa, which would mean we would go back to orderly debate on this conference report?

The SPEAKER pro tempore. The gentleman is correct. The motion is to lay the resolution on the table.

The question was taken; and there were—yeas 257, nays 162, not voting 14, as follows:

[Roll No. 199]

YEAS—257

Abbitt	Dow	Kupferman
Abernethy	Downing	Laird
Addabbo	Dulski	Landrum
Albert	Dwyer	Langen
Anderson, Ill.	Edmondson	Latta
Anderson, Tenn.	Eilberg	Lloyd
Annunzio	Erlenborn	Long, Md.
Arends	Esch	McCarthy
Ashley	Eshleman	McClory
Ashmore	Evans, Colo.	McCloskey
Aspinall	Everett	McCulloch
Ayres	Fallon	McDade
Barrett	Farbstein	McDonald, Mich.
Bates	Fascell	McEwen
Battin	Feighan	McFall
Belcher	Findley	Macdonald, Mass.
Bell	Fisher	MacGregor
Bennett	Foley	Madden
Berry	Ford, Gerald R.	Mahon
Betts	Fountain	Mailliard
Biester	Fraser	Marsh
Blanton	Frelinghuysen	Martin
Blatnik	Friedel	Mathias, Calif.
Boggs	Fulton, Pa.	Mathias, Md.
Boland	Fulton, Tenn.	Matsunaga
Bolling	Fuqua	May
Bolton	Galifianakis	Mayne
Bow	Gallagher	Meeds
Brasco	Gathings	Meskill
Bray	Gettys	Miller, Calif.
Brinkley	Giaimo	Mills
Brock	Gilbert	Mize
Brooks	Gonzalez	Monagan
Broomfield	Goodell	Montgomery
Brotzman	Gray	Moorhead
Brown, Mich.	Green, Pa.	Morgan
Broyhill, N.C.	Gubser	Morris, N. Mex.
Broyhill, Va.	Gude	Morse, Mass.
Burke, Mass.	Hamilton	Morton
Burleson	Hammer-schmidt	Mosher
Bush	Hanley	Murphy, Ill.
Button	Hanna	Murphy, N.Y.
Byrne, Pa.	Hardy	Nelsen
Byrnes, Wis.	Harrison	O'Hara, Ill.
Cabell	Harvey	O'Hara, Mich.
Cahill	Hébert	O'Konski
Carter	Heckler, Mass.	O'Neill, Mass.
Casey	Herlong	Patten
Cederberg	Holifield	Pelly
Celler	Horton	Pepper
Clark	Hull	Perkins
Collier	Hungate	Philbin
Colmer	Ichord	Pickle
Conable	Irwin	Pirnie
Conte	Johnson, Calif.	Poage
Corbett	Jonas	Podell
Corman	Jones, Ala.	Price, Ill.
Culver	Jones, Mo.	Pryor
Daddario	Karsten	Pucinski
Daniels	Karth	Purcell
Davis, Ga.	Kazen	Quie
Davis, Wis.	Kee	Reid, N.Y.
Dawson	Keith	Reifel
de la Garza	King, Calif.	Reuss
Dellenback	King, N.Y.	Rhodes, Ariz.
Dent	Kirwan	Rhodes, Pa.
Donohue	Kluczynski	Riegle
Dorn	Kornegay	

Rivers	Skubitz	Vigorito
Roberts	Smith, N.Y.	Waggonner
Robison	Stafford	Waldie
Rogers, Colo.	Staggers	Watts
Rogers, Fla.	Stanton	Whalen
Ronan	Steed	White
Rooney, N.Y.	Steiger, Wis.	Widnall
Rooney, Pa.	Stephens	Wiggins
Rostenkowski	Stratton	Willis
Roth	Stubblefield	Wilson, Bob
Roush	Taylor	Wilson, Charles H.
St. Onge	Teague, Calif.	Wolff
Satterfield	Teague, Tex.	Wright
Schneebeli	Tiernan	Wyatt
Schweiker	Tuck	Wydler
Schwengel	Tunney	Young
Shriver	Udall	
Sikes	Ullman	
Sisk	Van Deerlin	

NAYS—162

Adair	Hagan	Pool
Adams	Haley	Price, Tex.
Andrews, Ala.	Hall	Quillen
Andrews, N. Dak.	Halpern	Railsback
Ashbrook	Hansen, Idaho	Randall
Baring	Hansen, Wash.	Rarick
Bevill	Harsha	Rees
Bingham	Hathaway	Reid, Ill.
Blackburn	Hawkins	Reinecke
Brademas	Hays	Rodino
Brown, Calif.	Hechler, W. Va.	Rosenthal
Brown, Ohio	Helstoski	Roudebush
Buchanan	Henderson	Roybal
Burke, Fla.	Hicks	Rumsfeld
Burton, Calif.	Hosmer	Ruppe
Burton, Utah	Howard	Ryan
Carey	Hunt	St Germain
Chamberlain	Hutchinson	Sandman
Clancy	Jacobs	Saylor
Clausen, Don H.	Jarman	Schadeberg
Clawson, Del	Joelson	Scherle
Cleveland	Johnson, Pa.	Scheuer
Cowger	Jones, N.C.	Scott
Cramer	Kastenmeier	Shipley
Cunningham	Kelly	Slack
Curtis	Kleppe	Smith, Calif.
Delaney	Kuykendall	Smith, Iowa
Denney	Kyl	Smith, Okla.
Derwinski	Kyros	Snyder
Devine	Leggett	Steiger, Ariz.
Dickinson	Lennon	Stuckey
Diggs	Lipscomb	Sullivan
Dingell	Long, La.	Taft
Dole	Lukens	Talcott
Dowdy	McClure	Tenzer
Duncan	Machen	Thompson, Ga.
Eckhardt	Michel	Thomson, Wis.
Edwards, Ala.	Miller, Ohio	Utt
Edwards, Calif.	Minish	Vander Jagt
Edwards, La.	Mink	Vanik
Fino	Minshall	Walker
Flynt	Moore	Wampler
Ford, William D.	Moss	Watkins
Gardner	Myers	Watson
Garmatz	Natcher	Whalley
Gibbons	Nichols	Whitener
Goodling	Nix	Whitten
Green, Oreg.	O'Neal, Ga.	Williams, Pa.
Griffiths	Ottinger	Winn
Gross	Passman	Wylie
Grover	Patman	Wyman
Gurney	Pettis	Yates
	Pike	Zablocki
	Poff	Zion
	Pollock	Zwach

NOT VOTING—14

Cohelan	Halleck	Resnick
Conyers	Holland	Selden
Evins, Tenn.	McMillan	Springer
Flood	Nedzi	Thompson, N.J.
Griffin	Olsen	

So the motion to table the resolution was agreed to.

The Clerk announced the following pairs:

Mr. McMillan with Mr. Halleck.
Mr. Flood with Mr. Springer.
Mr. Cohelan with Mr. Evins of Tennessee.
Mr. Resnick with Mr. Conyers.
Mr. Olsen with Mr. Griffin.
Mr. Nedzi with Mr. Thompson of New Jersey.
Mr. Selden with Mr. Holland.

Mr. ROBERTS, Mr. JONES of Missouri and Mr. LATTA changed their votes from "nay" to "yea."

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

Mr. MILLS. Mr. Speaker, I renew my request that the statement of the managers on the part of the House be read in lieu of the report.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

The Clerk read the statement.

(For conference report and statement, see proceedings of the House of June 10, 1968.)

Mr. MILLS (during the reading). Mr. Speaker, I ask unanimous consent that the statement of the managers on the part of the House be considered as read.

The SPEAKER. Is there objection to the request of the gentleman from Arkansas?

There was no objection.

The SPEAKER. The gentleman from Arkansas will be recognized for 2 hours and the gentleman from Wisconsin will be recognized for 2 hours.

The Chair recognizes the gentleman from Arkansas.

Mr. MILLS. Mr. Speaker, I yield myself 20 minutes.

Mr. Speaker, in the almost 30 years I have been a Member of this body, including World War II, I doubt that we ever faced as many difficult problems relating to the fiscal affairs of Government as we face at this hour. It is for that reason, Mr. Speaker, that earlier I said that I thought this was certainly one of the most important votes the membership of the House had been called upon to cast during my tenure in Congress.

We have a basic problem of budget deficits.

We have a basic problem of domestic inflation.

We have a basic problem of high interest rates.

We have a basic problem of an imbalance in our balance of payments.

And growing out of these problems, we have an especially serious problem of the growing concern over the dollar in international markets.

Let me discuss each of these just briefly, if I may.

It now appears quite evident that the fiscal year which will end in 10 days, on the basis of the unified budget concept, will conclude with a deficit of $25 billion.

Mr. Speaker, on the basis of the administrative budget adjusted for PC's, it appears that we will end the fiscal year 1968 with a deficit of $28 billion. In the upcoming fiscal year 1969, it looks now as though, without this action to offset it, we are faced with a prospect of a deficit of $24 billion on the unified budget concept.

Mr. Speaker, when you look at the administrative budget concept, again adjusted for the PC's proposed for fiscal year 1969, the prospect is for a deficit of $31.3 billion unless something is done.

These deficits are closely connected to another of the issues now before us, the issue of inflation.

Mr. Speaker, in the first quarter, in my opinion, there was a definite change, with respect to the type of inflation from that which we had been experiencing during the fall and late summer of 1967. I was thoroughly convinced as we conducted hearings on the question of the President's surcharge, that the inflation was due to what the economists call cost-push. Very little can be done through taxation to halt cost-push inflation quickly.

Now, Mr. Speaker, in the first quarter of this year and in April and May, and this far into June, we cannot say that we just have a cost-push type of inflation. We have now what Bill Martin told us last fall he expected to occur sometime after the first of the year. We now have inflation from demand-pull factors as well as cost-push factors.

Now, let me point out what I think is clear evidence of the excessive demand in this economy.

Prices rose by 4.1 percent on an annual basis in April. That is the highest increase in prices on an annual basis that we have had since we began consideration of this entire matter of expenditures and taxation.

In the first quarter we had an increase in gross national product of $19.4 billion. If I am not wrong, that is the largest quarterly increase in gross national product that we have experienced. But if we analyze it, we find that it is not real—nearly 50 percent of it is due to inflation.

One of the most serious demand factors involved in the first quarter upsurge was a decline in the savings rate of the American people from a fourth quarter level of 7½ percent to a first quarter 1968 level of 6.6 percent. Not only did Americans earn more spendable money than ever before, but they decreased their rate of savings thereby increasing demand still further.

Let me pick out just one item of sales. In the first quarter of this year automobile sales were up 13 percent over what they were in November of 1967. Thirteen percent. Now, that is a pretty big change in a period of just 3 or 4 months. Corporate profits rose to $89 billion, on an annual rate basis, in the first quarter of 1968. What were corporate profits in 1967? About $80 billion.

For a period during 1967 businesses held production down to work off inventories that had been built up to rather high levels during 1966. That was a deflationary factor. But this year businesses have begun again to try to build up inventories, which is an inflationary factor. All of these factors—plus the fact that plant and equipment expenditures by business are up $3 billion in the first quarter of 1968 over last year's rate—added together not only provide the evidence of excessive demand inflation, but also of a demand inflation that is continuously increasing in intensity. The economy is overheated and becoming progressively more so.

I do not need to talk to you of rates of unemployment or rates of employment. When we look at these factors we see that we have just about reached the capacity of our labor force, even though manufacturing industry may have some unused or idle plant capacity. It does not make any difference whether you have some unused plant and equipment

or not unless you have the skilled hands to use it.

Let us look now at interest rates. Last year we were appalled by the fact that interest rates had risen to a level greater than any level in the last 40 or 50 years. Do you realize that so far in 1968 interest rates have risen further and are now higher than they have been in over 100 years? This is in spite of the fact that to my way of thinking the Federal Reserve has not yet clamped down like it did in 1966.

Just to give you an example, AAA corporate bonds, which are considered to be the blue chips of all bonds, perhaps, outside of high grade municipals or Federal Government bonds, were up one full point from May of 1967 to May of 1968—one full point from 5.25 percent to 6.25 percent.

The interest rate on mortgage money—the money that is borrowed in order to own a home—has reached 7.5 percent to 8 percent.

Are these conditions and interest rates wholesome for our economy?

The Federal Government is having its troubles, too. Do you know what the Federal Government is now paying on 3- to 5-year issues? Almost 6 percent. You remember in 1966 how appalled we were that the rate had gone to 5 percent. In 1968 we do not have a 5-percent rate, we have almost a 6-percent rate.

Let me look at the balance of payments for just a moment. We have gone along for along time enjoying the great luxury of spending more abroad than we earn. It has been possible for the United States, because of its gold reserves, to incur deficits in its balance of payments in most of the years since World War II partly because we ended World War II, I believe, with about $25 billion of gold on hand.

In 1953—and I am just taking you back because it is 15 years through three administrations up through and to 1968—your Government owned and had at Fort Knox $22 billion in gold. And yet, even though we had imbalances in our balance of payments from 1950 up to 1953, the world only possessed $6.5 billion of I O U's abroad outside the United States as claims against our gold.

Now, just 15 years later, what is the situation? We have seen the $22 billion drop to $10.4 billion of gold. We have seen the $6.5 billion in I O U's rise to $33 billion.

How did all of this happen? It happened because we have been incurring deficits in our balance of payments. We have had imbalances in our balance of payments in every year since 1950, except 1957. After we imposed the interest equalization tax the imbalances decreased somewhat until 1967. In 1965 and 1966, for example, the deficit in our payments balance was only $1.3 billion in both years. In 1967, however, the deficit was $3.6 billion and actually reached the annual rate of $7.4 billion in the fourth quarter. There were special factors in the fourth quarter, but even in the first quarter this year the deficit is at an annual rate of $2.4 billion as contrasted to the annual rate figure of $2.1 billion in the first quarter of last year.

Now, we could afford deficits in our balance of payments in 1953—it was not too much of a problem. Today it is a very serious problem. What do we find happening? Representatives of many industries are coming to the Committee on Ways and Means during these hearings we are conducting on balance-of-trade problems, to call our attention to the fact that imports which compete with what thye produce are on the upswing.

The statistics seem to bear them out. From 1960 to 1965 our balance of trade was favorable to the extent of $4.8 billion to $6.7 billion in each of these years. In 1966, however, this balance decreased to $3.7 billion and in 1967 to $3.5 billion. And toward the end of 1968 our trade was only a little more than in balance. In 1968 the situation is still worse.

During the month of March we even had a deficit in our balance of trade. In April it went back slightly—about halfway to what used to be considered normal—and then in May our balance of trade again deteriorated.

This deterioration is offsetting some of the positive actions we took earlier this year to try to improve our balance of payments for the year 1968.

We are not gaining. We are going backward in spite of the positive action we have taken. Why? Because when inflationary rises in this country exceed such rises abroad, there is no way in the world, with the highest tariffs that you could write—that you could keep imports from coming into the United States in greater quantities than that in which our exports go abroad.

This rise in prices alone compared to the much slower rise in prices in the rest of the free world is causing these imports to come in in greater amounts relatively, than our exports are going abroad.

Our favorable balance of trade in the past has been our strong point, offsetting the deficits in other types of payments. Now this has worsened.

The cumulative effect of these balance-of-payments deficits has removed the flexibility we formerly had. Now with all those dollars being held abroad and the shrunken size of our gold stock we cannot afford to let this situation continue.

But my other one concern closely tied in with the balance-of-payments problem is the growing concern abroad over the strength of our dollar, and its stability and value in the international markets.

There has never been, in my opinion, a time as critical as today in the international money markets of this world. Since World War II the dollar has been used as a reserve currency. Many countries have been holding their reserves for their currencies in dollars rather than gold because they respected the value of the dollar. Because of this respect for the dollar many foreigners besides the monetary authorities also hold their funds in dollar balances.

But now they have begun to question the desirability of holding so much of their reserves or balances in dollars. They have raised questions now as to whether they want to hold 33 billion in dollars that we say is redeemable in gold.

If we do not restore confidence to the extent that it has previously existed in our dollar, how long can we expect these people who own $33 billion, knowing that we have $10.4 billion worth of gold, to refrain from asking for a conversion of at least a part of those dollar holdings?

Now they have a right, I think, to be somewhat concerned as to what we do—if they are to continue to hold these dollars and not ask for gold.

Now why am I concerned? I have talked to some economists who say that no harm will come if we break the tie of our dollars to gold and allow our dollars to float; that is, if we allow the value of the dollar, in terms of other currencies, to be determined by the supply of, and demand for, dollars relative to that for the other currencies. What this means is that the value of the dollar would vary from day to day and from currency to currency according to what the several countries of the free world think it is worth, rather than having a fixed relationship to gold of $35 an ounce.

Can you carry on world trade, and are you going to help the situation of our imbalance in payments if exporters and importers of goods do not have a fixed price at which they are selling or buying their goods? Will other countries want to hold dollars as a reserve for their currency if its value changes from day to day?

There has never been as much concern in a country, justifiably as much concern about the future of world trade as this great country of yours and mine faces, for while something like 6 percent of the people live here, yet we conduct 17 percent of the trade of the world.

Mr. Speaker, I am thoroughly convinced, as much as I have ever been in my life about anything, that if immediate action is not taken to correct this situation, it will not be long in this country before the overheated economy will fall by its own weight and become an underheated economy with high levels of unemployment. It is just that serious.

Because of these developments—the budget deficits, the domestic inflation, the high interest rates, the imbalance in our payments, and the concern abroad with the dollar—it was finally concluded by the conferees on the part of the House that we would go to conference with the Senate, which had adopted nothing in the world but the President's 10-percent surcharge that we had been conducting hearings on, and that we would work out with them those expenditure limitations that we could first get the Appropriations Committees of the House and of the Senate to agree to imposing. We did so because, as I have said, and I believe deeply, it will do no good to take $10 billion out of the American taxpayers' pocket if it is just brought to Washington and spent on additional Federal expenditures.

The gentleman from Texas, my beloved friend, the chairman of the Appropriations Committee, developed an expenditure reduction program within his committee. The last action of the Ways and Means Committee on October 3 had been to place on the shelf the President's tax request until such a program

was agreed to. We went then to the Ways and Means Committee, Mr. BYRNES, Mr. CURTIS, Mr. KING, Mr. BOGGS, and myself, the five conferees, and said, "Tell us what you want to do."

The Committee on Ways and Means, by a vote of 17 to 6, with 2 voting "present," instructed us to take with us a resolution similar to that of the Appropriations Committee, and the 10-percent surcharge, or a rate increase developing the same amount of money, and work out in conference a combination package.

The Ways and Means Committee acted. The Appropriations Committee acted. The House conferees took those actions to conference. The Senate was adamant upon two of its provisions but would accept two that the House developed. The Senate wanted a $6 billion spending reduction. The House Committee on Appropriations suggested we add into the bill a $10 billion reduction on appropriations and that we call upon the President to develop not less than $8 billion of itemized recissions and submit them to us.

We felt we must reach a compromise because of the precarious condition of our economy and our fiscal situation. We felt we had sufficient instruction from the two committees of the House at least primarily involved in this situation to reach such a compromise.

The tax surcharge provision is what the administration introduced earlier. There is no significant change in it. It is what the President has been advocating all along. The Senate did not want us to adopt new tax rates instead. Frankly, I would have preferred such a rate change.

Now I find, after all of our work, after the hours that we spent trying to develop a package that we thought met the conditions that the Ways and Means Committee members had adopted on October 3 last, that people say, "I would vote for this, WILBUR, if you could assure me that the $6 billion is actually going to be cut, and if it is going to be cut evenly over the whole of the year and not in the last 6 months."

Let me see if I can provide that assurance. First of all, the President of the United States, after the vote occurred here on the issue of $4 billion or $6 billion expenditure reduction, stated he would accept the $6 billion. He said:

> After the measure gets to me, if it is in the amount that the conference report contains—
>
> That was $6 billion—
>
> I will sign it. Then we will ask the Budget Director to review with all the Departments the cut.
>
> We generally feel that they will be divided in non-Vietnam defense expenditures and other budget expenditures. But I do not have the time or the information that would permit me to outline in specific detail how they would add up.

Of course, the Congress can do all this job itself. I hope it will. On the basis of what we have done in the House on six appropriation bills here so far, I am told that we have cut 9 percent in obligational authority, new appropriations. If we continue at that pace, and hold our cuts in conference, we will equal and maybe exceed the $10 billion that the Appropriations Committee suggested we specify as the reduction in grants of new obligational authority. We should also account for much of the $6 billion expenditure cut.

If we do not reach the full $6 billion expenditure reduction, it is true we tell the President, "You have got to do the job that we did not do," and we give to the President the authority to make the additional reductions. If we do not cut obligational authority as much as we say we want them cut, then the President has to do that, too, but he has to report back to us in connection with his message on the 1970 budget where the cuts have been made, item by item.

Let us not say for 1 minute that, while we believe conditions are serious and that something must be done, we cannot trust the President of the United States or the Director of the Bureau of the Budget to do it. I say we do not need to rely on trust alone.

Mr. Zwick was surprised that anybody could have any question when we raised the point with him. He pointed out to me that language in the law which the gentleman from Ohio [Mr. BOW], the very distinguished gentleman, had called to my attention earlier. Mr. Zwick said that language would be interpreted by the Bureau of the Budget as though it were applicable to a spending limitation.

What does it mean? It means that the $6 billion reduction will be spread evenly over the 12 months. Oh, it might be $501 or $510 million in one month and $498 million in another, but it will be as close to $500 million a month as possible.

Let me tell you of another reason, which is the "clincher." Even if the administration did not try to comply with the reduction, they would have to. Do Members know what the debt ceiling for fiscal year 1969 is going to be? On the basis of action we took last year it will be $365 billion. Do Members know what the statutory debt will be on December 15, 1968, if these proposed expenditure reductions are not made evenly—half of them in the first half of the coming fiscal year? The debt would be above the ceiling in this case, which of course is impossible.

Even if we pass the 10-percent surcharge, on the 15th day of December, 1968, the Secretary of the Treasury will have no money to pay the bills, no authority to issue above $365 billion. Even if the Bureau of the Budget does cut $2.75 billion in the first 5½ months of this fiscal year they will be in such a tight squeeze on December 15, 1968, that if they tried to have the usual $4 billion on hand in cash they would have to have outstanding $366.7 million of obligations. Even with these reductions in expenditures and the passage of this tax, on December 15, 1968, the Secretary of the Treasury cannot have more than $2.3 billion of leeway below the debt limit for a cash balance.

Then again, on January 15, he will get into another bind, and he then will have to reduce the cash balance below the amount the Treasury desires to have on hand, despite these reductions in expenditures and this tax increase.

The SPEAKER pro tempore. The time yielded by the gentleman from Arkansas has again expired.

Mr. MILLS. Mr. Speaker, I yield myself 3 additional minutes.

I have said repeatedly that if nothing is done, if this legislation is not passed, if expenditures are not cut, if the tax itself is not increased, and the two things done together, we will be back here in October faced with the necessity of raising the $365 billion debt ceiling to permit the Secretary of the Treasury to pay his bills. If we do what is here proposed, however, there is every chance unless some unforeseen contingency develops—such as an increase for Vietnam or another Vietnam—that we will not have to tinker with the debt ceiling for the fiscal year 1969.

Mr. Speaker, I have not tried to summarize the provisions of the conference report in my statement since the conferees this time published a conference committee explanation of the agreement which I inserted in the CONGRESSIONAL RECORD on June 10 together with the conference report and statement of managers. This general explanation also has been published separately as a separate document and is available to the Members.

Mr. BOGGS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the majority whip.

Mr. BOGGS. I commend the gentleman for the statement he has made. I should like to call the attention of the House to some facts I wanted to bring out in the discussion a few minutes ago on the privileged resolution offered by the gentleman from Iowa.

The idea was presented that there were no hearings held on this proposal before the Ways and Means Committee.

Mr. MILLS. What was the record of those hearings—1,200 pages—1,000 pages? There were four volumes.

Mr. BOGGS. At least four volumes of public testimony and interrogation.

Mr. MILLS. And this is the same proposition the President sent us on August 3, except for the dates and one other minor change.

Mr. BOGGS. Exactly. Let me read for the benefit of the House the exact language of the chairman when he opened these hearings in August 1967:

> The purpose of the hearing this morning is to receive testimony from officials of the Administration and from the interested public on the President's tax proposals contained in his message to Congress of August 3, 1967.

There could be no clearer or more precise statement of purpose than that, and it describes exactly what the hearings did cover.

Mr. MILLS. Right. We have always had that as our primary concern.

Mr. BOGGS. To make the record even more clear, the chairman and members of the committee mentioned 1,000 pages. There were 835 pages in volume 1, 199 pages in volume 2, and 166 pages in subsequent volumes, or a total of 1,200 pages of public testimony before the House Committee on Ways and Means on this very proposal—I repeat, on this very tax proposal.

Mr. MILLS. The gentleman is right.

Mr. BOGGS. The gentleman is the chairman of the committee, and everyone knows he is a most diligent chairman. How many hours and days would the gentleman estimate that the committee spent in executive session on this record on the tax proposal and matters related to it.

The SPEAKER pro tempore. The time of the gentleman has again expired.

Mr. MILLS. Mr. Speaker, I yield myself 4 additional minutes.

I believe I would leave that up to the members of the committee. I know they got to thinking that I was a slave driver at times during the hearings and the executive sessions.

Mr. BOGGS. Let me ask another question and go to the conference for just a moment. I was at the conference.

Mr. MILLS. I do not like to discuss how long we worked on that. We had so many meetings that I have forgotten. You were there every day we met. We did not meet every day, of course, in each week that this matter was in conference, because it was necessary for us to go back to the Committee on Ways and Means and to the Committee on Appropriations of the House, and the Senators had to go to their Committee on Appropriations and to others in the Senate. However, we were working on it in some way or other during the entire time that it was in conference, which was until the conference report was filed on June 10, 1968.

Mr. BOGGS. My memory of it may not be accurate, but we started sometime before Easter. Is that right?

Mr. MILLS. Oh, yes. It was before Easter that we went into conference. We went into conference almost immediately after the bill was passed by the Senate on April 2.

Mr. BOGGS. And we met constantly, did we not, on it?

Mr. MILLS. As I say, we did not meet each day, but we began immediately working on various aspects of this conference, on different items in the body of this bill, and we continued until we reached agreement.

Mr. BOGGS. I will finish my inquiries with one more question. It is a fact, is it not, that this measure originated in the House of Representatives as a tax measure? Is that right?

Mr. MILLS. The bill did. It has an H.R. number on it—H.R. 15414. It could not have been passed in the Senate, as a point of origin, without an H.R. number. And it was a substantial revenue bill to begin with, involving some $4 billion in revenue.

Mr. BOGGS. It is also a fact, is it not, that in all of these conferences—and despite the other duties I must attend to I try to be as diligent as possible in attending all conferences—that looking at it for just one moment from the point of view of the other body, is it not always the case in almost every conference that we get into that the other body Member say, "Well, all you really do is throw out practically every Senate amendment adopted"—am I right in that?

Mr. MILLS. Oh, yes. They argue with you about these amendments all the time.

Mr. BOGGS. It comes to my mind there——

Mr. MILLS. We operate more or less under the rules of our friend from Missouri [Mr. CURTIS].

Mr. CURTIS. A little less rather than more.

Mr. BOGGS. When we operated on the social security conference last year there seemed to be around 300 amendments.

Mr. MILLS. That is right; and in 1965 there were over 500 amendments, as I recall it.

Mr. BOGGS. And we ended up with less than 25 adopted.

Mr. MILLS. You know in a conference generally we talk them out of some of their amendments that they really want—I say this off the record, of course—and we accept their technical amendments, but in this case I thought we faced a very serious situation, one that was as serious as the 1950 situation wherein the House had passed a bill reducing the excises, and the other body took that bill and added an income tax increase for individuals and corporations, and eliminated every one of our excise tax reductions. They even increased some excise taxes. All of this was done after the House had passed the bill and before the bill was considered in the Senate we became involved in the war in Korea, which changed the whole situation.

Mr. BOGGS. And, at that time no one went back as the distinguished chairman did——

Mr. MILLS. No; we did not take the matter back to the Committee on Ways and Means at all; we simply did it in conference. This time, we did take it back to the Committee on Ways and Means.

Mr. BOGGS. Mr. Speaker, I wanted to make these points because I think this conference was as diligent a conference as I have ever attended. I tried to get some changes made but did not succeed.

Mr. MILLS. If I were just looking for an excause, I could find any number of things, different things in this conference report that I am not particularly enamored with. But in a conference you do not always carry your viewpoint any more than you do in a committee or on the floor of the House. A conference is a meeting of the minds and I try to get together on these things, whether we like it or not, in order to try to work out legislation. That is what we did in this situation.

Mr. GERALD R. FORD. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the distinguished minority leader.

(Mr. GERALD R. FORD asked and was given permission to revise and extend his remarks.)

Mr. GERALD R. FORD. Mr. Speaker, I would like to touch upon a few points which bother many Members on this side of the aisle and I suspect Members on the other side of the aisle. One question is this: Whether or not the $6 billion spending limitation will be applicable from July 1—implemented from July 1—and carried out through the entire fiscal year. The gentleman from Arkansas has pointed out, first, that the President himself has indicated his agreement with the $6 billion spending limitation. Second the Director of the Bureau of the Budget has indicated that the Executive Branch would carry out this limitation in good faith.

Mr. MILLS. That is right.

Mr. GERALD R. FORD. On a 12-month yearly basis?

Mr. MILLS. That is right.

Mr. GERALD R. FORD. Third, the gentleman from Arkansas has pointed out that if they do not do this there is the distinct probability that the present debt limitation will be exceeded and as a consequence the House will have an opportunity to review and act upon any failure to carry out the spending limitation. In effect this will give to the Congress an opportunity to force the full year application of the $6 billion spending limitation.

Mr. MILLS. Yes, if the gentleman from Michigan [Mr. GERALD R. FORD] will permit me to interrupt him briefly I shall undertake to give him an answer to that particular point, and then I shall yield further to the gentleman. But let me say what I feel is the effect which this action will have. I feel so keenly about this matter that if the debt ceiling was reached sometime this fall because the expenditure provisions had not been made to work, I have no intention of voting for an increase in the debt ceiling.

Mr. GERALD R. FORD. Mr. Speaker, I applaud the straightforward answers of the gentleman from Arkansas. This is typical of his insistence that the executive branch of the Government carry out the congressional intent on this and other matters.

But, there is one other question involved in this. If there is any indication whatsoever that the executive branch of the Government is not going to carry out in good faith this spending limitation from July 1 on, then there is a way that it could be handled and that is through the Committee on Appropriations on a continuing resolution.

Mr. MILLS. Oh, yes.

Mr. GERALD R. FORD. That is, on a continuing resolution. I assume from the frank and straightforward answers from the gentleman from Arkansas [Mr. MILLS] that he would cooperate with us 100 percent to insist that a continuing resolution from the Committee on Appropriations should carry such a priviso?

Mr. MILLS. I said earlier that I would not support this surcharge tax unless this type of spending limitation is employed and carried out.

Mr. GERALD R. FORD. I wish to thank the gentleman from Arkansas for his response to my questions.

Mr. FULTON of Tennessee. Mr. Speaker, will the gentleman yield?

Mr. MILLS. Of course I am delighted to yield to my friend, the gentleman from Tennessee.

Mr. FULTON of Tennessee. I appreciate the distinguished chairman of the committee yielding. As the chairman knows, I have previously stated that I would not be for the proposed surtax charge increase unless the Department of the Treasury presented its long awaited and long promised program of general tax revisions. I am pleased to note in the conference report that the

administration is required to forward such a report to the Congress before December 31, 1968.

Mr. MILLS. Actually, the Treasury people have been working on a program of tax revision matters for quite some time. They have received the comments at the staff and others on certain suggestions. It has gone on over a period of about 2 years, I believe. I am hopeful that the Treasury suggestions will be available to us soon.

As the gentleman from Tennessee knows, tax reform is difficult to accomplish. It is my hope that the schedule of our committee, if I am chairman next year, will permit us to put, as the first order of business in the committee, the matter of reforms in the tax law. No one is more interested in reforming it than I am. I know the gentleman from Tennessee is quite interested in the matter.

Mr. FULTON of Tennessee. I want to thank the gentleman from Arkansas for those assurances.

Mr. MILLS. One cannot legislate tax reform, as I am sure my friend from Tennessee knows, in one session of Congress, and I would not hold out the hope to any of my colleagues that a reform package that could be developed in the Committee on Ways and Means and passed on the floor of the House of Representatives that would involve any material increase in revenues. There are inequities whose correction means the loss of revenues as well as alleged inequities whose correction would increase revenues, and you have to balance out these things in a reform bill.

Mr. FULTON of Tennessee. I understand that.

Mr. MILLS. But you do bring about a greater degree of equity, and that is why you reform—to improve the equity of the tax law.

Mr. REUSS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Wisconsin.

Mr. REUSS. I have a problem with the package before us—the problem of overkill. There is a distinct possibility that the $20 billion that would be skimmed off of demand by the tax increase, and the spending cut, could prove to be an economic overkill, causing stagnation and unemployment.

With that in mind, I have earlier today, in association with several cosponsors, introduced a bill, H.R. 18022, which would repeal the surtax, and the $6 billion expenditure cut, prospectively, as of January 1969.

The purpose of H.R. 18022 is to insure a comprehensive review of our economic position next January, with a view to determining whether that position requires the repeal of all or part of the tax increase, or all or part of the expenditure cut.

Could the gentleman from Arkansas assure me that the Committee on Ways and Means will, if the situation warrants it, hold hearings and give full consideration to such legislation next January?

Mr. MILLS. I do not want to say for certain that we will hold hearings on this. It may or may not be necessary to hold hearings. But the gentleman from Wisconsin [Mr. REUSS] can certainly be assured that it is my intention—and I would hope that the Committee on Ways and Means would go along with me—to keep this matter under constant surveillance. We do not want to "overkill" in the attempt to eliminate the heat from this economy.

I would be concerned about it, as the gentleman from Wisconsin would be, because here is what is involved, as I pointed out earlier. There is the possibility of a $31 billion deficit if we do not do what is involved in this package. If we do accept the package and the Government succeeds in selling about $4 billion of PC's the deficit would be brought back down to $5 or $6 billion—and I am talking about the administrative budget now. And that is a very decided change for, as I pointed out earlier, the deficit for 1968 might be as much as $28 billion, and that is a great change in 1 fiscal year from $28 billion to $6 billion.

I know there are economists who worry that we have applied too much restraint. I do not believe we have, but if it turns out that we have, I would expect my good friend from Wisconsin to come to the committee. We will watch the situation, too, for we are concerned, just as the gentleman is, lest it prove too powerful.

Mr. GROSS. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Iowa.

Mr. GROSS. The gentleman has made much of the hearings that were held.

Mr. MILLS. Yes, we held public hearings immediately after the President sent his message up last August.

The SPEAKER pro tempore. The time of the gentleman from Arkansas has again expired.

Mr. MILLS. Mr. Speaker, I yield myself 2 additional minutes.

Mr. GROSS. If the gentleman will yield further, the gentleman said you had long hearings, as I understand, on this bill?

Mr. MILLS. Yes, we did.

Mr. GROSS. On the possibility of a general tax increase?

Mr. MILLS. The hearings included the President's program, in August.

Mr. GROSS. Yet no bill evolved from the committee?

Mr. MILLS. Pardon?

Mr. GROSS. Yet no bill evolved from the committee?

Mr. MILLS. The hearings preceded the time when the committee put the bill on the shelf temporarily.

Mr. GROSS. Could it be the bill was put on the shelf because of the inability to get a commitment from the administration as to spending?

Mr. MILLS. In all fairness, yes.

Mr. GROSS. And now the gentleman asks us to take this on faith on the word of the Bureau of the Budget and the President?

Mr. MILLS. No, I am not asking you to take it on their faith or anybody else's faith. I am asking you to recognize the facts of this legislation, and this situation. Either the debt ceiling has to be raised before you get to December 15 of this year or else the $6 billion in expenditures have to be reduced and the reduction has to be spread evenly over a 12-month period. Otherwise you and I will have another opportunity to look at the situation.

Mr. GROSS. But the gentleman said, "Do you not trust the Bureau of the Budget and do you not trust the President?" Obviously, the bill was never up because of a lack of some kind of trust.

Mr. MILLS. I have all the trust in the world, but, as I have tried to point out, there is also a "clincher" written into the law in the form of the debt ceiling.

Mr. DENNEY. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. DENNEY. I have many questions that have been answered by the distinguished gentleman from Arkansas.

There is one point that bothers me and that is sections 9 and 10 of the conference report.

Mr. MILLS. Let me make it short, if I may, because I know there are a number of questions about this. I have been accused of writing a loophole in the law here, but I did not insert these provisions. While my own State has utilized these bonds to a great extent and very profitably, I recognize the possibility of some excesses—it is an excess when a small community floats $150 million in bonds to put up a plant for a company when the company could do it itself.

Now we tried to correct every possible bug that was brought to our attention in connection with this language. I doubt very seriously that we have, and I think it may be necessary for us to take another look at this matter in the Committee on Ways and Means. I am hopeful that the Governors who have talked to me about the provision and who want some change made in it to accommodate what they think are the absolutely essential borrowing needs of the States or local communities will develop a program of their own and bring it to us. If they do bring it to us, and if the committee will go along with me, we will consider that proposition.

Mr. DENNEY. Do we have the gentleman's assurance that if the Governors ask for it, they will have a hearing?

Mr. MILLS. Absolutely, I have the same interest in it that the Governors have.

Mr. PEPPER. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman.

Mr. PEPPER. Am I correct in my reading of the conference report that in the report itself there is no spending area in which the President is denied the right to cut any part of the $6 billion cut which is required by the conference report.

Mr. MILLS. I will say, there are four areas that we permit to rise above the levels established for those agencies in the budgets for 1969.

One of them is veterans' benefits and services. Another one is interest on the public debt. Another is payments from social security trust funds, which of course do not affect general revenue in any way. The last is Vietnam expenditures.

We already know that the Congress has passed a bill increasing some types of payments to veterans.

We already know we have a supplementary request for 1969 as well as 1968 in connection with Vietnam.

The $6 billion has to be taken out of the rest of it.

Mr. PEPPER. As to the instances which have just been enumerated by the able gentleman, they are instances in which the President may spend above the limitation that is imposed of $180 billion?

My question was, "are there any areas in which the President could not cut as he thought proper?"

Mr. MILLS. It is not probable that he will cut in these four areas. That would be unrealistic.

Mr. PEPPER. But the President can cut in any area that he wants to?

Mr. MILLS. That is right.

Mr. PEPPER. Out of the gentleman's vast knowledge of our economy, is it in his opinion possible for the President to cut the $6 billion that is required in the conference report without substantially reducing expenditures for health, education, and welfare and the poverty program?

Mr. MILLS. Oh, absolutely, because you have $186 billion, and there is only $6 billion to cut out of that $186 billion.

Mr. PEPPER. I thank the gentleman from Arkansas.

Mr. CABELL. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Texas.

Mr. CABELL. I thank the distinguished gentleman. My question seeks a clarification of the language concerning municipally operated airports and the eligibility for tax-free interest on the revenue bonds. My colleague, the gentleman from Texas [Mr. WRIGHT] and I are both quite concerned, as are our constituencies, because presently we have a joint venture involving future sales of $250 million of airport revenue bonds. My question is, Does the language defining "airports" contemplate that bonds issued for related facilities that are a part of the integrated airport, such as terminals with provisions for concessionaries, food shops for the preparation of in-flight meals, shops, training centers, and hangars for the aircraft people—under that definition would they qualify as airports and therefore be eligible for financing by the sale of revenue bonds with the tax-free interest provision?

Mr. MILLS. My understanding, after consultation with the gentleman and also with members of our staff, who have also talked with Treasury officials, is that the answer is "Yes."

Mr. CABELL. I thank the gentleman for yielding.

(Mr. CABELL asked and was given permission to revise and extend his remarks.)

(Mr. WRIGHT (at the request of Mr. CABELL) was given permission to revise and extend his remarks at this point in the RECORD.)

Mr. WRIGHT. Mr. Speaker, I am greatly pleased with the clarification made by the distinguished chairman of the committee, the gentleman from Arkansas [Mr. MILLS] concerning the tax exemption for municipal bonds.

As the gentleman from Texas [Mr. CABELL] has pointed out, the original Ribicoff amendment adopted in the other body, absent the clarifications that have been made, might inadvertently have cast a cloud over the tax exemption afforded municipalities in the construction of airports and clearly intended to be available under the Internal Revenue Code of 1954. I feel certain that it was not at any time the intention of Senator RIBICOFF to place a cloud upon this time-honored exemption.

As altered and modified in the conference committee, the language now seems abundantly clear that airports are exempt from the effects of the bill, including bonds for necessary functions of an airport such as service accommodations to the public, hangars and other facilities which will be leased to private airlines and other private individuals by the municipal authorities, and from the revenues of which leases payments will be made for the retirement of the bonds.

In the case of the Dallas-Fort Worth Regional Airport, these facilities will be provided by bonds payable from a general revenue fund of the airport. Such revenues of necessity will be derived from many conceivable sources, such as landing fees, concession stand rentals, barbershop leases, airline ticket counter leases, restaurants, airline terminal passenger loading area leases, terminal store leases, parking revenues and other similar sources.

All of these things are obviously needed for the public convenience and necessity in any modern airport, and from the langauge now in the bill and from the explanation given by the able gentleman from Arkansas [Mr. MILLS] it is clear that these bonds will and should be properly exempted, as they have been in the past, from Federal taxation.

I thank the gentleman from Arkansas for his elucidation and I thank the conferees for their careful and painstaking work to the end that this historic and necessary protection continues to be afforded to the legitimate and necessary activities of our cities. This obviously is a great and necessary benefit, not only for Fort Worth and Dallas, but for all the cities of our land.

Mr. MICHEL. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Illinois.

Mr. MICHEL. If I understand correctly, the effective date of the increased tax on personal income is April 1, is it not?

Mr. MILLS. That is true.

Mr. MICHEL. Which, for all practical purposes, means a 7.5 percent increase for the year.

Mr. MILLS. The gentleman is correct.

Mr. MICHEL. The additional withholding of tax from personal incomes would take effect 15 days after enactment of the bill.

Mr. MILLS. The gentleman is correct.

Mr. MICHEL. Which then would require, would it not, more than a 7½ percent deduction for the remainder of the year?

Mr. MILLS. I am glad the gentleman asked that question. During the time that the withholding is in effect, the rate of the surcharge, the additional amount, is 10 percent. The 10 percent would apply, if we pass the bill and get withholding into effect by July 1, for 6 months of this calendar year and 6 months of the next calendar year, but if you look at all of your income for the calendar year 1969, you are only, for tax purposes, adding a 5 percent increase rather than a 10 percent increase, because the law would expire on June 30, 1969, but the withholding rate during all this period of time is 10 percent. In the same way the added 1968 tax is 7.5 percent although the withholding rate will increase by 10 percent 15 days after this bill is enacted. We do not expect any appreciable underwithholding from this change.

Mr. MICHEL. One further question following up the line of questioning by Mr. FORD, during which you gave the House some assurance that in your opinion this expenditure reduction would be orderly over the 12-month period of a year because of the debt ceiling. Does that take into account the additional revenues that will have been generated by the increased withholding 15 days after enactment of this bill?

Mr. MILLS. Actually, if I understand the gentleman correctly, there are two unrelated things. One is how will the $6 billion reduction occur? That, I say, must occur over the 12-month period. Now, there may be additional revenues generated, yes. Those we take into consideration when we say that the total of this package may reduce a prospective administrative budget deficit of $31.3 billion to something around $6 billion for 1969.

Mr. MICHEL. I thank the gentleman for his response, but I personally am not convinced the President will spread the proposed $6 billion expenditure reduction evenly over the 12-month period. Notwithstanding the debt ceiling, with the additional revenue coming in by virtue of the increased withholding after July 15 I fear the President will go on his merry spending way during the first half of fiscal year 1969 beginning next month and force most of the cutback on to the new President during the last half of the fiscal year beginning next January.

Mr. MILLS. Mr. Speaker in concluding my remarks, let me express my deep appreciation to the many Members who have worked hard and diligently on this legislation and without whose hard work and cooperation we could not have reached this important milestone.

Mr. Speaker, without any intention of omitting anyone's name in this context, I must express appreciation particularly to my good friend and colleague on the committee, the ranking Republican member, Mr. BYRNES of Wisconsin, for his interest and cooperation from the very inception. He has cooperated all the way. I want to thank the leadership on both sides of the aisle, in the House and in the committee. Today this bill is supported by both Democrats and Republicans on the Committee on Ways and Means, on the Committee on Appropriations, and in the House. Mr. Speaker, the chairman and ranking Republican member of the great Committee on Ap-

propriations, Mr. MAHON, of Texas, and Mr. Bow, of Ohio, have worked hard and diligently on this.

Mr. Speaker, finally, let me say that this bipartisan, nonpartisan effort, at this serious time in our economic history, again shows that the House of Representatives disregards politics when great issues arise. It looks beyond partisanship; it looks to the issue and the solution, and the good of the country. The House, I am confident, will today meet the challenge of the time.

Mr. MILLS. Mr. Speaker, I yield to the gentlewoman from Illinois [Mrs. REID].

Mrs. REID of Illinois. Mr. Speaker, I was going to ask that I be permitted to revise and extend my remarks following the statement of the gentleman in the well.

Mr. MILLS. I am honored.

(Mrs. REID of Illinois asked and was given permission to revise and extend her remarks at this point in the RECORD.)

Mrs. REID of Illinois. Mr. Speaker, the question before the House today is a most difficult one, indeed, but I feel it is also one of the most important ones to be considered in recent years. Let me say that I support the conference report on H.R. 15414, but I do so with some reluctance and some reservation.

We recognize, of course, that all legislation is the product of compromise and that any measure involving tax policy in particular is bound to be highly controversial. Certainly H.R. 15414 is no exception. The legislative process requires, nevertheless, that each of us in his own conscience, and with the advice of his constituency, weigh the desirable features against those which are undesirable. In this bill, too, I feel there are both good and bad features, but I have tried to evaluate them objectively.

It is perhaps unfortunate that this legislation has been widely heralded as primarily a tax increase measure. Like most people, I personally find the prospect of higher taxes in a society already overburdened with taxes of one kind or another distasteful, to say the least. It has always been my philosophy that Government can and should live within a balanced budget. As Members of Congress, however, we have a responsibility to those we represent and to the country in general to face reality—and the painful fact we must face today is that our Nation is in serious fiscal trouble. It would be folly not to admit that we are overshadowed by what is potentially the most critical financial crisis since the depression of the 1930's, and it is a crisis which has wide implications both at home and abroad. We must face the unpleasant fact that despite unprecedented economic growth, Federal spending under this administration has been permitted to far exceed prudent bounds and available sources of revenue. In brief, we have now reached the moment of truth.

My primary reason for supporting the conference report is not because it authorizes a 10-percent surtax on personal and corporate incomes. This, after all, is a temporary revenue measure—and while this additional revenue will serve to partially alleviate the current crisis—it will expire on June 30, 1968. I support the conference report principally because it contains provisions which I have advocated throughout my 6 years in the Congress—long-overdue restraints on Federal spending which, if implemented in good faith as they are presented here today, can be the first meaningful steps toward returning our Government to sound fiscal management and ending the insidious policy of deficit financing.

For the first time in history, an absolute ceiling on Federal spending has been imposed. This is important because we have seen how Government spending has doubled—from $92 billion to a proposed $186 billion—just since 1960. Under this conference report, however, $6 billion must be cut from proposed actual spending next fiscal year. Furthermore, it requires a $10 billion reduction in appropriations for future spending, and also that an additional $8 billion in carryover appropriations from previous years not yet spent must be rescinded. It provides, too, that the Federal payroll must be systematically rolled back to the level of June 30, 1966, which should result in still greater savings.

I had originally expressed doubts that the President could postpone these economies until late in the year, thereby nullifying the anti-inflationary and budgetary benefits we are seeking to achieve. We are assured, however, that under an apportionment law already on the books these reductions are mandatory as specified by the Congress. We must legislate, therefore, on the premise that this law will be respected—and this is one of the considerations which prompts me to support this measure.

It seems to me that there are certain factors which cannot be ignored as we consider this legislation. First of all, we must face the reality of the war in Vietnam. Despite the fact that the war now costs about $26 billion annually and an untold price in human life and suffering, this administration has failed to establish priorities in domestic spending. No matter how one feels about this conflict, and I realize there are differences of opinion, the fact remains that we are involved in Vietnam, and until peace can be achieved we have a responsibility to see that our fighting men there continue to receive the supplies they need for their own protection and to bring this war to a speedy conclusion.

We must remember, too, that the budget deficit for the current fiscal year is estimated at $20 billion, with the prospect of at least an additional $24 billion to be added in the coming fiscal year. With the political pressures of an election year at hand, some may feel inclined to avoid a vote for forced economy in Government programs and an unpopular tax increase. It seems to me, however, that to do so at this time would only compound the problem and further endanger our economy at home and our world position overseas. We know that fiscal restraint and budget control are inevitable. We simply cannot continue on the present course. I have come to the conclusion that it is far better to take timely action now than to be forced to hand the taxpayers an even higher tax increase next year.

We must face the reality, also, of spiralling inflation. During the last half of 1967 consumer prices increased by almost 4 percent. Some economists have predicted that they may rise 4 or 5 percent more during 1968. More than ever before Americans are deeply worried about the value of their dollars. Inflation is a vicious form of hidden taxes which no one can escape. It erodes the purchasing power of wages, savings, insurance, pensions, retirement checks, veterans' benefits, and welfare payments. The poor and the elderly living on meager or fixed incomes are hardest hit as they find their limited dollars buying less of the necessities of life. Recognizing this, this bill exempts those in the two lowest taxable income brackets from the surcharge.

We know, however, that inflation cannot be curbed solely by raising taxes. One of the most effective ways to reverse the inflationary spiral is to reduce Government spending which is what this bill will do. Sadly enough, the taxpayer is caught in the middle. He must pay either way, whether it be through inflation or higher taxes. If this legislation is not adopted, the ensuing inflation would undoubtedly prove to be far more costly than the proposed surtax.

We must not forget, too, that continued deficit spending such as we have seen since 1960 can only be financed by more Federal borrowing. This, in addition to heavy demands for credit from others in the public and private sector, has resulted in the highest interest rates in history. Small businessmen, young families seeking to own their own homes, and State and local governments find it increasingly difficult to find credit for urgent needs. We know from past experience that tight money results in business recessions, as it did with the housing industry in 1966. This bill will help make credit more readily available without soaring interest rates.

Another factor to be considered is the disturbing deterioration in our international balance-of-payments position. The alarming gold drain shows that the world today is losing confidence in the soundness of the dollar and in its stabilizing role in the international monetary system. Devaluation of the dollar would have disastrous repercussions throughout the free world. Only by taking effective steps toward putting our own financial house in order can this confidence ever be restored.

Finally, we must remember that our brave young fighting men who are now in Vietnam are giving their best for a way of life in which they believe. Fiscal integrity is just as essential a sacrifice for the preservation of our free, democratic society and we know, too, that national security can never be possible without financial security. We must be willing to do as much at home.

I am aware that doubts have been expressed by some that the expenditure reductions in this bill might jeopardize proven programs such as veterans' benefits and social security. Assurance has been given that these are not restricted under this bill—the same as the costs of the war in Vietnam. I am convinced, too,

that constructive health, education, housing, and farm programs would not be adversely affected.

As I have said, Mr. Speaker, I believe that the American people want their Representatives to do what is necessary—to face reality regardless of the political implications. When I came to Congress, I pledged to the people of my district that among other things I would work for fiscal integrity and economic stability in Government. For this reason, I have not supported many of the spending proposals of this administration, not because I did not recognize the need for solutions to our Nation's social and economic problems but because I honestly felt that some of these programs were unwise, too costly, and had little hope of achieving their objective. Although far from perfect, and I have expressed my reservations on numerous occasions, the bill before us today can be a step toward restoring fiscal balance and economy in Government which is so sorely needed. It will give us an opportunity to reassess our needs, to eliminate ineffective and overlapping programs, to establish priorities for future needs, and to control the current "expenditure explosion."

As a member of the Committee on Appropriations, I feel that it is the responsibility of the Congress to regain control over Federal spending. Since coming to Congress, I have worked for realistic spending reductions so that even temporary tax increases would not be necessary. Certainly a tax increase bill without spending restraints would not have my support. I recognize that this is a compromise measure and while I have reservations about the revenue provisions, I do feel that the serious budgetary situation which confronts the Nation today warrants prompt action. This is not a time for partisanship. It is a time for statesmanship, and I feel the people of my district would want me to vote accordingly. I know, too, that they would want me to continue to work for elimination of wasteful, unnecessary, and ineffective spending programs while at the same time seeking a complete reevaluation of our tax laws and the closing of tax loopholes. This I intend to do.

Mr. DORN. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from South Carolina.

(Mr. DORN asked and was given permission to revise and extend his remarks.)

Mr. DORN. Mr. Speaker, I rise to congratulate the distinguished chairman of the Ways and Means Committee for his superb presentation here today. Mr. Speaker, may I further commend the gentleman from Arkansas [Mr. MILLS] for his diligence, perseverance, and leadership in bringing this conference report before us in its present form. I commend the membership of his great Committee on Ways and Means for their dedication to fiscal responsibility. I commend my able and beloved friend from Texas [Mr. MAHON], for his role in this timely legislation and for his devotion to the highest principles of legislation and the general welfare of our Nation.

I agree with the gentleman from Arkansas that if this cut in spending and the surtax are not passed, then we will be back here in session before Thanksgiving being called upon to increase the national debt. This bill is to protect and preserve the integrity of the American dollar. This bill is necessary to prevent unemployment and recession. The worst kind of depression is one of unemployment and curtailment of working hours coupled with paper money. This bill will prevent further inflation. By forestalling inflation, we will give every American worker an increase in wages by providing more purchasing power for his dollar. We will provide for every American housewife more consumer goods for her family and for her household. I have always opposed extravagance and excessive spending by the Federal Government. This is my opportunity to vote for a $6 billion cut in Federal spending in one stroke. This is my first opportunity to do so by one vote in my 20 years in this body. The surtax I support in this bill today is only part of the decrease in taxes I voted for in 1964 for every individual taxpayer and every American business. That tax was wise, and greatly stimulated the American economy cut which was needed at that time. Unemployment has decreased to the lowest level in the modern history of our country. The situation today is far different with the Vietnam war costing more than $25 billion a year. This surtax today is in essence a Vietnam war tax to oppose Communist aggression and support our men fighting for freedom the world over.

Mr. Speaker, today we must perhaps choose between votes on election day and what is best for the future of our country and indeed the future of free men throughout the world.

Mr. Speaker, I urge my colleagues to support this conference report and thus support the national interest of our great Nation.

Mr. BOLAND. Mr. Speaker, will the gentleman yield?

Mr. MILLS. I yield to the gentleman from Massachusetts.

(Mr. BOLAND asked and was given permission to revise and extend his remarks.)

Mr. BOLAND. Mr. Speaker, prompt enactment of the proposed 10-percent income tax surcharge is necessary—absolutely and unequivocally necessary—to stop the mounting spiral of inflation now menacing the United States.

We in the Congress simply must acknowledge the existence of that menace and must accept our responsibility to combat it. Much as we dislike expanding the tax burden, I believe most of us realize that we cannot stand by idly as inflation pushes our economy to the brink of ruin. Without a temporary tax increase the growing demand for goods and services, accelerated by defense spending, will rise to inflationary trends so steep and so serious that they will cause lasting injury to the American people.

Consumer prices are now moving upward at an annual rate of about 4 percent, and economists almost unanimously predict that they will increase even more sharply in the months ahead. Empirical proof of this alarming trend is readily available. Simply ask any housewife how much a $10 bill buys in the supermarket today. She will respond, of course, that it buys far less than it would have only 2 years ago. And if she or her family has the misfortune to require medical care, the increased costs would prove even more startling. Everywhere in American life costs are skyrocketing—in the supermarket, in the clothing store, in the hospital, in the car agencies, in the real estate firms. It is clear, Mr. Speaker, that we are living in an inflationary period that is slowly eroding away the dollar's buying power.

Strongly supported by almost every expert economist in the United States, the temporary tax increase we are considering today would help stop inflation by checking aggregate demand quickly and fairly. No tax increase, of course, can be wholly painless. But the 10 percent surcharge is essential to restrain aggregate business and consumer demand, relieving the upward "demand-pull" pressures on prices and stabilizing the dollar here and abroad.

Like many other Members, Mr. Speaker, I am less than delighted with the $6 billion budget cut proposed in the tax bill. A cutback of this magnitude threatens to weaken Government programs of the highest priority—programs such as the ones to help the Nation's disadvantaged rise up out of poverty, to push back the physical and emotional blight eating into our cities, to guarantee equal opportunities for all Americans regardless of race. I voted for the motion Congressman JAMES A. BURKE offered in an effort to reduce the proposed budget cut from $6 billion to a far more reasonable $4 billion. That motion, however, was voted down. And, as a result, I am left with this choice: either accept my responsibility to fight inflation by supporting a temporary tax increase coupled with a staggering budget cut, or abandon that responsibility in fear that a trimmed budget may inhibit the effectiveness of urgent Government programs. I choose the former alternative. I choose it because, first, the United States must enact a tax increase to halt an inflationary spiral that would prove catastrophic if allowed to continue unchecked, and, second, because a lack of new tax revenue would constitute a greater danger to administration programs than a budget cut. Top priority Government programs, after all, could survive a $6 billion cut intact if the cut is made prudently and responsibility.

The average American citizen is faced with a choice comparable to the one I have just outlined. He must pay higher income taxes, or pay the tax on inflation. The surtax, I believe, represents by far the better alternative. Most citizens, of course, find any kind of a tax increase unpalatable. The average American working man, forced to dig deeper into his financial resources each time the inflationary spiral inches upward, is alarmed by any proposal that threatens

to further reduce his income. The 10-percent surcharge, however, would take a far smaller bite out of his income than would continued inflation. Consider, for example, a hypothetical working man earning, say, $7,500 a year and supporting a wife and two children. Let us assume, further, that he pays about $780 in Federal income taxes. Now a 10-percent tax surcharge would take only $78 from his yearly income. But a new 5- to 7-percent jump in inflation—a jump that is inevitable without a tax increase—would reduce his yearly income's buying power by $300 to $350. The higher interest rates caused by inflation, moreover, would further dilute his buying power every time he purchases anything on the installment plan. It is clear, Mr. Speaker, that a 10-percent tax surcharge would constitute a financial boon rather than a financial blow to the average citizen. And citizens in the lowest income classes, of course, would be entirely exempt from the surcharge. Most of these latter citizens—the poor, the elderly, or anyone else living on a small or fixed income—would be hardest hit by continued inflation. Their financial plight grows more serious month by month.

Aside from the threat of more inflation, Mr. Speaker, there are other equally compelling reasons for a temporary tax increase.

Additional borrowing by the Federal Government to finance a large budgetary deficit, which without this tax may rise as high as $24 billion during this current fiscal year, together with the large current demands for credit by State and local governments and by individuals and businessmen, will send interest rates shooting upward. If we do not act, we know the Federal Reserve Board will have no choice but to tighten credit even further. To protect the dollar, the Board will have to increase the prime interest rate. This will mean higher interest rates for all loans, and the small businessmen, home buyers and State and local borrowers will find it increasingly difficult to obtain credit.

The effect will be most serious in housing. Most of you will recall that tight credit was to blame for the slump in the housing industry during 1966. From the first quarter to the fourth quarter of 1966, home building fell sharply by an annual rate of $6 billion. Unless we pass this tax, soaring interest rates may have an even more devastating effect on home building. With a tax bill restraining inflation, however, the housing industry will have a good chance to continue its recent recovery from its depressed condition.

A tax increase is also necessary to prevent further deterioration in our balance-of-payments position. As domestic prices continue to rise, the pressure from both producers and consumers will grow to import cheaper raw materials and finished goods. At the same time, our exports will decline as our goods become less competitive in international markets because of their increasing prices.

Everyone knows the dollar is in trouble, and our balance-of-payments problem is getting worse. Our deficit in our balance of payments on a liquidity basis amounted to $3.6 billion in 1967 and reached the appalling annual rate of $7.4 billion during the final quarter of that year. If this downward trend should continue, our strength in the world market will decline, and our Nation will be weakened in its attempts to aid the development and maintain the security of other free nations.

The action taken by the British to devalue the pound served to underscore the loss of confidence in currencies by many nations, and this has set off a wave of wild speculation in the gold markets. As a result, the U.S. gold reserves have been drastically reduced. Over the brief period of October 1967 to March 14, 1968, the Treasury gold stock dropped by $1.7 billion—from $12.9 billion to $11.2 billion.

There is an urgent need, therefore, for swift passage of the temporary surcharge to help maintain the soundness of the U.S. dollar and to help protect our international monetary system.

Finally, as of June 10, 1968, our gross public debt reached the highest level in the Nation's history—$352.4 billion. The costs of the Vietnam war continue to rise. The Federal budget deficit, according to Secretary Fowler, will be about $25 billion for fiscal year 1968. These are inescapable facts. They call inescapably for a tax increase.

In addition to enacting a tax increase, Mr. Speaker, the Congress must begin to carry out major reforms of the whole Federal income tax system—a system riddled with inequities from top to bottom. The United States could gain vast new sums of revenue by plugging up the many loopholes in its tax law. It is absurd as well as unjust to allow industrial entrepreneurs earning millions of dollars each year to pay hardly a dime in taxes and to demand from the average citizen taxes that take away a significant percentage of his income. Just one striking example of tax loopholes is the oil depletion allowance. A bill I introduced last December—H.R. 14241—calls for a reduction in this allowance from 27½ percent to 15 percent. The bill, however, has languished in committee. It is high time, Mr. Speaker, that the Congress recognizes its responsibility to put a measure of order and justice into the sprawling labyrinth of this country's income tax law.

Our most urgent responsibility at this moment, however, is to pass the bill calling for a 10-percent income tax surcharge.

This surcharge would be a temporary tax—it would expire on July 1, 1969—and it is designed to deal with what we all hope is only a temporary financial crisis.

The SPEAKER. The gentleman from Arkansas consumed 57 minutes.

The Chair recognizes the gentleman from Wisconsin [Mr. BYRNES].

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 15 minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. Mr. Speaker, first I want to clear up the little misunderstanding about the hearings the Ways and Means Committee held. I would like to have the attention of the chairman of the committee, because I think he will verify what I am about to say.

The bill we held these lengthy hearings on had to do essentially with fiscal year 1968 and had to do with an entirely different date of beginning any new tax. I might say further these hearings which were essentially in the field of economics had to do with this particular budget for fiscal year 1968—and we never did get beyond the economic problem to discuss what kind of tax we might impose. As the gentleman, the chairman of the committee himself, said, he did not favor this kind of approach. He favored a different way of raising the taxes. The committee never got into the subjects of a tax law per se. I just want the record clear.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the chairman of the committee.

Mr. MILLS. Mr. Speaker, there is evidently a degree of misunderstanding between the gentleman and myself that perhaps is not as major as it might appear.

What we had was the request of the President when we had the hearings in August. The gentleman will remember.

Mr. CURTIS. That is correct.

Mr. MILLS. It was sent to us by the President. The surcharge he proposed in August would have been effective in the case of individuals from October 1967 through June 1969. There was no bill introduced although we had a draft bill which was printed in the hearings.

Mr. CURTIS. That is correct.

Mr. MILLS. We had hearings. The Secretary of the Treasury and others came to us to talk about any problem they saw with the proposal of the administration. Most of them talked about the need for it but many of them also raised technical problems as well. The need that existed for revenues was the major problem discussed but many also said how they preferred to have those revenues raised.

Mr. CURTIS. That is correct.

Mr. MILLS. When I opened the hearings, I did call attention to the fact that, as the gentleman from Louisiana, Mr. BOGGS, said the hearings were on the President's request. It was with respect to the 1968 and 1969 fiscal years but we did not act on it in the fall, because the gentleman from Arkansas and others were not satisfied we had worked out the counterpart to go with it.

Mr. CURTIS. That is exactly it. The gentleman will agree we did not even get into the discussion of the kind of taxes we would impose, because we were still on the economic problem.

Mr. MILLS. Mr. Speaker, the public hearings were concerned with the form of the tax but in our executive sessions we did not get to the question as to whether the tax should be a rate or a surcharge, or an excise. We said we would discuss that when we could get a reduction in spending that would satisfy the Committee on Ways and Means.

Mr. CURTIS. Yes. Mr. Speaker, I decline to yield further.

Mr. MILLS. We had testimony not only from the Secretary of the Treasury

but also many businessmen and others. And the hearings continued into this year, 1968.

Mr. CURTIS. We had all sorts of economists, too. We had some fine hearings. But what I said—earlier in the debate—and it remains true, and that is why I did not want to yield any further—when this previous discussion came up, my point was, and I reiterate it, the Ways and Means Committee did not hold hearings on the bill we have before us right now. We were not discussing its tax bill nor have we, to this day, have never discussed in hearings this bill in context with the economics that are involved in fiscal year 1969.

When we talk about the economic problem, we are talking about a current and a continuing situation. Since we held these public hearings, I want to say to the chairman, and it is very important, a most important fiscal fact occurred. The President submitted in January 1968 a budget for fiscal year 1969.

This is one of the key points I have been trying to drive home on the floor of the House and in conference—that the President has so horsed this around that we are not talking about fiscal year 1968 any more, certainly as far as expenditure cuts are concerned, and as far as revenue only 3 months, and as far as the major part of the tax, which is the tax on individuals, we are now only talking about the problems of fiscal year 1969, which begins July 1, and this was not the subject of our hearings.

Now the economic picture has altered considerably. It has further deteriorated. I will now restate on the floor of the House, the Members have no committee guidance from any committee hearings, or committee report as a result of public hearings, on the question of the economic situation as it is related to fiscal year 1969 in the context of the budget message, or for the particular tax bill before us.

I took the floor of the House in January, as soon as the budget had come down and I had an opportunity to analyze it, and I said, "The President, in effect, has thumbed his nose at those of us on the Ways and Means Committee and in the Congress who were asking for expenditure control," because, far from cutting the budget expenditure figure for fiscal year 1969, as we had been requesting, he cut his budget expenditure figure even for fiscal year 1968—and I now use the administrative budget figures—he had increased from a $135 billion expenditure figure for fiscal year 1968 to about, and I have to interpolate the "about," $152 billion or $153 billion in the fiscal year 1969 package.

This has to be considered in that light.

I say this with a little bit of heat, because I do my best to try to be accurate. When I am in error I want to admit it.

The impression was created—and the majority whip, the gentleman from Louisiana [Mr. Boggs], has now left the Chamber—the gentleman from Louisiana said that there had been hearings on the bill before us. He started flipping through pages and said my statement was not accurate, and would not yield to me for correction. And then when I tried to get the chairman to yield so we could clear the subject up, I was unsuccessful. I have time, yes, but it is not like being able to pin it down at the time the issue comes up.

I would say one other thing, and ask the chairman to verify it. The chairman is in the Chamber.

I was wondering when someone would bring up in this debate what happened in 1951. I was not on the Ways and Means Committee at the time. The House sent a tax cut bill over to the Senate, and it came back, and the Senate instead of cutting, increased tolls. This did become a real question during the conference, and the point was clearly made that had anyone raised a point of order this thing would have been thrown out because it was subject to a point of order. Am I correct in that?

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I yield to the gentleman.

Mr. MILLS. A point of order perhaps coud be raised on this bill because of the date changes in it.

Mr. CURTIS. I am not talking about this bill. I am talking about the one in 1951.

Mr. MILLS. I asume you must be referring to the 1950 act. That bill was not subject to a point of order in any respect. It was accepted because the circumstances which existed at the time.

Mr. CURTIS. I understand that. I also understand—and this is a matter of memory and I will just put it on the record—that this became a part of the discussion in conference, and so far as I am concerned a critical one, that this could not have been done if anybody had raised a point of order, and no one did, I say to the gentleman.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. CURTIS. I was not there then.

Mr. MILLS. I was there.

Mr. CURTIS. Very well.

Mr. MILLS. Nobody raised the point.

Mr. CURTIS. I know they did not.

Mr. MILLS. There was no possibility of raising a valid point of order. We did not change dates or anything like that and there was no discussion in conference of this.

Mr. CURTIS. I will have to restate what was said according to my memory in conference. I did not intend to dwell on this. I thought this would be admitted. It was that had someone raised the point that was raised here on the floor today, about the 1951 action of the Senate, it would have been held to not be in order.

Be that as it may, I will make one other distinction. That was a crisis, because the Korean war actually broke out. No one can claim that we are today in something that suddenly happened. This has been one of these slow escalation things that people like myself have been calling attention to for some time.

Now let me get to an area of agreement with the chairman. I certainly join in his presentation—it is really an indictment—of the administration's fiscal policies. If anyone listened carefully to the chairman's speech, it was an indictment of what I would say have clearly been shown to be irresponsible fiscal policies that the administration has been pursuing the past 2 years, at least; and the Congress of the United States, under the leadership of both the House and the Senate, must share in this indictment.

Now, this same leadership today is telling us and telling the House that we must go along with their proposed remedy. I would think we would look over this remedy very carefully, that the same administration and the same leaders of the House and of the Senate who have been responsible for this fiscal picture are now giving us. Again, I point out that beginning over 2 years ago I tried my best, and I might say that the Joint Economic Committee unanimously said that the expenditure level presented in the budget of 1968 had to be cut $5 billion, from $135 billion to a level of $130 billion. The Republicans on that committee—and I think I can use this word, although I do not want to sound immodest—under my leadership said even with this cut it would probably be necessary to have a tax increase. So, instead of a $5 billion cut, what we are now experiencing is probably about a $7 billion increase, because the expenditures for fiscal year 1968 look like they are going to end up around $142 billion.

So we followed the exact opposite policy. When we began the conference on this tax bill I made the point that I would support a tax increase if we could find out where the $6 billion expenditures were going to be cut; because, ladies and gentlemen of the House, it has a considerable economic impact as to where you cut. If we cut, as I have suggested, the cost of $2 billion for our troops in Europe, that has a double-barrelled effect of hitting at our deficit in the international balance of payments as well as zeroing in on the deficits in our domestic budget which create these inflationary forces. If we cut back our foreign aid programs—and I think we need to in this area—this has the same double barreled economic impact. Or, if you choose not to cut in these areas and move over into the domestic area and cut back public works, as I suggested we might consider, because I have listed, as you all know, $15 billion of cuts—not $6 billion but $15 billion—without moving at all in the field of poverty or health and education or the Vietnam war, just to get the demagoguery out of this economic discussion—I suggested that you can cut back the public works level from $5 billion to $2 billion. If we decided to do this, this has an economic impact. It is a little bit different than if you cut back in another area that I suggested of research and development, which has moved up in recent years to $17 billion cut it to $14 billion. This has a different economic impact.

When we started our conference—and I know the chairman will verify this—we asked the Director of the Bureau of the Budget if there was a $4 billion cut, where would it be applied; if there was a $6 billion cut, where would it be ap-

plied. The Director of the Bureau of the Budget started just the way he had last October when we asked this in the Ways and Means; by listing a meat-ax cut starting with school lunch program and similar popular programs that we have. I interrupted him, probably a bit rudely, and said "This is exactly what we have heard before. Has not the administration changed its position? Let us talk in terms of establishing priorities among programs and defer those that are least essential and maybe even cut back those which we can improve in the process." I started to discuss the troops in Europe. Well, that is about as far as we got, and it was at that point I said that we are already too little and too late. I would have to say to the administration as far as I was concerned that until we could get into a discussion of where cuts were to be, why, this was a useless exercise.

The chairman of the committee has accurately said that it would do no good simply to increase taxes by $10 billion if the administration was simply going to take the money in order to spend it.

So, what is the trouble? It is over excessive demand in the society and the excessive purchasing power which is available. If you transfer $10 billion of the purchasing power from the private sector over into the Government sector by increasing taxes and if the Government sector spends it, we have gotten no place in hitting at inflation.

In taking this position I have attempted to rise to the defense of the chairman of the Committee on Ways and Means where I felt he has been unfairly treated.

The SPEAKER. The time of the gentleman from Missouri has expired.

Mr. BUSH. Mr. Speaker, I yield the gentleman from Missouri 5 additional minutes.

Mr. CURTIS. I say this because he has been accused of being hardheaded and not willing to discuss the full scope of these matters. This was never the case. It was the question which I had raised time and time again as to where are we going to cut. Yes, we brought the Committee on Appropriations into it. There is no reason why the Congress does not assume the proper responsibility with respect to these matters. And, as I said on the floor several times—and I hate to say it again having said it so many times before—I felt that this was about what we were going to have to do, expenditures cuts not tied down amount to an item veto.

There is an important responsibility reposed in the Congress of the United States to now say to the President of the United States that we have this $6 billion cut, and demand to know where will it be?

Now, Mr. Speaker, let me point up another area where I disagree with the distinguished gentleman from Arkansas, the chairman of the Committee on Ways and Means. This has reference to the statement attributed to the gentleman from Ohio [Mr. Bow] saying that the administration is required to reduce expenditures in a pro rata fashion. This is clearly not so. If you take a look at the monthly expenditure figures over a period of years we see they are irregular. And by the nature of Federal expenditure they will remain irregular. The President must have discretion and flexibility. So, the President in September 1965 raised the expenditure level from $97 billion to $105 billion without any reference to the Congress. Because the Executive has continued spending and has not seen fit to cut we have seen deficits continue to increase as he utilized his carryover balances of unused power to spend.

Mr. Speaker, under President Kennedy there was a time in November 1962 where he told his Cabinet officers in an effort to cut expenditures to cut them by about $4 billion, and they did. This measure Mr. MILLS refers to is no restriction upon the President of the United States and I would argue nor is there any restriction on the timing. The Executive to this very day has not told the chairman of the Committee on Ways and Means or the leadership or any Congressman or the people where these cuts are going to be made. This is why I raise the points that fiscal year 1969 begins in 14 days. Spending is a matter which must be planned ahead of time. The expenditure level for July 1968, this next month, has been set right now. Has there been a plan put into effect to arrange for the absorption of a $6 billion cut in the expenditure levels for July of this year, next month? I say there has not. I say this on the basis that no one has indicated to the Congress where these cuts have been made. I do not find anyone who knows or who can tell me where they have been or are to be made. Nor have I heard from anyone complaining. All I have heard are complaints in anticipation that they might cut certain programs. So, I think we are up against a very serious situation where the Executive has been resisting expenditure cuts all along and has not come up with any plan as to where it is proposed to cut. He has not done so up to as late as June 20, 1968, with fiscal year 1969 only 14 days away. I express the hope that this matter is now under the scrutiny of the administration if this is going to do the job to cut back on the inflationary pressures. In other words, we have to have cuts right now, cuts not postponed until after the election.

Mr. Speaker, I have been requesting and arguing for fiscal responsibility over a long period of time and have undertaken to ascertain where we are going to cut and still the administration refuses to let the Congress in on it, if it is going to do it at all.

Now, to me, this inaction on the part of the administration is sheer irresponsibility. These people who have been around here lobbying for this tax increase, every time they call—they do not call on me too much—but when they do I said "Where do you think we should cut expenditures? Will you help us get the administration on the line as to where it will cut, so we can know about these things and evaluate them?"

These lobbyists have not been concerned, and it causes me to repeat the remark I made on the floor of the House that corporations do not pay taxes, really, they are tax collectors, they have to pass the tax on to the consumers, these corporate presidents and these bankers do not pay the tax that they are asking us to impose, but they are frequently involved in the expenditure programs of the Federal Government.

The SPEAKER. The time of the gentleman has again expired.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 2 additional minutes to the gentleman from Missouri [Mr. CURTIS].

Mr. CURTIS. I thank the gentleman for yielding.

Mr. Speaker, they do not zero in on this total fiscal question. In my judgment the responsible fiscal position to take here is to vote this conference report down for the very reasons that the chairman said: that there must be expenditure discipline. The administration said in January it is going to spend $186 billion in fiscal 1969, and already they have announced, as we get the figures, that they have increased it to $189 billion. We are talking about making cuts, and the actual expenditure figure for 1969 has been increased by $3 billion.

Now, the chairman is right, that what would prevent the administration from spending the $189 billion, or $186 billion, is the debt ceiling; that is they will be checked unless you give them the tax increase. Even with the tax increase, as the chairman has pointed out, the squeeze will be on, but it will be really on, believe me, if we do not give them the tax increase until we really get the line item expenditure cuts.

Now, one final point: There has been a lot of talk around by some that there will be chaos in 72 hours, or whatever—if we do not vote this bill up today. Let me tell you this: The western European bankers—and I talked to some of them, and I have talked to other people abroad—have already discounted the possibility of fiscal responsibility or change in fiscal policy of this administration. They have their eyes set on a date just as I have mine set, and all of us should have our eyes set, on a date in November. That is when the people will have an opportunity to change the unfortunate fiscal policy that we have been pursuing.

No one believes this administration. Even their own leaders in the Congress over here are pointing out their lack of trust. Here we are being asked to do something which I believe is fiscally irresponsible until certainty of expenditure cuts are assured, so far as getting at this serious problem of inflation. We are being asked to give the President increased tax money without being certain that there are expenditure cuts.

I hope that the House will vote down the conference report.

Mr. BYRNES of Wisconsin. Mr. Speaker, I now yield such time as he may consume to the gentleman from Wisconsin [Mr. DEVINE].

(Mr. DEVINE asked and was given permission to revise and extend his remarks.)

Mr. DEVINE. Mr. Speaker, the day of reckoning has arrived. The fat is in the fire, and the chickens have finally come home to roost. Many of us have been predicting this sort of thing for years, yet there is pitifully little solace in saying "I told you so."

Since fiscal 1960, the Democrat Congresses, at the direction of Democrat Presidents, have had annual deficits without exception: 1961, $3.856 billion; 1962, $6.378 billion; 1963, $6.266 billion; 1964, $8.226 billion; 1965, $3.435 billion; 1966, $2.251 billion; 1967, $9.868 billion; and 1968 estimated to exceed $18.5 billion.

Our great Nation is in serious economic trouble. Our public debt exceeds $350 billion. The Congress, during the 10 years I have had the honor to serve, has increased the debt ceiling over a dozen times. Not with my vote, however, as this action merely encouraged the big spenders to plunge blindly on, knowing they would be bailed out.

A lot of people do not understand the sophisticated budgetary procedures of their Government and find it difficult to comprehend authorizations, appropriations, administrative budgets, obligational authority, dollar crisis, balance of payments, gold reserve, and so forth. But most people know when you spend more than you take in, you have a deficit.

The President, and his economic advisors, "reluctantly" agreed to the provisions of the conference report, House bill 15414. They said they would "accept" the decision of the Congress, ordering reductions of $6 billion in Government expenditures. This posture is unbecoming, if not suspect.

The guns and butter argument has been going on since nearly the beginning of the war in Vietnam. The President insisted on both while the warning flags were flying high and some of us were just "small voices in the wilderness." The cautions were ignored, and the big spender, social reformers trumpeted their do-gooderism across the land with great pride, and recklessly plunged this Nation into the present critical state of affairs.

The wild, radical spending sprees were accompanied by claims of great compassion for their fellowman, in the interest of humanity; utopia, and the promised land, but always with an eye on coming elections and the ballot boxes. Those of us that exercised fiscal responsibility and voted to reduce, delay, or eliminate many of these spending schemes, were castigated, criticized, lampooned, and accused of negativism, 19th century provincialism, being reactionary, and even conservative.

Now, the shoe is on the other foot. The big spenders are turning to the Members of Congress who were not in favor of, nor responsible for the sorry state of our economy, and expect us to act responsibly and bail them out by voting for the surtax, urged by the President, in return for an agreement to reduce expenditures $6 billion. Yet, quite a sizable number of our colleagues that voted for every spending bill ever offered in Congress, refuse to support this tax bill to pay for some of their folly. To the contrary, some of them will vote against this package on the basis that there should not be any reduction in expenditures. How ironic.

And what about the reductions in spending? Where and when will they occur? My colleagues, and the Nation, know something about the credibility gap. What makes us believe the gap will suddenly close and disappear? I have seen no such signposts nor precedent. In fact, the Johnson-Humphrey administration, on December 2, 1965, promised to reduce Federal employment by 25,000 jobs. What happened? Some 190,325 have been added since that time. "Austerity program" in the National Science Foundation is demonstrated by comparing their 1961 spending of $152 million, but $495 million this year. What L. B. J. proposes, and I repeat, reluctantly, and he says "calamitous," the $6 billion reduction is a mere 1.4 percent of the total Federal funds available to be spent in fiscal 1969.

Two weeks ago, the respected and hard-working TOM CURTIS, of Missouri, a ranking member on the Ways and Means Committee, outlined for the House, the Senate, the President, the Treasury, the Bureau of the Budget, and all other interested persons, how $15 billion could be cut out of the expenditures of our Government, without even touching the so-called poverty programs, nor the Department of Health, Education, and Welfare. This plan included the Space Agency, agricultural subsidies, foreign aid, military personnel in Europe, as well as research grants. Rather than taking this realistic approach, the leadership, and the President chose to play on the emotions of the American people and petulantly suggested reductions would have to be made in programs involving children, the aged, and the disabled. This is shabby politics at its worst, yet, they cry "don't play politics" with this tax increase and economic crisis. Then they talk about reductions in the school lunch program, social security benefits, services for disabled veterans, and the highway construction program.

Can we really believe, Mr. Speaker, that voting for this surtax will halt inflation? Not for a moment. And is the President and his majorities in the Congress going the route of frugality, austerity, and belt-tightening? Just a week ago today, on June 13, this House increased the Peace Corps to $112.8 million; $5.3 million over this year, although the number of volunteers will be reduced by over 600. An attempt to reduce the authorization to $97 million was defeated. Does this performance suggest economy in Government?

Assuming the President gets his surtax, will he suddenly stop sending messages to the Congress containing vast new spending programs? I doubt it seriously. What will he do with the "Kerner Report on Civil Disorders" with all the startling recommendations on how to raid the taxpayers' pocket for an endless string of cure-alls, such as guaranteed annual income? If L. B. J. succeeds in an effort to implement the recommendations in this report, it will cost about $30 billion a year, each year, for the next 10 years. And the Banking and Currency Committee just today reported a mammoth, omnibus—ominous—housing bill, containing something for everybody, and especially compounding the taxpayer's dilemma, costing over $6 billion.

The President has been abusively critical of the Congress, as a body, for "dragging its feet," and has rather paternally demanded that we shape up, "bite the bullet," and give him more money. What he seems to forget is that the Congress is made up of Representatives—Representatives of whom? Of the people he expects to pick up the check. As one of those Representatives, I feel a deep responsibility to those people to express their views and desires, and vote their convictions. These taxpayers, I am satisfied, are fed up with wild spending by their Government and do not want more taxes. Indeed, they would prefer a reduction, and less interference in their affairs. Although not a completely controlling factor, my judgment is partially based on my public opinion poll sent to over 50,000 central Ohio families last month. Over 10,000 responses tabulated a finding that only 32 percent favor higher taxes coupled with spending reductions. Two percent said increased taxes without regard to economics was satisfactory, but 66 percent favor substantial reductions in spending without additional tax increase.

No, Mr. Speaker, one cannot in good conscience, do the "responsible" thing and tax the American taxpayer still more, when it obviously will be a futile gesture, and only encourage the big spenders to continue as they have in the past. Substantial and meaningful spending reductions, as suggested by our colleague Congressman TOM CURTIS, plus continued restraint and austerity until the Nation at least gets straightened out in Vietnam seems the better part of wisdom.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 3 minutes to the gentleman from Illinois [Mr. COLLIER].

(Mr. COLLIER asked and was given permission to revise and extend his remarks.)

Mr. COLLIER. Mr. Speaker, I believe it ought to be pointed out here at this time, particularly in the light of the remarks made by my good friend from Missouri [Mr. CURTIS], that while spending cuts are certainly essential, desirable, and necessary, that dealing with the problem that we face today solely by reductions in expenditures would not have the immediate effect upon the sharp inflationary rise that posed a very serious threat to our entire economy.

It may be true that the action that we take here today, if successful, will be a case of too little, too late. But I, for one, would certainly dislike being in the position of making that presumption and not making an effort to help the sick patient while there is still some hope for recovery.

Be that as it may we must boil this situation down to the simple facts of life,

that no one can misunderstand. The United States has accrued a mountain of unpaid bills, more than $340 billion worth, to be exact.

It has borrowed from Peter to pay Paul year after year after year. Peter is no longer in a position to carry this growing burden.

One did not have to be an economic expert to have known for years that the fiscal policies we have been pursuing would lead us squarely into the fiscal mess in which we find ourselves today.

I have repeatedly warned over the years that these policies posed a threat to the Nation solvency. Regrettably the majority of my colleagues in the Congress did not pay any attention to those warnings.

At this hour, however, it seems to me it is not a case of how we got into this mess. But, instead, it is a case of how do we get out of it.

The Government must pay its bills. It must move to save the dollar. Failure to act would impose upon those who can least afford it, the cruelest of all taxes—that is rampant inflation.

A tax bill and a slash in spending tied into a single package is the only way we can meet this challenge, otherwise the consequences could be far more damaging than even the burden of the tax increase.

You can rationalize all you like and you can assume whatever position you wish to for political or other reasons—but you cannot change the facts. We are in deep trouble, and everyone in this body should know it.

We cannot escape the responsibility of both a tax increase and a cut in Federal spending no matter how painful or distasteful either or both aspects of this legislation might be to you.

Let me say in closing, and I very deeply believe this, that the alternative to the action that we are being asked to take today would be wage and price controls within the next 6 months. That, I think, is what we ought to remember in voting on the bill before us today.

GENERAL LEAVE

Mr. MILLS. Mr. Speaker, in order to facilitate the situation, I ask unanimous consent that all Members desiring to do so may have 5 legislative days in which to extend their own remarks at this point in the RECORD on this subject matter.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. BYRNES of Wisconsin. Will the gentleman also ask that Members may include extraneous matter in their remarks?

Mr. MILLS. Yes.

Mr. Speaker, I ask unanimous consent that those extending their remarks in the RECORD may include extraneous material therewith.

The SPEAKER. Without objection, it is so ordered.

There was no objection.

Mr. FULTON of Tennessee. Mr. Speaker, for many months now I have been opposed to a tax increase. Many of my constituents have urged me to oppose a tax increase and many have urged me to support a tax bill. In my mind, I have deplored the conditions which have forced even the consideration of this legislation.

In particular, I have been disturbed at the lack of consideration we have given the urgent need for tax reform, reform which if undertaken might well increase Federal revenues to a point where the expenditure cuts in this bill could be halved or even eliminated.

I do not believe in increasing taxes. I believe in reducing them as the Congress did in the Tax Reduction Act of 1964 which I supported. We learned that year that taxation as an instrument of national economic policy can be very effectively used to expand economic growth, promote prosperity, and add dollars to American paychecks.

Now the Congress is being asked to apply this principle in reverse; to use taxation as an instrument of economic policy to protect the value of the dollar and maintain its integrity not only internationally but in terms of real purchasing power of the American family budget.

The intricacies of the dangers present to the dollar are not always apparent to the average citizen. But the steady erosion of his dollar through inflation and decreased purchasing power are painfully apparent to every weekly grocery shopper. Wages go up for some, but prices go up for all. And prices are rising today at a continuingly alarming rate. This must stop.

To oppose this bill would be for me politically popular.

My opposition against a tax increase should please every dollar earner in my district.

My opposition to this bill could be construed by every person and institution which receives Federal assistance as a vote against a cut in Federal funds for vital programs. And I must add parenthetically that I deplore any discussion of cuts in programs which feed and house millions of the poor, aid hundreds of thousands of crippled and retarded children, provide moneys for untold vital research programs in health, build schools, and educate children when we spend $80 billion a year on military hardware and term every cent "essential."

I could very easily vote against this bill, as I have intended to do, because a number of factors relating to it displease me.

It does not please me that corporations and individuals alike will be asked to pay a like percentage of income in additional taxes.

It does not please me that tax revision has not been included in this bill though we have assurances from the chairman that this will be considered next year.

It does not please me that the persons on a fixed income in the lower brackets will be required to pay a percentage equal to those individuals in the higher brackets.

It does not please me to ask the hard pressed wage earner to give up even a small additional percentage of his weekly take home pay.

But, after long, serious and painful consideration, the fact is that what does or does not please me is not important. What is important, is the economic health and well being of this Nation and its people.

When a person is ill the remedy required to restore health and vitality may be painful, but to cure the illness the remedy is required.

There is no doubt our Nation, while still economically strong today, is economically ill. Whether or not I personally like the remedy, it must be applied. The most effective remedy available to us is the Revenue Expenditure and Control Act of 1968. My own logic and reason, coupled with the expert advice which I have sought have convinced me that passage of this bill is necessary. In addition, passage of this measure is a step toward urgently needed tax reform and revision and we have had Chairman MILLS' assurance of this today.

Therefore, despite my personal reservation, I am convinced this legislation is ultimately in the best interests of the Nation and I will support it.

Mr. DANIELS. Mr. Speaker, there are several questions I have asked of the able and distinguished chairman.

I am fully cognizant of the fact that America's fiscal situation requires that we raise additional tax revenue now. I am not willing to sacrifice my country's monetary structure merely because this is election year and, like all Members, I have to go before the people in November. I shall do what is right and then the people can make their decision.

However, the people of my district, the 14th District of New Jersey, are very desirous of seeing tax reform. The very able nationally syndicated columnist Andrew Tully has written a great many perceptive articles on this subject which have appeared in the Hudson Dispatch, a major newspaper in my district, and these articles have caused much resentment among citizens who feel that through tax loopholes the very rich are getting off lightly while the poor pay through the nose.

On August 29, 1967, I introduced a bill, H.R. 12681, in this House to plug up loopholes in the Internal Revenue Code. Specifically, I proposed a standard 15-percent mineral depletion allowance, elimination of the provision in the law exempting property passing by probate from the capital gains tax, ending the unlimited charities deduction, ending the stock option provision, repeal of the $100 dividend exclusion, eliminating the multiple corporation provision, elimination of the provision whereby municipal corporations finance expansion of private businesses through issuance of tax exempt bonds, the establishment of the same rate for gift and estate taxes, and elimination of the provision whereby estate taxes may be paid by the redemption of Government bonds at par value.

Mr. Speaker, in view of the assurance that the able gentleman from Arkansas [Mr. MILLS] chairman of the Ways and Means Committee, about plans for action by his committee in the area of reform, I can vote for this bill.

Mr. Speaker, I have been concerned about the good people who have sent me to Washington, many of whom are of modest means, and who pay taxes while seeing the rich get off lightly. We in the oldest section of the Garden State of New

Jersey already pay one of the heaviest tax burdens in the United States. I cannot ask my people to bear an even heavier burden unless there is some kind of tax reform measure in the offing and since Mr. MILLS has said that such reform will take place I shall vote for the adoption of the conference report.

Mr. ST GERMAIN. Mr. Speaker, the tax bill we consider today presents a great dilemma for me because on one hand I realize the need to reduce our national deficit in an effort to place our fiscal house in order but on the other hand I am aware of the disturbing fact that this will be done at the expense of those who can least afford it. Let me expand upon this.

The dollar is in trouble and the world is anxiously waiting to see what we are going to do about it. They are waiting to see if we will take the necessary steps to reduce our national deficit and balance-of-payments deficit. They are waiting to see if we are willing to prove that we are able to pursue greater fiscal responsibility, for we cannot endlessly spend more than we take in.

If the dollar should fail, all segments of our economy will experience failure. This, we cannot have. This, we will not have if the necessary steps are taken.

Let us take a hard look at the proposal before us today. Under this legislation, we are asking that everybody pay an additional 10 percent in taxes. It is not a graduated tax. It is a tax that will most affect those in the lower income brackets for they can least afford such an increase.

In addition, we are asking that $6 billion be cut from the national budget for fiscal year 1969 which, incidentally, is just a few short weeks away. An effort was made by the distinguished gentleman from Massachusetts [Mr. BURKE] which I supported, to limit reductions in spending to $4 billion. Unfortunately, his proposal was rejected and now we face what I consider to be an unrealistic reduction of $6 billion. Where is the money to be cut from? Most likely, domestic programs vital to the stability and growth of our society will be hardest hit.

The Congress has worked diligently and, in many cases, courageously, to provide imaginative and effectual legislation to enable our society to overcome its ills. It has provided programs that strike at the root causes of our social ills. We thought it vital to our society that such programs be created. Are we now to, in effect, scuttle them in a mad rage to reduce spending?

Once again, the people who will be hardest hit will be those who can least afford it. It will be the disadvantaged, the mentally or physically ill person, the economically marginal person striving toward higher education, the senior citizen who is no longer able to be part of the Nation's working force, the poor person who seeks help so that one day he may help himself.

Mr. Speaker, with this legislation, as I see it, we can now clobber the small man from both ends. We can ask him to pay greater taxes and, at the same time, take away from him the help he needs to progress.

It is ironic also that unless we act to insure a sound and stable dollar, we again will be hitting hardest those who can least afford it. The senior citizens and the low- and moderate-income taxpayer will see the real value of their modest savings just plain melt away before their eyes. These same people will be those hit hardest by ever-increasing interest rates on the moneys they must borrow for the necessities of life and housing. If the dollar were to dwindle in purchasing power in the market because of runaway inflation, these citizens would once again be the ones who would suffer most.

How about the big man? Nobody is asking him to abandon ship. He can best afford a tax increase because in most cases he is not paying anywhere near what he should be—thanks to many legislative concessions. As far as most domestic programs are concerned, he does not really need them so if there is a reduction in funds for Headstart, the Job Corps, elementary and secondary education, or the national defense student loan program, he will not be intimately affected.

Why must we always ask the little man to pay?

Why, pray tell, can we not have tax reform rather than a deformed tax?

Whenever this matter of tax reform is mentioned, the response is to conduct a study. We have been studying this matter for years and I say that it is about time that we begin to close the tax loopholes, that we begin to gather in the necessary revenue from those who could and should pay greater taxes.

It is about time, Mr. Speaker, that we act in the right direction. If we are to put things in order, let us start at the top rather than start and end at the bottom.

Let us have a true tax reform and perhaps we will not have to take so much away from those who can least afford it and who most need our help.

I am being asked to vote today on a tax bill that will help our Nation put its fiscal house in order. The matter is so serious that to vote against this measure would probably spell disaster for our Nation. This step can be likened to the situation where infection has set in and the doctor says that unless your leg is amputated immediately, the infection will spread to other parts of the body. Certainly, we decry and lament about the amputation; however, the step is the lesser of two evils.

Therefore, I must, in good conscience, cast my vote in favor of its passage. However, I do so with reservations and I appeal to this body today to vigorously work toward true tax reform. Let us never again be blackmailed into voting for a measure that could have been avoided if the necessary steps had been taken in time.

Mrs. BOLTON. Mr. Speaker, I am voting against the administration's tax increase proposal because it is simply an exercise in fiscal futility. It proposes to bail out the administration by drowning the American taxpayer.

I say this because the tax increase proposal would add to the burden of the truly forgotten men and women of America—those people who operate on limited budgets and are already caught in the inflationary pinch brought on by wasteful administration spending policies.

Those of us who have consistently opposed these policies, which squandered taxpayers' money without accomplishing desired results, are now being asked to rescue the Johnson-Humphrey administration from its past errors.

If it were possible that this tax increase, coupled with the proposed limited reduction in Federal spending, could restore balance to our economy, I would support it. However, it appears that an administration which foolishly attempted to do too much too soon through wasteful expenditures is now trying to accomplish too little too late in spending cutbacks.

So far the administration has not given the Congress any real guidelines as to where and when it is proposed to cut $6 billion from Federal spending in exchange for the $10 billion to $12 billion tax increase. In view of past performances of the administration in overstating anticipated receipts and grossly underestimating projected outlays in order to gain the enactment of huge spending programs, can we really take for granted that these spending cuts will be made? Before increasing the burden on the taxpayers, we should have a statement from the leaders of this Government setting forth clearly the amount of each spending cut and the area in which that cut is to be made.

Mr. ICHORD. Mr. Speaker, many months ago, when the request was first made for an increase in the surtax, I took the position that I would not vote for a tax increase unless and until a decision was made to reduce spending. I took this position, recognizing that the economy was seriously overheated and something had to be done, as distasteful as the action might be. I saw no need of increasing taxes and continuing the high rate of spending. Nothing would be accomplished by taking the overheating out with one hand and returning it with the other. The only responsible solution is take both actions simultaneously.

The measure before us includes a reduction in spending in the amount of $6 billion. As an elected public official, I do not relish the unpleasant task of increasing taxes, or more accurately restoring the tax levies which we removed 2 years ago. Such action is made more difficult by the fact that this is an election year. However, I feel that the financial situation is so dangerous that I see no other responsible position for a Member of this body. Personally, I believe that under normal circumstances I would be justified in voting no on this bill, because I have not voted for the heavy spending which makes this action necessary. But these are not normal circumstances. The situation is so explosive, so precarious, that I believe a Member who recognizes the true situation should vote for the measure even if he knew it would mean his defeat. The terrible costs of inflation, rising interests costs, our gold outflow, our

balance-of-payments deficit and our worsening balance-of-trade position leaves us no other choice. There are some provisions in the package before us which I personally do not approve but the danger is too great not to take some action today. The choice as I see it is between passing this measure and absolute financial chaos.

Mr. REINECKE. Mr. Speaker, I would like at this time to state my position on the surcharge-expenditure reduction provisions incorporated in the tax bill now under consideration.

I am happy to give my wholehearted support to the $6 billion expenditure reduction provision added to this tax bill. In fact, I believe that we have delayed too long in imposing restraints upon excessive Federal spending. This requirement, combined with other provisions incorporated in the conference report calling for a $10 billion reduction in new obligational and loan authority for the fiscal year 1969 and for an $8 billion recision of unobligated balances and loan authority approved in years prior to 1969, will help bring a halt to the reckless spending spree which has characterized the Democratic administration for so many years.

A glance at the latest Federal budget document will reveal just how rapidly Federal spending has been increasing since the Democratic administration took office in 1961. Under our new unified budget concept, Federal expenditures during the fiscal year 1961 amounted to $97.9 billion. During the coming fiscal year 1969, they are expected to be almost double that amount—rising to $186.1 billion. Despite repeated congressional demands for fiscal restraint, the President's latest budget document for the fiscal year 1969 calls for an increase of $10.4 billion in Federal spending over the current fiscal year 1968 level.

Latest estimates by administration spokesmen indicate that without the tax bill the Federal budget deficit will amount to $32 billion during the fiscal year 1968 and that it may rise beyond that during the next fiscal year.

Because of this large gap between Federal income and outgo, I feel that I must reluctantly support a temporary tax surcharge at this time. I am convinced that approval of this tax increase is the only way we can get action calling for a mandatory cutback in Federal spending. Certainly all of us dislike having any additional tax burden superimposed upon the high taxes we are already paying to our National, State, and local governments. But I feel that until the war in Vietnam is successfully concluded, we must face up to our responsibilities and enact this 10-percent surcharge as a temporary expedient to help finance our defense effort in Southeast Asia and at the same time to bring Federal spending more within the bounds of income.

It is estimated that enactment of the surcharge will bring in approximately $10.9 billion in additional revenues during the fiscal year 1969. Other provisions of this bill extending existing automobile and telephone excise tax rates and accelerating corporation income tax payments will also bring in an estimated $3.1 billion in added revenues next year. These tax features, coupled with mandatory cutbacks in spending and in obligational authority, will help to bring our Federal budget more into balance and will restore sanity to our national fiscal affairs.

Let me now briefly explain why I have supported the tax surcharge-expenditure reduction provisions incorporated in this tax bill.

I believe that action must be taken now to curb inflationary pressures which are building up at an unacceptable rate, threatening the stability of the U.S. dollar at home and abroad.

Rapidly mounting defense expenditures due to our involvement in Vietnam has created an excessive demand for goods and services which surpasses available supply. This has only served to drive prices upward at too rapid a rate, creating an inflationary price spiral.

At the present time consumer prices are increasing at an annual rate of 4 percent. And they will certainly rise even faster as more and more Federal dollars are diverted to our operations in Vietnam and with our ever-expanding Great Society programs attempting to give something to everyone.

Earlier estimates which placed the annual cost of our millitary effort in Vietnam at $26 billion are already being revised upward as the President now seeks more funds for this purpose. There is no question that we must fully support our servicemen and give them all the weapons and equipment which may be required to bring peace to this troubled area just as soon as possible.

There are, however, areas which can and must be cut back at this time to bring down this high level of spending and high budgetary deficits which annually plague us.

Clearly, if action is not taken now to balance the budget, inflationary pressures will soon get out of hand. And we all know that inflation exerts the most severe impact upon the aged and low-income families living on meager and fixed incomes.

Due to our present policy of "spend now, pay later," our public debt has been soaring. Since June 30, 1961, when the gross public debt outstanding amounted to $289.2 billion, it has increased by 22 percent to $353.5 billion on June 12 of this year. This represents the highest debt in our national history. Interest payments alone on this huge debt are expected to cost in the neighborhood of $15 billion during the fiscal year 1969. Such payments represent the third largest category of expenditure in the 1969 budget—exceeded only by our national defense outlays and by those for Great Society health, labor, and welfare programs.

Continued heavy borrowing by our National Government, combined with the credit demands of State and local governments, business firms, and individuals, only serves to drive interest rates higher and higher. A continuation of this trend will ultimately squeeze out the small businessman and the homeowner as they find credit increasingly difficult and costly to obtain.

Inflation is further causing a deterioration in our balance-of-payments condition. Rising costs push up the prices of our goods which are offered for sale abroad. They thereby become less competitive in world markets, and our exports and trade balance—which is the mainstay of our balance-of-payments condition—have been decreasing rapidly. In addition, excessive demand for goods at home makes fewer items available for export and contributes further to our diminishing trade balance. Any worsening of our balance-of-payments situation will make it more difficult for our Nation to continue to assist in the development and defense of other small nations struggling to maintain their independence.

Continued accumulation of large budgetary deficits further undermines the stability of our international monetary system. Failure up to this time to take actions which will hold down spending and the deficit has had serious repercussions abroad. Inflation has brought about much insecurity and loss of confidence in the dollar. Because of this, wild speculation has taken place in the gold markets, and our gold reserves have been dropping sharply. The free world is looking to us to take responsible action which will restore confidence and stability once more in this troubled area.

These are just a few of the reasons why I believe that we must delay no longer in trimming the waste and fat out of our national budget and bring Federal spending down to a more reasonable level. Such budget reductions combined with the temporary imposition of a surtax will do much to restore fiscal responsibility to our national finances which has been so sadly lacking for years. Enactment of these provisions will demonstrate to the world that we are willing to face up to our problems, and that we are willing to make the necessary sacrifices which will restore strength and stability to our national economy.

Mr. MACHEN. Mr. Speaker, for 2 years I have been deeply concerned about the inflationary trend in our economy. I have been deeply concerned about higher and higher interest rates, about tight money and about our balance-of-trade deficit. I am particularly concerned about the keen competition for the savings dollar by the Government, commercial and industrial interests who are paying premium interest rates for loans and causing a severe crisis in the home-building and home-financing industry. I have supported legislation I felt would reverse these trends and abate the crisis.

If I were convinced that the 10 percent surcharge would further alleviate these serious problems, I would be the first to endorse it.

But I am not convinced, and I will vote against the surcharge. I wish to make it clear that my vote is a protest vote—a protest against the continuing failure of the administration to propose and the appropriate congressional committees to consider comprehensive tax reforms. Before I support a regressive tax surcharge, I want to vote for progressive tax reform, a desperately needed reform without loopholes, with substantial reduction in oil, gas and mineral depletion allowances, with substantial reduction in multiple surtax exemptions on giant corporations, and with substantial reduction

in capital gains exemptions. It is estimated that all these outmoded and inequitable provisions of our present tax statutes cost the Federal Government about $20 billion a year. If we are to propose a cure for our fiscal problems, we must go to the cause. It is not a matter of piling tax upon tax on the shoulders of the grassroots citizens who pay the major portion of our revenues. These people need some consideration and I am raising my voice in their behalf and registering my protest against regressive taxes and surcharges that do not go to the root causes of our fiscal problems.

The package approach under which we will consider H.R. 15414 today sounds the death knell for tax reform legislation in this Congress. I urge you all to reject this hodgepodge legislation and then settle down to determining where we should cut expenditures and what tax laws need revision so that the cost of running the Government is shared equally by both the rich and poor.

Another reason I am not convinced of the need for this regressive surcharge is what occurred in my State after major tax restructuring. It simply created problems that were not foreseen when it was enacted. Now, revenue is running $30 million behind estimates and our State government is in serious financial trouble.

The regressive surcharge is a weak stopgap measure without any long-range or comprehensive solutions to our fiscal crisis. It is the last thing we need now, when the need for major tax reform is so great. Let us act to solve our fiscal crisis in a logical, objective, and intelligent manner by rejecting this regressive surcharge and enacting major tax reform. Time will tell that we were right in so doing.

Mr. Speaker, during this debate many of my colleagues have made clear the frustration we feel in the refusal of the administration to acknowledge our calls for tax reform and control of our expenditures. I am distressed by the continuing refusal of the leadership and the administration to act on tax reform, to even heed our calls for tax reform. As a supporter and believer in many of the administration's programs, I am amazed by the administration's inability to understand that tax reform must precede action adding more taxes on an overburdened public.

I believe that one way my plea will be heard is to vote "no" on the surcharge as a protest against this administration attitude. I believe that there is still time for the Congress to enact meaningful tax reform legislation before this session adjourns. This way we can effectively ease the high interest rates, tight money, inflationary spiral, shore up our international monetary situation and, equitably to all taxpayers, ease the fiscal crisis.

Mr. STEIGER of Wisconsin. Mr. Speaker, I rise in support of H.R. 15414.

In my judgment, this legislation will be the first significant step taken during the past 2 years toward fiscal responsibility.

It is not easy to increase taxes when the taxpayers of America are already heavily burdened and yet I cannot in good conscience vote any other way than in support of this bill. I say that, Mr. Speaker, because these are critical times and we are in a dangerous position economically.

For the past 7 years we have run up massive Federal budget deficits. We have seen our balance-of-payments position decline. There has been a substantial run on our gold supply, and the rate of inflation has increased dramatically. All this cannot continue.

The American people support an end to runaway spending policies. This bill provides a start toward that end through the imposition of a $6 billion expenditure reduction.

The American people are prepared to support an end to skyrocketing living costs. This bill, both by imposing a 10-percent surtax on individuals and corporations and expenditure reductions, is aimed at doing just that.

As Arthur F. Burns, former Chairman of the Council of Economic Advisers under President Eisenhower and now chairman of the National Bureau of Economic Research, said in the May 1968 Tax Review:

> In recent years, we have discussed extensively the need to reduce the poverty which still exists in our land of plenty. This is an objective that practically all Americans share. Unhappily, much of the public as well as private effort to reduce poverty is being nullified by inflation.
>
> There can be little doubt that poor people, or people of modest means generally, are the chief sufferers from inflation. Poor people rarely know how to protect themselves against inflation. What little savings they have are apt to be in the form of bank deposits, life insurance policies, or government savings bonds, the purchasing power of which keeps eroding when the price level rises.
>
> Moreover, since bad health, unemployment, irregular work habits, and poverty often go together in life, the incomes of poor people are apt to fluctuate more than the incomes of the well-to-do. Last year, for example, the number of low-income families suffering a loss of dollar income nearly matched the number that experienced a gain. Once we take account of the advance in prices, it appears that the proportion of low-income families whose real income has lately declined may well exceed the proportion whose income has risen. This is a grave injustice.
>
> The injustice of inflation is not confined to poor families. Inflation affects adversely everyone whose money income fails to respond to the rising cost of living or whose savings take the form of fixed dollar assets.
>
> Besides these effects, the recent inflation has worked havoc with our money and capital markets. Last year the Federal Reserve authorities made a strong effort to create monetary ease and to bring interest rates down. They were, however, entirely unsuccessful. Not only did interest rates fail to come down, but some rates—notably, government and corporate bond yields—rose to the highest level in several decades. This rise in interest rates is proving a burden on many home buyers and other who find it necessary to borrow.

Dr. Burns in that same article pointed out—

> There is less confidence now in the external value of the dollar than at any time since 1933. Much has been said in recent weeks about the gold crisis. What we have been experiencing . . . is an international crisis of confidence in American financial policy.

It is time, Mr. Speaker, to say halt. It is time to say that we are going to level off and that we are going to reduce spending. It is time to say that we need to establish priorities as I have been advocating for some months.

For many Americans the apparent economic gains of the past 2 years have been only an illusion created by inflation. This is disturbing, Mr. Speaker.

While our gross national product grew by a reported 14 percent in current prices and about 6.9 percent in real terms, average weekly earnings of nonagricultural workers increased by $7.65 or nearly 8 percent between January 1966 and December 1967. But for a man with three dependents, spendable income—take home pay in constant prices—declined during this period. For those with fixed incomes, the effects were more obvious, a loss in real income of about 6.1 percent.

As the economic indicators clearly point out, for many American businesses, the record has been no better. Corporate profits, after taxes, ran at an all time record rate of $52.2 billion in the first quarter of 1968—an increase of $3.0 billion or 6.1 percent over the first quarter of 1966. But what will these profits now buy?

If invested in new equipment, the higher corporate profits will now buy no more than they would have at the beginning of 1966.

If invested in new industrial buildings, today's profits will buy slightly less than in early 1966.

Dividends paid out to stockholders increased by 8.4 percent over the past 2 years. But their total buying power, as measured by the consumer price index, increased by only 1.6 percent.

The lesson of the past 2 years should be clear. Government can always raise whatever funds it needs, as long as the public will allow it. The money can be raised either by taxing or by borrowing. And in a fully employed economy, the only consequence of deficit spending can be inflation, which creates the illusion of general growth while siphoning funds out of the private economy.

I am well aware that it is not politically popular either to urge restraint in Government spending or to increase taxes. Excessive Federal Government spending and large budget deficits in the long run harm those who think they benefit most from it.

It endangers the welfare of our citizens, weakens our economy and threatens the future stability of our Nation.

This is why I have advocated, since coming to Congress, sizable spending cuts either before or in conjunction with an increase in taxes. H.R. 15414 does just this.

This bill is not a panacea, but in all of its parts, it will, I believe, do much to restore stability and to impose needed restraint. It will also provide us with the time necessary to act on further spending reductions through the appropriation process.

Mr. ROTH. Mr. Speaker, it has been my contention for the year and one-half I have served here, that whether or not the economy can be managed by raising taxes, lowering them, or whatever in order to maintain a constant state of prosperity is only one small facet of what is a much greater problem. That prob-

lem is the enormous growth in recent years of the Federal Government, its spending policies, and the long-range direction in which the Federal Government is taking this country.

Since 1960, the population growth of the United States has been about 10 percent. In that same period, the growth in numbers of Federal employees has been more than 25 percent. And during that period the growth of Federal spending has been 83 percent.

This great surge in spending cannot be attributed to defense and the war. Since 1960, defense spending is up 68 percent while nondefense spending is up almost 100 percent. It took the Federal Government 173 years to reach the point where it spent $100 billion in 1 fiscal year. Yet, if the present trend persists, it will take us only 9 years after reaching the $100 billion figure to leap all the way up to a $200 billion budget.

It is my judgment that it is because of these spending policies of the administration and the authorization of such spending by this and previous Congresses, this Nation is now in the midst of a fiscal crisis. Essentially, this crisis has arisen because of one overriding root cause—the enormous deficit spending by the Federal Government.

Unless something is done in the short run this Government may spend $25 billion more in the coming fiscal year than it collects in taxes. During the fiscal year coming to an end this month, this Government—it is estimated now—will have spent more than $20 billion more than it took in.

Some argue that this amount of spending was necessary for the good and betterment of the country. But it is a fact that deficit spending of this magnitude does irreparable harm to virtually everyone. It breeds intolerable inflation. Inflation, borne of much smaller deficits than we will have this year, has already reduced the 1950 dollar to 71 cents today. It breeds soaring interest rates unattainable for the average person. The interest rates are already the highest in four decades, and are still climbing.

It reduces the competitiveness of American products overseas, making our balance of payments all the more critical. Indeed, in April of this year, imports exceeded exports. The gold outflow crisis continues.

But perhaps most importantly it shows a general fiscal irresponsibility by this Government that undermines domestic and international confidence in our national currency, and in the self-discipline of the American Government. It breeds the kind of thing that could lead to a series of national and international repercussions that could bring an end to what has been an era of international economic stability.

We must begin now to bring about some degree of order, some degree of priority, out of this headlong plunge toward more Government spending. Unless we do, we can expect Government spending to again double in the decade of the seventies as it has in the decade of the sixties.

In authorized appropriations we have already built up a pipeline containing $223 billion. At the present time, by some estimates, the unfunded commitments of the Federal Government to pay in the future for retirement benefits, for social security, for veterans' pensions, for completion of public works, for subsidies, and for other items, are about $1 trillion. Let me repeat that—$1 trillion.

Previous Congresses have passed hundreds of Government programs on the "thin edge of the wedge" basis. They passed huge programs with very small amounts of money for the first year. These costs are burgeoning and their full impact is now being felt.

Why can such things happen? There are many reasons, not the least of which is that some candidates for public office and some officeholders seem to believe that the only way to get elected is to promise more and more, even though the promises far exceed the fiscal capacity of the Government or the country.

Another reason is that too many believe that an instant tomorrow can be achieved by the spending of unlimited quantities of money to solve problems overnight. There is no instant tomorrow, and only demagogs will promise there is.

Another reason is the vast proliferation and splintering of Federal progams. I have recently completed an 8-month research effort into this area and will discuss my findings on the House floor next week.

Government spending is compulsory spending. The Government can spend only what the people provide, either directly in taxes or indirectly through inflation. If the Federal Government constantly leads the people to believe they can expect ever more to be delivered, we will find both the people and the Government in constant frustration. Worse, the public sector is built up at the expense of the private sector, and nothing can be a more imposing threat to the American people than that.

In the document, the "Budget in Brief," on page 17, there is a table showing estimated expenditures in fiscal year 1969 for each of a dozen functional categories. The table discloses projected increases in all but one of those categories. The total of these increases is almost $13 billion.

When our Nation's budget gets into such a condition, it becomes the foremost necessity, as well as the painstaking responsibility, of the Congress, and of everyone privileged to serve here, to carefully study and evaluate the merits and costs of the many measures we consider and to subject every expenditure program to the most searching examination.

I, and others, have tried to do just that during the last year and a half. To many of us in Congress, to many economists and, thankfully, to an increasingly large number of voters, Federal spending in recent years has taken on every bad characteristic of a driverless car. And those in charge seem not to care. They vote to spend, spend, spend. Those of us who cry out for the need to bring our fiscal house into some semblance of order are painted in rhetoric as neolithic characters out of the Stone Age, opposed to change, opposed to progress, opposed indeed to everything.

Those of us who have been privileged to sit in this House during the 90th Congress have had many occasions to use our votes to provide the money necessary for essential programs and we have had equal opportunity to make cuts, both large and small, in lower priority programs that could have been postponed, spread out over longer periods of time, or otherwise reduced at this time. Had this Congress started in January 1967 to be more prudent in its authorizations and appropriations and had more carefully weighed the relative importance of Federal programs and activities, there would be no need for us to gather here today and vote on an increase in taxes. Expenditures may well be cut today. They could have been cut more effectively if this Congress had taken it upon itself to do so when voting on the individual appropriation bills. Taxes may well be raised today. There would have been no need for this had Congress been more prudent in the past.

I would like to at this time discuss just a few of the opportunities the House has had during the past 18 months to reduce expenditures, to tighten the belt a little, and thus have avoided the need for the vote we must take here today. I regret that a majority in the House did not vote with me to support all of these reductions.

March 22, 1967: Motion to recommit Treasury-Post Office appropriation with instruction to limit spending to 95 percent of budget estimates—168 of us voted for the spending limitation, but we were defeated.

April 27, 1967: Motion to recommit the Interior appropriation with instruction to limit spending to 95 percent of budget estimates—158 of us voted for the spending limitation, but we were defeated.

May 17, 1967: Recommital motion to eliminate $225 million from the independent offices and Housing and Urban Development appropriation—193 of us voted for the cut, but we were defeated.

May 31, 1967: Motion to recommit the State, Justice, Commerce, judiciary appropriation, excluding the FBI, with instructions that spending be limited to not more than 95 percent of budget estimates—171 of us voted for the limitation and we were successful.

June 6, 1967: Motion to limit spending to 95 percent of the $4.8 billion Agriculture budget estimate, with exceptions for school lunch and special milk programs—175 of us voted to limit spending, but we were defeated.

July 18, 1967: Motion to recommit the Transportation appropriation with instructions to limit spending to 95 percent of budget estimates—213 of us voted for the limitation and we were successful.

July 25, 1967: Motion to recommit the public works-AEC appropriation bill with instructions to cut back by 5 percent, or $231 million—166 of us voted to save, but we were defeated.

August 22, 1967: Opportunity to vote for cuts in the NASA appropriation—92 of us voted against to make cuts in the $4.6 billion bill, but we were defeated.

October 4, 1967: Motion to recommit

the Labor-HEW appropriation bill to cut $20 million—226 of us voted for the motion, and it passed.

October 17, 1967: Motion to recommit the Transportation appropriation with instructions to limit it to the amount asked by he President—124 of us voted for the spending limitation, but we were defeated.

October 26, 1967: Recommital motion against expansion of rent supplement program by knocking out $10 million from the conference report—184 voted for the $10 million saving. We were defeated.

November 17, 1967: Opportunity to make cuts in the foreign aid bill—143 of us voted against the $2.67 billion appropriation so we could make cuts. The full appropriation passed.

December 15, 1967: Motion to recommit the supplemental appropriation bill with instructions to reduce it from $1.84 billion to $1.77 billion—108 of us voted for the reduction, but we were defeated.

The need today for the passage of this tax bill cannot be blamed solely on the Congress. The largest measure of the blame can be apportioned to the administration. The administration has long been aware that if spending escalated the way it has, that a tax boost would be required to pay the bill. Yet the administration has refused to be prudent in its requests to the Congress and it has refused to develop a list of priorities. Many of us have told the President during the past year that the times cry out for an austere budget. We have told him that essential programs can be continued, but the less essential programs must be cut or perhaps postponed. As the New York Times put it last year:

What is needed is the political courage to reduce non-essential spending and put on a brake.

During this fiscal year, substantial savings could have been realized in less essential areas, if only some initiative had been taken by the President. Instead, arms have been twisted to get larger, ever increasing appropriations. Meanwhile, the inflation this spending has caused has made deep bites into the incomes of American families, so that they are finding it increasingly difficult to make ends meet.

The need for priorities and a reduction in spending has been pointed out many times by some Members of this body. I have written to the President imploring him to take the initiative in heading off the inflation and tax rise that would surely result from the spending policies of this Government. I would like to include at this point some of the correspondence I had with the President in this regard last year:

JUNE 15, 1967.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Recent estimates by the Chairman of the House Ways and Means Committee, Wilbur D. Mills and others indicate that the increasing cost of the war, combined with other Federal expenditures, may well result in a budget deficit of more than $29 billion during the next fiscal year. Should this happen it would, of course, be the biggest deficit since World War II.

I am deeply concerned about this prospect and I believe that in the interest of this Nation, it is essential that every step be taken to keep the Federal budget in better balance.

In light of the possibility of such a huge deficit, I respectfully submit that you and the Executive Branch again review Federal programs, with the objective of holding back spending in every non-defense area, consistent with national interest.

I recognize that our domestic programs have worthy objectives, but the threat of such serious economic consequences makes such cutbacks imperative and demands postponement of less critical spending.

There are several ways in which I believe this can be accomplished. First, a list of priorities should be established for all Federal programs. Those of lesser import should be reduced in scope or postponed until a later date. Secondly, I am confident that each Executive department and agency, like any large organization, can find ways of reducing spending without eliminating essential services. I am convinced that each department and agency, if directed by you, could hold down spending by at least 5–10 percent, without crippling its effectiveness.

I respectfully recommend that you enforce the moratorium on further employment and charge the Bureau of the Budget with the responsibility of insuring that each department and agency cut current and future expenses to the fullest extent possible.

Long range, I strongly recommend that you join the Congress in establishing a new Hoover-type Commission, with the responsibility of streamlining and making more effective our government's operation.

Recognizing that these may be severe measures, I submit that the circumstances require stern action if the American people are not to be faced with a new wave of inflation and a substantial tax increase. It is my belief that such action is in the best interest of this Nation and that the American people will applaud and support you in efforts to tighten the belt.

Faithfully yours,

WILLIAM V. ROTH, Jr.,
Member of Congress.

THE WHITE HOUSE,
Washington, June 21, 1967.

Hon. WILLIAM V. ROTH, Jr.,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: Thank you for your letter of June 15 to the President regarding the Federal budget.

We appreciate your interest in letting the President have your comments on Federal expenditures, and your letter is being referred to the Bureau of the Budget.

Sincerely,

BAREFOOT SANDERS,
Legislative Counsel to the President.

EXECUTIVE OFFICE OF THE PRESIDENT, BUREAU OF THE BUDGET,
Washington, D.C., July 10, 1967.

Hon. WILLIAM V. ROTH, Jr.,
House of Representatives,
Washington, D.C.

DEAR MR. ROTH: I have been asked to respond further to your letter to the President concerning expenditures and tax policy.

The January budget indicated a 1968 deficit of $8.1 billion. Our more recent estimating raised that to about $11 billion, which could turn out to be somewhat on the low side, taking contingencies into account. The estimate of a deficit approaching $29 billion, on the other hand, would have to assume a very significant rise in Defense expenditures, failure to enact the tax increase, and at the same time an economy so sluggish as to cause Federal revenues to fall below estimates. This is an unlikely combination of circumstances.

The Administration is fully aware of the need to hold down expenditures and is taking every practicable step to do so. The problem of major expenditure reduction is made difficult because of the composition of budget expenditures. As you know, $75.5 billion goes for defense; $29.4 billion is for relatively uncontrollable civilian expenditures such as interest on the debt, veterans' pensions, and public assistance grants; and $15.3 billion is committed for payments on prior contracts and obligations. The balance of budget expenditures, roughly $15 billion, is where the reduction you propose would have to occur, and this includes programs such as tax collection and air navigation facilities which are not susceptible to cuts. Despite these facts, the President is reviewing expenditures to see what curtailments are feasible.

I would also point out that Federal expenditures have been increasing much less than our economy has been growing. The enclosure brings this out clearly.

Sincerely,

WILLIAM D. CAREY,
Assistant Director.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D.C., July 19, 1967.

The PRESIDENT,
The White House,
Washington, D.C.

DEAR MR. PRESIDENT: Recent correspondence from Mr. Barefoot Sanders of your office and Mr. William D. Carey of the Bureau of the Budget in response to my June 15 letter to you is appreciated.

In exploring further the problem of holding back and postponing Federal spending, Mr. Carey pointed out that such action is not an easy task. I agree that, indeed, it is a formidable task; but, more importantly, it is an essential task.

I spent many years in the business community and found that when the chips are down, economy can become a way of life in a large organization, including government, just as it can in a small family. The catalyst of such economy is, of course, pressure from the top. Again, I would like to reiterate from earlier correspondence with you my contention that each Executive department and agency, on direction from you, can hold down spending substantially without eliminating important services or crippling effectiveness. In fact, recent information I have received indicates that spending can be held down at least 10 percent—perhaps as much as 15 percent—without undue strain. In government, as elsewhere, we need simple good management practices aimed at cutting corners, eliminating duplication, reducing travel, establishing priorities, and setting goals for fixed-percentage savings. To be effective, such programs cannot be merely enunciated, but must be carefully followed through. Each Federal employee must be made conscious of the demanding need to economize in his day-to-day operations and made aware of the impact individual action has on the overall effectiveness of a general belt-tightening program.

One thing that concerns me in this area of enunciation and follow-through is that too often goals are ignored and economy never realized. For example, despite your freeze on new hiring in government in September 1966, more than 131,000 new employees have been added at a total cost of more than $1 billion.

I believe that economy and adherence to economy goals we set are of such urgency and importance that I suggest you might wish to give consideration to the appointment of a special representative, a "czar" on economy in government. This individual should have the full authority and prestige

of the Executive Office to review operations in all departments and agencies and to regularly report to you and the Cabinet on the progress in the economy effort.

The great cost of our defense establishment and the ever-increasing financial burden of Vietnam are now of such magnitude that, in my judgment, we cannot move forward on all domestic fronts as rapidly as we might like. I believe strongly, and urge your concurrence, that rather than scattering our shots over many programs and continuing the present level of spending financed by a tax increase, we must instead establish, and adequately finance, priorities; move ahead with the most critical programs; and postpone others.

Despite arguments to the contrary, after considerable study there is no question in my mind that Federal spending can be cut by at least an amount equal to the projected revenues accruing from the proposed tax increase. It is my belief this can be done with little effect on essential government services, following these general guidelines:

(a) Establish priorities among domestic programs and construction projects, keeping FY 1968 spending at a level no higher than FY 1967 on highest priority programs, FY 1966 levels for less critical programs, and postpone others;

(b) Postponement of initiation of certain new spending programs regardless of previous Congressional authorization, allocating funds only for planning so these programs may be quickly implemented at some future date or to bolster the economy should the need arise; and

(c) Reduce present level of government employment to September 1966 level on an attrition basis by not hiring new Federal employees as present employees leave the government.

Only commensurate with more prudent management throughout the Executive branch and overall limitations on, or postponement of, spending throughout the government can we hope to avoid a tax increase. Such an increase cannot be justified, in my judgment, by rising costs in Vietnam, while we maintain the posture of financing soaring domestic programs.

The time is late. I believe that the American people will do whatever is necessary, but I do not think they should be called upon to make the sacrifice of higher taxes until we in government are exhausted from exploring all avenues of economy.

Faithfully yours,

WILLIAM V. ROTH, Jr.,
Member of Congress.

THE WHITE HOUSE,
Washington, July 20, 1967.

Hon. WILLIAM V. ROTH, Jr.,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN: Thank you for your letter of July 19 to the President again expressing your views with respect to Federal expenditures. We are always glad to have your comments.

Sincerely,

BAREFOOT SANDERS,
Legislative Counsel to the President.

The action needed to start on the road toward solving some of our fiscal problems is difficult medicine. To bring our Federal expenditures and our Federal revenues into better balance, we need both an increase in taxes and a reduction in spending.

Some say the $6 billion cut required in this bill is too much. In view of the examples I discuss here today and many others for which I shall not have time, I say that $6 billion is not enough. I will accept it for now, but I will in the future as in the past continue to use my voice and vote here to put this Government on a path toward spending policies that will not tear at the very fabric of economic life of America.

This bill is not a perfect solution. It is a short-run compromise and must be viewed as such. It alone is not going to solve our problems. All it will do is grant us a little breathing room. Breathing room in which it will require sound leadership and sound decisionmaking in establishing an order of priorities not to do all things at the same time, but to solve first the most critical problems that face our Nation today.

Until we have the political courage to reduce nonessential spending, to put on a brake, and to bring spending under control, we will forever be faced with deciding whether to hang the American people with inflation, shoot them with higher taxes, or smother them with wage and price controls. In short, if Government spending continues to rise as fast as it has in recent years, we will have a tax squeeze, an inflation squeeze, and a balance-of-payments squeeze, and we who are privileged to sit in this body will continue as now to opt between a series of unpleasant alternatives. Such would not be the case if we will put our talents and minds to the task of bringing Government spending under control.

If the dollar should fall, it would not be because of De Gaulle; it would not be because of overseas business investment; it would not be because of tourists; it would be because the Federal Government does not have the necessary will to eliminate the dangerous tax of inflation brought on and furthered by Government policies.

We must move toward the policy of establishing the integrity of the dollar; eliminate the dangerous tax of inflation; continue on the long-range goal of reducing taxes, and, most important, put purchasing power back into the dollar. That—not throwing money at problems hoping they will go away—is the only way to move this Nation toward a higher standard of living for all people.

The Federal Government budget deficit of such massive proportions as we have today is, by producing exorbitantly high interest rates, retarding the growth of the economy.

The price of homes and the costs of mortgages are spiraling out of sight. Reports of the National Association of Real Estate Boards indicate that the average existing house now sells for approximately $20,000. The prices of such houses have been going up by almost $600 a year on average. During peak sales months, existing houses have been selling for at least $1,000 more than 1 year ago.

These prices are out of reach of most working families. Since you are supposed to spend not more than 2½ times your annual earnings for a house, the average working family makes about $6,200, that means they can afford about three-fourths of a house. While homeownership costs have gone up more than rental costs in recent years, families who rent are beginning to feel the interest-rate squeeze also. The real estate association reports that apartment construction loans average now almost 7½ percent. These rates will push up rental costs on all new apartment dwellings.

Already, taxes and inflation eat so heavily into the income of working families that they require a large raise in income each year just to keep their heads above water. Take, for example, a family of four making $5,000 a year. If that family receives a 6 percent income increase—$300—this year, here is what happens: higher taxes take about $82, higher social security taxes take $13, and the higher cost of living eats up $150—for a total of $245, leaving a net increase of $55. For a family of four making $8,000, the net increase is only $30. And for a family of four making $15,000, the net increase from a 6 percent raise—$900—is an abysmal $27. Great rhetoric on this floor from time to time relates how much we are helping people. Perhaps we are helping someone, but I doubt that the great majority of people—those who are in the same straits as the above hypothetical families—would agree we are helping them very much. Thus, the woeful cry: "Please do not improve my lot any further, I cannot afford it."

As I said earlier, this bill is not a cure-all, it is not a perfect solution, it will not solve all our economic problems. What is necessary is for the Members of Congress to start now, today, using more prudent judgment when voting on appropriations—and for the administration to use more prudent judgment in requesting appropriations—so that we can establish an order of priorities and can set this Government on a path toward spending policies that do not rip at the fabric of our economic life.

While this bill is not a perfect solution, it will, nevertheless, provide the cuts and increased revenues necessary to put the 1969 deficit at a more manageable and less inflationary level—and to know that is to know that passage of this bill, however distasteful, is in the national interest.

As one who has tried to use my voice and vote in the House to put this Government's spending policies on a road leading away from inflation and away from the need for a tax increase and as one who has seen those efforts go in vain, it is with great reluctance that I will vote for this bill today.

Mr. PIRNIE. Mr. Speaker, the United States is in trouble, dollars-and-cents trouble. Our fiscal house is on shaky ground, and unless we put it in order the repercussions of inaction could precipitate a financial crisis of such proportions as to make our other problems by comparison appear inconsequential.

The very strength of the dollar, and, as a result, the value of everything we possess, is in jeopardy. Our integrity as a respected and responsible member of the world community is under close scrutiny from all quarters. Clearly something has to be done to remedy this grave situation. The bill we are consider-

ing today provides for a modest tax increase and mandates significant reductions in Federal expenditures; two steps that appear necessary if we are to move in the right direction.

The administration, which launched us on this collision course with disaster, first acknowledged the gravity of the matter when the President, in his 1967 state of the Union message, called upon Congress to approve immediately a 6-percent surtax to lessen the burden of the financial crisis.

The reception to that proposal was far from enthusiastic, not because we were preoccupied with our popularity back home, but because we were convinced that there was either a distorted or complete lack of priorities in the executive branch.

Logic dictated that before dispensing a prescription for an illness, physical or economic, one should endeavor to get at the root cause. We shared the view that at the very core of the problem were the administration's spending policies.

It seemed only natural to presume that a wise judgment would therefore focus attack on budget reductions before contemplating an additional source of revenue.

This message was repeatedly conveyed to the President but elicited either no response or a charge that the proponents were callous and devoid of human compassion for those being aided under the more than 400 different Federal assistance programs. This, I might add, is a favorite tactic of the debater: discredit the opponent and in the process divert attention from his argument. It is used especially when the opponent's argument is sound, well reasoned, and appears to be scoring points with the judges.

Contrary to the charges that were levied toward Capitol Hill, we have not been callous, but rather sensitive to the justified demands for economy in Government. Human compassion was not lacking, but it was difficult to understand why such a massive spending program which called for, among other things, nearly $100 million for highway beautification projects, was desirable during a period when a "state of national financial emergency" had been declared.

It was obvious to anyone who studied the budget that legitimate cuts could be made in several areas without impeding progress toward our most important national goals. We knew that the dangers cited earlier could not be ignored.

While we were well aware of the urgent need to spend millions for educational and job development programs, we were dubious about the so-called compelling requirement for equally vast expenditures for space exploration.

While we understood the priority attached to housing programs, we failed to see why equal standing should be given to the many desirable, but certainly not essential, public works projects such as those omitted from the bill considered yesterday.

We recognized the immediate need for sound, effective weapons for our military, but questioned whether there was a similar critical demand for a supersonic transport.

Certainly some foreign aid was necessary. But did it have to be so much?

Depressed areas required financial assistance to develop industrial parks but were vast new office facilities really essential at this time, in view of the circumstances?

These are just some of the many questions we asked. Since the answers were either slow in coming and unsatisfactory when they did, or simply did not come at all, in the months following the President's message, the Congress attempted, with some measure of success, to act in a responsible manner and reduce spending.

Foreign aid was cut significantly, requests were trimmed and the Highway Beautification proposal was left to wither on the vine.

And yet, despite these and other economy efforts by the Congress, the Executive Branch did not yield and the financial crisis was continued.

A past editorial in the Washington Star pinpointed the present seriousness of the problem:

> Last year, with a trade surplus of almost $4.1 billion, the United States suffered a balance of payments deficit of nearly $4 billion.
>
> There are numerous other indicators of an economy in trouble. Prices are rising at a rate of 4 percent a year. Wages now spiral upwards at 6 percent annually. The prime interest rate has risen nearly 2 percent in the past two years. The recent gold crisis has left a $10.7 billion gold reserve in the United States—approximately half of what it was just 10 years ago.
>
> The whole thing adds up to a clear picture. The economy is overheated—dangerously so. And unless those with the power to correct the situation also find within themselves the courage to do so in this election year, the beautiful bubble will burst.

Politics has been defined as "the art of compromise—on issues, not on principle." That is a fair statement, because if a stalemate is to be avoided when there are widely divergent views on the methods to eliminate a problem, a give and take session, leading to a mutually acceptable solution, is the only answer.

In this year of crisis and prosperity, we must act responsibly and put our fiscal house in order.

The situation we face is unpleasant but we must act in recognition of the realities as they exist, not as we would have them. Inflation is rampant, the dollar is in jeopardy and our budget deficit continues to rise dangerously. It is more apparent than ever that the "fiscal crisis" is very real and poses an ominous threat to the future of America.

I have faced this problem for many months and have continued to emphasize that when the day comes that I am called upon to cast my vote on a measure designed to meet this crisis—if the bill is an honest effort to check our financial slide and I am convinced that it holds promise for getting our Nation back on course and restoring fiscal sanity to government—it will receive my support.

The conference report before us passes that test and its approval is required in the interest of people we are privileged to represent.

Mr. TENZER. Mr. Speaker, I rise in opposition to H.R. 15414, the Revenue and Expenditure Control Act of 1968. In so doing, as a fiscally responsible Member of the House and as a fiscally responsible citizen and taxpayer, I owe a duty, both to my colleagues and to my constituents, to explain the reasons for my opposition.

WHAT IS FISCAL RESPONSIBILITY?

There are really two sides to the coin—in fact there are two broad areas of application of the term:

First, as it affects the Nation's economy, we must consider fighting the dangers of inflation; avoiding budget deficits; stemming the tide of rising interest rates; preventing tight money; reducing the threat of a world gold crisis; and creating a more favorable balance of payments.

Second, as it affects individual citizens and most corporate enterprises, we must not only consider all the items enumerated above but in addition we must consider the following:

First, justice in the method of levying taxes;

Second, equity in sharing the burdens of operating the Government;

Third, morality of favoring the rich against the interests of others; and

Fourth, responsibility to fix priorities in budget cuts.

TAX SURCHARGE PROPOSAL

At a White House conference, where the 10-percent tax surcharge was first proposed, I spoke out in opposition because I felt then, and still feel, that it is inequitable and unfair.

At that time the Nation was faced with a projected deficit of $29 billion—and it was proposed to tax $7½ billion; to cut $7½ billion; and to borrow $14 billion.

Today we are talking about a deficit of $22 billion—and it is proposed to tax $10 billion; to cut $6 billion; and to borrow $6 billion.

It appears to me that our Nation's fiscal advisers and Treasury specialists are taking the course of least resistance. They seem to be wearing blinkers, seeing only the approximately $100 billion in current tax revenues, and following the simple expedient of tacking on a 10-percent surcharge to raise the needed $10 billion. Thus, they are taxing only the 70 million individual taxpayers and the 1.3 million corporate taxpayers who are already paying their share of carrying the burdens of Government.

What our fiscal and economic advisers lack is peripheral vision.

They do not look at and do not see that there are tens of thousands of taxpayers who pay no taxes at all. They give no consideration to the possibility of collecting taxes from the 24,085 taxpayers who filed income tax returns showing adjusted gross income of $10,000 or more and who paid no taxes at all.

They fail to give consideration to the revenue which could be raised from a more equitable surcharge levy on the billions of dollars of tax-sheltered income received by corporations and individuals because of the various depletion allowance provisions of the Internal Revenue Code.

Why should the Congress follow suit.

Who will speak today for the 70 million individual taxpayers who are paying approximately $65 billion into the Federal Treasury, and who ask why certain individuals with incomes up to $5 million per annum pay no taxes at all?

Who will speak today for the 1.3 million corporate taxpayers who are paying approximately $35 billion in taxes at tax rates up to 52 percent? And who will ask why the 22 largest oil refiners in 1964 had a combined gross profit of $5.179 billion and paid only 4 percent in taxes; and why many thousands of other corporations with the tax-sheltered depletion allowance incomes pay nothing, or very little, in taxes?

Who will speak today for the small businessman—the backbone of our American economic system—for the average worker, for the farmer, for all of whom the lowest income tax bracket is 14 percent.

Who will speak today for the more than 20 million stockholders in American corporations whose dividend income in addition to income from other sources is subject to a minimum income tax rate of 14 percent? And who will ask why in 1964, 19 individuals filed returns showing adjusted gross incomes in excess of $1 million—and 35 individuals with over $500,000—paid no taxes at all?

No matter how you look at it 10 percent of zero is still zero.

IS THE SURCHARGE A WAR TAX?

The war in Vietnam is costing approximately $30 billion per year. With a deficit of $22 billion it is obvious that without the war we would have no budget deficit, in fact we would have a budget surplus. Therefore, the surcharge is in fact a war tax.

If we accept the economic decision that additional revenues are needed to curb inflation, reduce the budget deficit, and stabilize the economy, the question remains, How should this "war tax" be imposed?

The burden of a "war tax" should be spread equitably among all the individuals and corporations who share in the economy—whether they be employees, employers, or investors. We should ask everyone who has income above a certain minimum to contribute. In other words, everybody pays or nobody pays.

The surcharge proposal we are considering today does just the opposite. It places an added burden on middle- and low-income taxpayers—and those on fixed incomes—but has no affect at all on those who are untaxed.

It asks those already paying taxes to contribute 10 percent more, but does not affect those who, because of tax loopholes and tax shelters, earn more, but pay no tax at all, because under the surcharge, 10 percent of zero is zero.

I have proposed that the surcharge be extended to reach those with tax-loophole income—those who pay no taxes at all and those who pay only a fraction of what they should be paying.

This can be accomplished without revision of our tax laws.

My proposal which is not tax reform, is incorporated in H.R. 12445, a bill for a minimum income tax of 10 percent on all tax-sheltered and loophole income. This proposal represents an attempt to more equitably distribute the tax burden. See CONGRESSIONAL RECORD, August 17, 1967, H10798.

My proposal seeks to reach all loophole income—of whatever nature—by placing a minimum tax on actual income.

To help finance the war and meet our needs at home, I want those who now exclude one-half of their capital gains to contribute a percentage of the amount excluded, as a "surcharge"—to remain in effect only so long as the proposed surcharge remains in effect.

I want those who receive tax free income from State and municipal bonds to contribute 10 percent of that income, so long as other citizens shall be required to pay a 10-percent surcharge on their income.

I want to reach out across the board and require all Americans—not just a majority of Americans—to contribute their just share of paying the costs of the war and also to pay their equitable share of the costs of eliminating the slums from our riot potential cities and to share in meeting the costs of other human needs at home.

Why should some taxpayers be asked to pay more for, first, fighting the dangers of inflation; second, avoiding budget deficits; third, stemming the tide of rising interest rates; fourth, preventing tight money; fifth, reducing the threat of a world gold crisis; and sixth, creating a more favorable balance of payments, while others better able to pay are permitted to escape their responsibility and continue to pay nothing?

Those who are already paying their share of the Federal tax burden are also paying their share of the soaring local and State taxes. It should be noted that local and State taxes have increased over 409 percent in the past 22 years while Federal taxes have risen 136 percent during the same period.

BUDGET CUTS

Recently the House was called upon to vote on whether there should be a spending reduction of $6 billion or $4 billion in the legislation now being considered. The House conferees were instructed to agree to the $6 billion cut.

I voted for the $4 billion cut because with the crisis in our cities, the cry for justice from the poor, the needs in the fields of health, education, and job training, I was more anxious to tap the other sources of revenue to pay for these basic human needs. With the additional revenue from the minimum tax on loophole and sheltered income, the debate on the budget cut would have been avoided and we would have had an answer to the cry for justice from Resurrection City, and we would have the funds to answer the needs of the poor elsewhere in our Nation.

Above all, with the addition of the minimum tax, the entire tax package would have been more equitable because more Americans would be contributing to the Nation's obligations at home and abroad.

The 10-percent minimum tax would not only have enabled us to avoid budget cuts where we can least afford to make them, but it would also have enabled us to more effectively fight inflation by reducing the deficit, more than by the amount provided in the bill under consideration.

It has been variously estimated that under my minimum tax proposal on nontaxable capital gains, on tax-free income from State and municipal bonds, on oil and mineral depletion allowance income, and income from rapid real estate depreciation, and other tax-sheltered income, we could raise between $4 to $6 billion. Some Treasury officials unofficially told me that the amount of revenue from my minimum tax proposal might be as much as $10 billion.

The Congress must share with the executive the responsibility for deciding where appropriations are to be reduced. I have ofttimes expressed the view that essential domestic programs to meet human needs in health, education, housing, job training, and the antipoverty programs should not be reduced.

I have voted to cut spending and appropriations for programs which are nonessential. I voted to reduce appropriations for the space program, the public works program and I voted to eliminate or defer the entire appropriation for development of a supersonic transport. I also support the view that Congress should take a good hard look at the non-Vietnam portion of the Defense appropriation which exceeds $48 billion, some of the line items could be eliminated or deferred without affecting our national security and without affecting our commitments to our war veterans.

The economy waves in Congress have come in spurts and have been directed at the basic domestic programs rather than the less essential programs.

The space program, public works projects, and the supersonic transport appropriation seem to sail through the House and Senate with little or no reductions. Cuts in spending have been made on legislation dealing with basic domestic programs in the area of human needs.

The people of the United States have been asked to sacrifice before. They are ready and willing to meet that sacrifice provided they know they are being treated equally and fairly. For that reason, I will oppose the surcharge in its present form and I will continue to advocate support of legislation so as to assure a more equitable distribution of the tax burden.

My minimum tax proposal is not a complex proposal—nor does it contemplate or require any substantive changes in the provisions of the present income tax law.

The "loophole tax" should be temporary—to remain in effect only so long as the surcharge remains in effect.

Mr. Speaker, I first made my minimum tax proposal when I testified before the Ways and Means Committee—see CONGRESSIONAL RECORD, August 22, 1967, H10972—and recommended it as an alternative or as an amendment to the tax surcharge proposal.

Sponsors of the legislation we are considering today—on both sides of the aisle—are saying, "Pass the tax bill first—tax reform will come later."

The problem of tax reform has been discussed for many years—but relatively little has been done about it.

When is "later"?

Both major political parties have pledged to close tax loopholes and spread the Federal tax burden in a more equitable manner.

In 1932 the Democratic platform called for a "system of taxation levied on the principle of ability to pay." In 1948 the Democratic platform stated:

We shall endeavor to remove tax inequities.

In 1952, the Republicans in their platform called for "a thorough revision and codification of the present hodgepodge of internal revenue laws." In 1960 the Democrats were specific in the platform pledges on tax reform, stating:

We shall close the loopholes in the tax laws by which certain privileged groups legally escape their fair share of taxation.

Among the more conspicuous loopholes are depletion allowances which are inequitable.

Tax reform can raise additional revenue and at the same time increase legitimate incentives for growth, and make it possible to ease the burden on the general taxpayer who now pays an unfair share of taxes because of special favors to the few.

These party platform statements of policy stand in direct contradiction to the Revenue Control Act of 1968. Tax reform can raise additional revenues, but we have not chosen that road. The "general taxpayer now pays an unfair share of taxes," yet the bill before the House today compounds that inequity by asking the general taxpayer to pay more, while the privileged few are being asked to pay nothing.

There is a diffusion of disagreement among the Nation's leading economists. Most agree that a tax increase was needed 2 years or 3 years ago. Some now have doubts about the impact of a tax increase at this time.

It must be understood that we are voting on a package—a $10 billion tax increase and a Federal spending reduction of $6 billion. Joseph A. Pechman, a leading economist, has termed this "upside down economics."

I have asked the President to start by postponing the supersonic transport program; by reducing the space budget; by deferring some public works projects; some highway construction; and some of the items in the farm program. These are the areas of expenditures which I consider deferrable, as nonessential for the Nation.

I consider the war on poverty and its attendant problems in health, education, housing, and employment as essential. Without specific priorities these programs are in danger of being drastically affected by the proposed $6 billion cut in Federal expenditures.

In conclusion, we need a readjustment of our priorities, we need additional revenue to meet the urban crisis and to develop and adequately fund essential programs at home, to combat inflation and strengthen our economy. These goals can be achieved through the imposition of a minimum tax. The proposed surcharge alone will not do the job because it continues the inequities in the present law.

Mr. REUSS. Mr. Speaker, I vote for the Revenue and Expenditure Control Act of 1968 without enthusiasm.

Like other Members, I have had to balance pros and cons in coming to my decision. And I find a long series of cons, overbalanced in the end by one mighty pro—even though that pro is a largely mythical pro.

Let us look at the ledger.

DEMAND INFLATION

First, it is said that the bill is needed to combat inflation. Admittedly it will reduce overall demand by some $20 billion in the next year, with more impairment of demand to follow as the bite accelerates.

The trouble with the demand inflation view is that it oversimplifies the matter. With 15 percent of manufacturing capacity currently unemployed, we are suffering from demand inflation only marginally. The real cause of our alarming 4-percent price creep in the last year is cost-push inflation. This cost-push inflation has gone largely unchecked because for the last 18 months the administration has abandoned the wage-price guidelines which worked so well to stabilize prices in 1961–66. The Joint Economic Committee has for the last 2 years called in vain for a national wage-price-incomes policy, with adequate machinery to focus public opinion on wage-price conduct that threatens our economic stability. Passing the bill before us is all the more reason to create such machinery, and the administration should do so at once.

Not only is the bill before us not very effective, by itself, to combat inflation. Worse, I have genuine fears that the $20 billion which will be skimmed off of demand will prove to be economic overkill, causing stagnation and increased unemployment.

I can see that without the bill before us we might be guilty of economic underkill. But I regret that the only alternative for which we can vote is instinct with economic overkill. For example, the tax surcharge will start its bite immediately. Government spending will be curtailed. The accumulation of inventories, particularly in steel and automobiles, appears to be phasing out in any event. And an additional tax increase—the social security payroll tax—is slated to go into effect on January 1, 1969.

I do not relish the prospect of overkill at all. Overkill will mean increased joblessness and lessened economic growth, at the very time when jobs for all are necessary to restore civil tranquillity in the land. The situation could be worsened by the expenditure cut provision. While I have had the most solemn assurances from the mightiest places that the expenditure cut ordained by this bill will not impinge on vital health, education, welfare, and conservation programs, any reneging on this assurance could add to our failure to reach our domestic goals.

Because of this fear of overkill, I have earlier today introduced a bill—H.R. 18022—which would repeal the surtax and the expenditure cut of H.R. 15414, assuming it is enacted, as of January 1, 1969. And I am happy that the gentleman from Arkansas [Mr. MILLS] has assured me that the House Committee on Ways and Means will give full consideration to my repealer bill next January, if the economic situation then appears to require the recission of all or part of the tax increase or all or part of the expenditure cut. This assurance removes a good part of the danger of overkill.

THE BUDGET DEFICIT

Second, it is said that additional tax revenues are needed to reduce the budget deficit confronting us. I agree that the prospective deficit is altogether out of hand. But the way to reduce the budget deficit is in the first instance to enact a comprehensive loophole-plugging tax reform bill. For years I have been urging the administration to send up to the Congress a tax reform bill. I have joined with numerous members in introducing a tax reform bill of my own, H.R. 13490, which would yield an additional $5 billion in annual revenues by plugging loopholes.

Had the administration sent up a tax reform measure, the responsibility for the delay would have been on the Congress. But it has failed to do so. I am most pleased at the assurance today from the gentleman from Arkansas [Mr. MILLS] that the House Committee on Ways and Means will give consideration to a comprehensive loophole-plugging tax reform bill on a priority basis in 1969. Some 60 million moderate-income taxpayers who will be hit by the tax measure before us will become enthusiastic lobbyists for a tax reform measure that will lift some of the burden from them and place it on those taxpayers who now get rich on the loopholes.

Quite apart from the lack of equity in our tax system, we need to plug tax loopholes for an economic reason. With our swiss-cheese tax system, it is simply not going to be possible to balance the budget at full employment—the dream held out to us by the new economics. If the loopholes continue unplugged, maldistribution of income, and oversavings, will continue. The result will be that we can only maintain prosperity and avoid a recession by running ever-larger deficits. So I say, let us have tax reform.

BALANCE-OF-PAYMENTS DEFICIT

Third, it is said that the bill before us is needed to help our balance-of-payments deficit. The deficit amounted to $3.5 billion last year, and it continues. But the real cause of our balance-of-payments deficit is not our trade and investment accounts, on which a tax increase would presumably operate, but our military ventures abroad. The cost of our military operations abroad last year came to $4.25 billion, a sum that by itself more than accounts for our overall deficit.

Yet the administration continues largely to ignore the military deficit. In Vietnam, which contributes $1.5 billion to the military deficit, we continue to conduct a war that maximizes balance-of-payments leakage—a war in support

of a Saigon Government whose inefficiency and corruption adds hundreds of millions to our balance-of-payments costs.

In Europe, where another $1.5 billion of balance-of-payments military deficit occurs, we are too timid to ask that our NATO partners pick up the foreign exchange costs of our approximately 250,000 troops. These troops entail a domestic budgetary cost for the United States of roughly $5 billion, of which $1 billion is in foreign exchange.

Surely the Europeans get at least one-fifth of the benefit of the U.S. troop presence in Europe. By making this contribution, they could reduce our balance-of-payments costs by the $1 billion. In fact, they contribute nothing. The State Department has just announced with joy the conclusion of an agreement for the next year whereby the West German Government and West German banks will lend the United States some $800 billion, at 5 percent interest, for 4 years. To this one must say: Thanks for nothing; our deficit remains a deficit, just as a domestic deficit remains a deficit although someone is willing to buy U.S. securities in order to carry the debt.

So the administration, lashing out at the American taxpayer, continues to ignore the real cause of our balance-of-payments deficit—our military posture abroad.

Thus, H.R. 15414 appears to be an improper or an insufficient remedy for what ails us. To combat inflation, we should first have reactivated the wage-price guideposts. To reduce our budgetary deficit, we should first have plugged tax loopholes. To reduce our balance-of-payments deficit, we should be sharply reducing the foreign exchange cost of our military posture abroad.

Nevertheless, I shall vote for H.R. 15414. I do so because I am convinced that the financial men of Europe, who have been demanding its passage with such vigor, will be giving the dollar a hard time if we fail to pass it. It is small comfort that this monolithic European insistence on a U.S. tax increase, without regard for other more important factors, has been largely spurred by the trumpetings of doom if the bill was not passed that have been emanating from this side of the Atlantic in the last year.

Thus the mythology of a tax increase has taken on an air of reality. By prophesying that the world would end unless Congress acts, we have managed to convince the Europeans that the Congress will have to pass the bill. And since, as we all know, our gold stock of $10.5 billion is extremely fragile when compared with the $33 billion of dollar claims held abroad, the Europeans are able to embarrass us to no end if they wish.

It is not pleasant to vote for a bill largely for reasons of mythology. But, with regret, and taking into account the assurances I have received with respect to where expenditures will be cut, with respect to tax reform, and with respect to a review of possible overkill next January, I shall vote for the bill.

I vote for it in the hope that we can then go on to get at the true causes of our distress, and thus regain control over our own destinies.

Mr. LLOYD. Mr. Speaker, our decision today is to be made on the question as to whether we are willing to reestablish sound fiscal policies in the United States and worldwide confidence in the dollar.

Without enactment of this legislation we will face a budget deficit approaching $32 billion. With enactment, our deficit will be cut nearer $15 billion barring unforeseen costs of war or domestic crisis.

Mr. Speaker, the American people are bending under the burden of constantly rising costs of living. Economic evidence is now clear that demand pull inflation has arrived to join cost push inflation. Excessive increase in living costs creates nearly indefensible pressure to force wages upward, also out of reasonable control. Yet the uncontrolled wage increases merely add more fuel to the fires of inflation. It is not only the foreign holders of dollars who lose confidence in such fiscal mismanagement, it is our people at home who are thus encouraged to the profligate policy of eat, drink, and be merry for tomorrow your dollar may not be worth 15 cents.

I agree that the American people are sick and tired of inflation. They are sick and tired of the economic roller coaster on which they are riding madly to budgetary chaos.

I, too, have received the many hundreds of letters which say, "do not raise taxes." My married son with two children has called me to say his little family cannot stand another deduction from his paycheck. But I hope he, and the voters of my district, will understand that the price they will pay in runaway inflation if we do not take responsible action today, will inflict far greater injury upon them than this surtax. I think it should be realized, too, that the surtax falls most heavily upon those with higher incomes. There is a significant difference between a surtax and a regular income tax increase. He who pays taxes of $500 per year will pay an additional $50. He who pays taxes of $5,000 will pay an additional $500.

There is growing attack across the land upon the war in Southeast Asia. There is not one of us who could not level a virulent attack against our war policies if he chose. But the fact remains that when we went into Southeast Asia in military force, the great majority of this country agreed to the action, and I am willing to defend the good faith and honest intent of that action, even though public opinion is turning against it now. But argument about our military and foreign policy does not eliminate the fact that the war has been costly, not only in blood, but in treasure, and I simply cannot see how any reasonable person can expect us to run up military costs of the war exceeding $25 billion annually, and not expect to be required to pay for it.

In view of those costs our domestic expenditures have, in my opinion, been far too high. I have supported the attempts to cut individual appropriation measures by 5 percent, but with minor exceptions, those attempts have failed. The next obvious effort then is to cut back from the President's authority to spend, the figure of $6 billion, and I recognize that those who defend this high ultra-liberal spending level will be opposing this bill today directly because the bill includes the mandatory spending reduction.

I believe the passage of this bill today is vastly more important to this Nation than what happens to us individually in the coming elections. Like many of you, I have a primary opponent who opposes this tax increase and will probably attack me for my affirmative vote today and misrepresent my efforts to the voters. If the majority of the voters in my political party agree with him, so be it. No responsible Member of this Congress, feeling strongly as I do concerning the necessity to soundly attack our fiscal problems, could do other than support this bill, unless he favors the mandatory controls of a totalitarian society which I do not.

I am not unimpressed by the arguments of some in this chamber that the $6 billion spending reduction, required under this bill, is a mirage and will be circumvented in some way by this administration. I believe it may very well be true that our supplemental appropriations for military operations in the next fiscal year will greatly diminish a realistic hope for a $6 billion reduction. That is a possibility, however, which we must accept. There is an overriding need here today, and that overriding need is a good faith, constructive effort to cut our deficits—deficits which could bring economic ruin to us as individuals and as a nation.

Mr. MORRIS of New Mexico. Mr. Speaker, in recent months the need for a tax increase and expenditure cuts has become more and more clear. Raising taxes and cutting back on important Federal programs is not a step we want to take. It has become a step we have to take. Let me explain why.

First, the domestic economy is too inflationary. In the first 3 months of this year, our gross national product rose at a record $19.4 billion annual rate. But too much of this rise was due to price inflation. With the Federal Government spending a good deal more than it is taxing, there is too much total spending—public and private. This does not mean many more jobs, or much more production, it just means that wages and prices are going up more rapidly. You know, and I know, that this trend will have to be stopped. It is better to do it gradually by fiscal restraint that to have to take more drastic steps at some later time.

Second, the Federal budget deficit is too large and this drives up interest rates. The budget deficit for the current fiscal year—ending this June 30—is estimated to be about $20 billion.

Without any fiscal action, next year's budget deficit would also exceed $20 billion. What do these large Federal deficits mean in terms of financial markets and interest rates? Here is the problem: When the Government runs a deficit, the Treasury has to borrow the difference by selling Government securities. But in these days there is already heavy private demand for credit. Therefore, the extra Government borrowing tends to overload the financial markets. As a result,

some private borrowers have to make do with less credit or none at all, and interest rates are driven still higher. A smaller budget deficit would mean more credit available for higher private borrowers and less upward pressure on interest rates.

Third, the strength of the dollar internationally requires a smaller budget deficit at home. As you know, we are making every effort to shrink our balance-of-payments deficit and keep the dollar the world's leading currency. Ordinarily, we have had a favorable balance of merchandise exports over imports with the overall balance-of-payments deficit due to our increasing private investments abroad, tourist expenditure, military and foreign aid commitments, and other such transactions. But, now the rapid domestic expansion and rising prices are hurting our trade balance. In the last six months, our merchandise imports have risen nearly 18 percent, far more than our exports. In March, there was actually a small merchandise trade deficit. There are some signs of improvement. But this improvement will not last if we do not make our exports easier to sell and halt the rapid increases in our imports.

What would happen if we didn't have a tax increase? In my judgment: prices and costs would rise even more rapidly than they have been; credit would become scarce and interest rates would be driven to unheard of heights; and our balance of payments would not improve and the dollar could come under new speculative attack.

It would not be a responsible course to run these risks. I support a temporary tax increase and reduction in less essential Federal expenditures.

In particular, there are hard questions as to how sizable the Federal expenditure cuts can be without disrupting essential programs in the process.

The proposal of the House-Senate conference included the following:

A 10-percent surcharge on individual and corporate income tax liabilities effective from April 1 of this year for individuals and from January 1 for corporations. Unless extended by congressional action, the surcharge would expire at mid-1969. This surcharge would be 10 percent of your tax, not 10 percent of income. On the average, the tax would amount to about an extra penny per dollar of wage and salary income. Taxpayers in the first two brackets—$1,000 of taxable income in the case of a single person and $2,000 in the case of a married couple—would be exempted from the new tax.

A $6 billion cut in fiscal 1969 expenditures, a cut in new obligational and loan authority by $10 billion, and a rescinding of $8 billion of obligational and loan authority approved prior to 1969.

I want to explain what is involved in this cutting of expenditures and obligations. As you know, I serve on the House Committee on Appropriations which supervises Federal expenditures. Congress authorizes Federal agencies to enter into obligations which are finally reflected in actual expenditures. If it is required to cut back this year's expenditures by a certain amount, it is necessary to cut back this year's stream of new authorizations by a larger amount. Also, it may be desired to cut down on authorizations made in prior years.

Budget, 1969—Relation of authorizations to outlays [1]

	Billions
New authority recommended for 1969	$201.7
To be spent in 1969	131.3
Outlays in 1969	186.1
To be spent in 1969	54.8
Unspent authorizations enacted in prior years	222.3
To be held for outlays in later years	165.9
Unspent authorizations for outlays in future years	236.4
Outlays in future years	70.4

[1] Taken from chart on page 56 of the budget for fiscal year 1969. Chart cannot be reproduced in RECORD.

Notice the figure under 1969 outlays. This is the $186.1 billion in expenditures planned for fiscal 1969. These would be reduced to $180.1 under the House-Senate conference version. In order to do this, it would be necessary to cut back the stream of new authorizations, and perhaps to cut back by more than the proposed $10 billion if expenditures were actually to be reduced by $6 billion. Expenditures are also made from a pool of previous-year authorizations—the $222.3 billion under unspent authorizations. There would be a rescinding of $8 billion of this amount.

There is some question as to how much expenditures should be reduced—some think $4 billion, others $6 billion. But, there is little disagreement that spending in 1969 should be reduced from the budget request. In seeking a $6 billion cut, the House-Senate conferees excluded: First, Vietnam expenditures; second, interest on the debt; third, veterans benefit payments; and, fourth, trust fund payments, such as social security. This means, of course, that the $6 billion in cuts would have to come from other areas. The net effect could be a sharp curtailment of some worthwhile Government activities.

While the expenditure cuts may or may not be on the strong side, the tax increase and expenditure cuts are badly needed. The economy is in an inflationary condition. The budget deficit is too large and is straining our financial markets. Finally, the dollar could be weakened internationally if we evaded our fiscal responsibilities at home. Therefore, I have decided to support a program for fiscal restraint—a temporary tax increase and reduction of Federal expenditures; and I hope the other Members of the House will support this action.

Mr. TUCK. Mr. Speaker, I am opposed to the imposition of a 10-percent surcharge on individual and corporate income taxes. Thus, I rise in opposition to the adoption of the conference report on H.R. 15414. The people of America are already taxed to the full extent of their ability to pay.

Admittedly, the fiscal affairs of our Government are in a deplorable state due to profligate and grossly extravagant expenditures. The crying need is to discontinue these expenditures and bring the expenses and activities of the Government within the bounds of the revenues under the existing rate of taxation.

We are urged to impose a 10-percent tax surcharge to curb inflation. I have never understood it to be a proper function of Government to endeavor to influence the course of the economy by thus manipulating the tax system. I subscribe to the philosophy that the power to tax at all levels of Government was for one purpose alone, and that is to defray the necessary expenses of essential governmental functions. The tax powers were never intended to be distorted in any such fashion as the proponents of this proposal urges us to do.

But even if using the powers of taxation is a correct approach to the regulation of our economy and to the control of the inflation with which we are now afflicted, this proposal penalizes the thrifty and rewards the profligate. Many of our taxpayers are thrifty and undertake to and do save a part of their earnings each year. On the other hand, the Federal Government has consistently spent more than its income for many years, and I predict that it will continue to indulge in such an unsound practice in the future years, so that it will be a long time before we have a balanced budget.

The inflationary conditions existing today have been brought about almost entirely by the wild orgy of spending engaged in by the Federal Government. Such expenditures in far too many instances have been made on questionable and worthless projects. If I understand the sentiment of the people of this country, and I believe I do, there is a widespread impatience and disgust with the administration of certain programs which has resulted in a horde of harpies, agents, and snoopers harassing and impeding business people and citizens generally. They swarm upon us like the locusts of Egypt going from county to county, factory to factory, and schoolhouse to schoolhouse. Every arm of local government—municipal, county, and State—is subject to endless investigation with the idea in mind of imposing upon the States and localities worthless, demoralizing programs aginst the will of the people of these localities. The effect is to cripple the economy and rob the individuals of their incentive to engage in free enterprise. This is done in such a fashion as to force upon the soundthinking people of America spurious doctrines of government repugnant to the priceless principles which they embrace and to which they have adhered for years. I cannot in good conscience support a further burden of $10 billion on the taxpayers to provide additional funds for the financing of such programs, many of which are managed and controlled by wastrels and squanderers who have little regard for our finances and less regard for our rights.

Furthermore, despite the proposed tax increase and in the absence of a drastic change in administration philosophy and policy, huge deficits will continue and questionable new programs will rapidly absorb the tax increase.

As one who has consistently through the years advocated a balanced budget

and the elimination of nonessential expenditures, the question may be asked why I oppose a bill in which a $6 billion cut in expenditures is provided. The answer is I do not approve of this package approach, and the proposition of promising a $6 billion cut in expenditures to obtain a $10 billion tax increase is revolting.

Furthermore, I have failed to find information clearly explaining line by line the application of the proposed cut in expenditures. I submit that the people are entitled to that information and to a positive assurance that major reductions will be made in the so-called poverty program, the urban renewal programs, and many others.

It is not the duty or the obligation of the Federal Government to rebuild cities. They were built in the outset by residents of the cities, and the burden of rebuilding should be borne by the citizens.

A surtax is a tax upon a tax. The more we contribute to the Government in the form of taxation the more we are penalized by this new tax. If we continue with such a program, the Government will finally take all that we have. It is kind of like the country miller who tolls the grain and tolls the toll.

This situation reminds me of a little boy I heard of in South Carolina many years ago, who, when sent to the mill by his father with a sack of corn to be ground into meal, watched with astonishment as the miller took his toll several times. The boy became somewhat alarmed and then when the miller took the entire sack of corn and emptied it into the hopper, the little boy, thinking that the miller intended to take it all, grabbed up the sack and ran as fast as he could, and the miller, thinking that the boy was crazy, followed behind him. When the little boy reached home breathless, his father asked him what the trouble was, and his reply was, "That old miller down yonder took all the corn, and I had to run like thunder to keep him from taking the sack."

Mr. Speaker, the people of America are sick and tired of these extravagant and wasteful programs. They are unwilling to be taxed to support governmental activities which undertake to regulate almost every facet of their individual lives.

Many of them believe as I do that these programs will never be discontinued until the Congress decides to stop making available the revenue for the financing of the same.

Mr. WYATT. Mr. Speaker, my vote for the tax increase and substantial decrease in Federal spending is a vote to slow galloping inflation which is a direct result of the disastrous fiscal policies our country has been following during the past few years.

Inflation itself is a tax, and a cruel tax on those living on fixed incomes and those least able to afford it. So in reality this vote presented an alternative, not whether we should have further taxes, but which further tax was preferable. The additional money raised by this tax coupled with the agreed reductions in Federal spending should substantially reduce the Federal deficit for the coming fiscal year.

The easy road, the road of political expediency, for any Member of Congress, would be a demagogic vote against the tax increase.

However, my careful study of this entire matter has convinced me that the only responsible vote is in favor of the increase. If this measure were to fail, I am convinced a new run on our gold would result, the international bankers would completely lose confidence in the dollar, and I would fear the necessity of dollar devaluation in the very immediate future. This would, of course, be followed by devaluation of other world currencies, and could very well precipitate us into a serious world depression.

We in the Northwest have a special reason for demanding fiscal stability. We cannot stand even higher interest rates, or tighter money, both of which would result from the failure of the tax increase bill. These results would certainly cripple even more the homebuilding industry, and, therefore, of course, the forest products industry. Widespread unemployment would follow in Oregon and the Northwest.

It is impossible rationally to defend the wild and reckless spending policies of this administration which has made this action an absolute necessity. The tragic Johnson decision that we could and should fight a major war, and continue escalation of our domestic spending is the cause of our very serious plight.

The mandatory reduction in spending need not be taken in the area of welfare and education, except where there is waste in these programs, I feel strongly that all necessary cuts can be made in the space program, foreign aid, maintenance of troops and other personnel in Europe, the huge subsidies to corporate agriculture, highway beautification, and in the defense budget itself, which I do not believe is sacrosanct.

Mr. JOELSON. Mr. Speaker, I have given much thought to the conference support and have decided that it deserves my vote. Certainly it will not aid me politically. Medicine is seldom pleasant to take, but sometimes it is necessary. This is a time when we require legislative medicine to bring down our fiscal fever.

I could oppose this measure, and call instead for closing of tax loopholes. As a matter of fact, I have long contended that we should attempt to obtain much-needed revenue by plugging these loopholes, especially with regard to oil and mineral depletion allowances. I still strongly urge it. Unfortunately, however, it is clear to me that this Congress will not move before adjournment to remove the unfair advantages given to many taxpayers at the expense of those less favored. Whether we like it or not, we have today our only opportunity to raise the revenue needed to decrease deficits and combat inflation.

I have mentioned inflation. Let me state that it is clear to me that our failure to take action to-day will cost the American public more in the form of inflation than would the passage of the 10-percent surcharge. Because I am convinced of this, I must support the surcharge regardless of its potential political impact.

Let me now discuss the $6 billion spending cut. It must, in my opinion, be handled with care, and according to a sensible order of priorities. The relatively small percentage of Federal moneys which are spent for better health and education, improved housing and job opportunities, and similar programs, should not be affected. Instead we should turn our attention to economies in the staggering military expenditures, in space exploration, and in farm subsidies.

The problems of our cities should take precedence over moon trips. Inner cities are more important than outer space.

The problems of hungry people are such that it is monstrously illogical to pay huge sums to some already wealthy farmers to induce them not to produce food.

With regard to our swollen military appropriations, I say that the inordinately swollen military-industrial complex, and the inordinate profits being made by some defense contractors for military hardware are indefenisble and unconscionable.

Yes, we must put our fiscal house in order. A sense of responsibility requires it. But let us do it in such a way that those who can least afford it do not end up paying for it.

Mr. GRIFFIN. Mr. Speaker, the Revenue and Expenditure Control Act of 1968 provides for a $6 billion reduction in the 1969 fiscal year budget. It further provides for canceling $10 billion already appropriated. Additionally, it would remove 250,000 Federal employees from the payrolls. These three features will provide relief to American taxpayers in future years.

After exhaustive review of this subject, I have concluded that the responsible position is the one in support of the legislation. I would like to mention a few of the reasons why this measure is absolutely necessary.

FINANCING THE WAR IN VIETNAM

Acceleration of the war in Vietnam commenced more than 3 years ago; however, the administration waited until last year to propose a method of financing the additional cost—now approaching $30 billion annually. It is impossible to underwrite the cost of a war with peacetime tax rates without enormous budget deficits. The 1968 deficit will approximate $20 billion.

Accordingly, fiscal responsibility demands that we reduce nondefense spending and increase taxes so that the national debt will not continue to spiral upward.

INFLATION

Consumer prices are rising at an annual rate of 4 to 5 percent. At this rate, the public loses each year $20 to $25 billion in purchasing power. Especially hard hit are persons on fixed income; that is, pensioners, the handicapped, and older persons who receive less and less goods and services each month for their meager dollars. Therefore, under present conditions, we must pay for an unbalanced budget either through higher taxes or through inflation. Higher taxes are the more equitable and more responsible way to solve this dilemma.

INTEREST RATES

Money is a commodity and its price reacts to supply and demand just as cotton, automobiles, or any other commodity. In periods of enormous Federal deficit financing, the Government must borrow money to meet its obligations. When the Federal Government competes in the money market, the demand increases, the supply shrinks, resulting in higher interest rates for all borrowers. The interest rate on home mortgage has increased about 25 percent in the last 3 years. This means there would be an additional interest charge of more than $3,200 on a 20-year mortgage for a $15,000 dwelling. This upward trend in interest rates will continue until the budget is brought in balance or near balance.

Considering the increased cost of a home mortgage, automobile financing, business or farm loan, and higher consumer prices, the tax surchage is the cheaper alternative to the taxpayer.

EXPORTS, IMPORTS, AND THE BALANCE OF PAYMENTS

In an overheated economy when demand exceeds supply, the cost of goods and materials rise. Thus, the higher market price makes us less competitive in world markets causing a reduction of exports. At the same time, excessive demand at home increases imports. These two economic forces result in deterioration of our international balance of payments.

This is underscored by the fact that, currently, foreign creditors own 31 billions of U.S. dollars. We have only 10 billion dollars in gold to secure this debt. If our creditors were to lose confidence in the dollar and demand payment in gold, there would be precipitated an international financial disaster that would result in a worldwide depression. Our foreign creditors will lose confidence in the dollar unless we put our own financial house in order by bringing into near balance our income and outgo. This can only be accomplished by a reduction in Federal spending and an increase in taxes.

TAX RATES

The surcharge tax would not be imposed on those individual taxpayers who pay less than $290 income taxes in 1968. Those paying more than that amount would pay an additional 7½ percent on April 15, 1969. Corporations, generally, would pay an additional 10 percent for the 1968 calendar year.

Compared with the sacrifices being made by hundreds of thousands of Americans at war in Southeast Asia, this contribution by us at home pales into insignificance.

Mr. MINISH. Mr. Speaker, I rise in opposition to the Revenue and Expenditure Control Act of 1968. I have long been opposed to any type of general income tax increase without reform of our present tax system. The potential effect on numerous vital social programs of the $6 billion cut in expenditures contained in H.R. 15414 serves to reinforce my opposition to this legislation.

I am convinced a surtax without reforms will only compound the existing inequities in our tax system. How are we to convince the American public of the equality and justice of a system which wrings the last cent of tax from his wages or salary while oil tycoons and millionaires evade their fair share by various devices which, however justified originally, are now rightly termed "loopholes." In 1964 there were 482 taxpayers who reported incomes of more than a million dollars; 19 of them paid absolutely no income tax at all, and many of them paid only a minimum of income tax. In 1965, 35 people who earned over $500,000 paid absolutely no tax whatsoever. In a recent year one man whose income was more than $20 million paid no taxes. Another whose net worth, here in the United States, is more than a billion dollars, paid only $670 in taxes in one year; the next year he went up slightly and contributed $685 to our national well-being.

One of the most flagrant abuses in our present tax system is the 27½ percent oil depletion allowance which saves oilmen approximately two billion dollars a year in taxes. In 1966, the average manufacturing company paid more than 40 percent of its income to our Government in Federal corporation income taxes. In that same year, here is what three of the largest and most financially secure oil companies paid: The first, nothing; the second, 3.8 percent; the third, 14.7 percent. The circumstance which originally led to the conferring of special incentives upon the oil industry no longer exists. The industry has about the lowest rate of failure of any business enterprise in the country and there is no longer a valid reason for continuing this blatant favoritism at the expense of the great majority of American taxpayers.

This and other reforms are needed now. A vague promise of some unspecified reforms to be presented to Congress later this year is not enough. It is unreasonable, in my opinion, to ask my already overtaxed constituents to make greater sacrifices in the absence of the reforms so urgently required to assure a more equitable distribution of the costs of Government. I hear daily from constituents in all walks of life and from all economic circumstances as to the ever-mounting problem of managing on incomes that are chiefly, if not wholly, derived from wages, pensions, and salaries. It surely seems logical that those who receive the most bountiful share of our tremendous national wealth should pay their proportionate share of preserving the society in which they are so blessed.

Lastly, Mr. Speaker, the $6 billion spending cut for fiscal 1969 needlessly imperils our most valuable social and economic programs. We all know, of course, that should this legislation carry, the President will endeavor to achieve the reduction in less vital areas. Nevertheless, many experts have testified that it will be impossible to continue the present level of support for these programs with a $6 billion cut.

Moreover, if Congress employs this meat-ax approach to budget cutting, we will be abdicating both our responsibility for the rational control of the Government's fiscal affairs and our duty to those disadvantaged citizens in our midst who stand to lose the most from the expenditure reduction.

Mr. WOLFF. Mr. Speaker, there is no doubt that the United States is confronted with a fiscal crisis of major proportions. This year alone our budget deficit will exceed $20 billion. This is due, in part, to excessive nonessential Federal spending and an outmoded tax structure. Our balance of payments continues to drain gold and dollar reserves from the United States. Interest rates are steadily climbing. Just this week a banker in my district told me that interest on short-term consumer notes has risen to 8 percent and even then the bank hesitates before lending. And, quite clearly we are the victims of an inflationary spiral that began its tortuous upward movement some time ago.

Thus, Mr. Speaker, I fully recognize the problems that could threaten our economy. But I am opposed to H.R. 15414. I am opposed to this legislation because the so-called economic answers included in this bill are not truly answers to our problems. Rather they are superficial palliatives not consistent with our overriding national interests.

The 10-percent tax surcharge is designed to reduce demand in the private sector and thus, by bringing supply and demand into greater equilibrium, reverse inflation. Yet we must recognize that inflation is institutionalized and already built into the economy. Thus the impact of a tax surcharge would be many months in coming. For example, futures in the commodity markets are being bid on daily. Inflated prices being paid today will be reflected in the price of foodstuffs, wool, cotton, and so forth, sold to the consumer months from now. Thus an already overtaxed consumer would have less money 6 months from now and still have to pay inflated prices for necessary food and clothes.

Furthermore, and this appears not to have been computed into estimates of receipts under a tax surcharge, such a surcharge, if effective in reducing consumer spending, will reduce corporate profits. Such a reduction in profits will mean a drop in corporate tax revenues and the net yield from the surcharge will be less than anticipated.

And even granting a full surcharge return of between $7 and $10 billion, what great impact this would have on a gross national product estimated to be $825 billion?

I referred a minute ago, Mr. Speaker, to our already overtaxed consumer. Although Federal personal income taxes have not risen, and in fact fallen, in recent years there has been a decided increase in a variety of State and local taxes. The proliferation of Government services and the growing complexity of government have necessitated tax increases that have stretched individual tax responsibilities to their limit. An increase in Federal personal income taxes would be a fiscal iceberg with little apparent danger, but with much greater economic danger lurking below the surface.

Mr. Speaker, I have yet another fear of a tax increase. Although we have been disappointed by the lack of substantial progress in Paris, the very fact that

those conversations continue, gives us our greatest hope for peace in years. Should peace come to Vietnam, or even some manner of deescalation made possible, the resulting levelling in defense spending will have a negative effect on our economy. Should the desired deescalation become a reality, then, there is common agreement among economists that we may well have to cut taxes to stimulate our economy. Should such a tax cut be possible soon after a tax increase, I fear that such a rapid shifting of gears would create havoc with our economy.

I have certain reservations also about the second half of H.R. 15414—that is the $6 billion reduction in expenditures. I believe we can well afford to reduce expenditures in fiscal year 1969 by at least $6 billion, perhaps by more, but that we should spell out in specific terms where those reductions will come.

It would be self-destructive to permit those reductions in areas such as education, job training, housing, and other programs of immediate human need. The proposed budget expenditures in these areas are already pared to the bone and any further reduction would destroy the hopes and aspirations of millions of Americans seeking to improve their lot. Also they would prevent the movement of people from the welfare rolls to the tax rolls.

Instead we should cut our expensive and unwise farm subsidy program. This program, originally designed to aid small, family-size farms, has ended up pouring billions of dollars into the coffers of large, commercial farmers. It is just plain bad business to pay billions to plow crops under while millions of Americans are unfed and/or underfed.

We can and we should postpone all nonessential public works projects. Most of our highway and harbor projects, the "pork barrels," can wait until we set our fiscal house in order.

We can save hundreds of millions of dollars by rejecting departmental pride that causes the Defense Department to proceed with a manned orbiting laboratory program duplicating work already paid for in our civilian space program.

There is no logical reason not to close the "pipelines" that leave billions of unexpended, uncommitted dollars in departmental treasuries. This money can be put to work for us today in those areas tory program duplicating work already of greatest need, permitting programs already begun to continue, permitting necessary programs to be funded, and not permitting the nonessential spending I have delineated.

So we can and we must reduce expenditures by the Federal Government. But we must spell out with clarity and direction those areas in which cutbacks are acceptable.

There is another compelling reason for a sharp reduction in Government spending. The Federal Government accounts for almost 25 percent of the annual GNP. Since this is the largest single area of demand in our economy it is logical that this is where we can immediately and effectively work to establish the desirable equilibrium between supply and demand. A decided drop in Government spending shall do much more than a tax surcharge to establish equilibrium.

I am opposed to the tax surcharge. I do not believe that a reduction in Government spending will alone solve our fiscal crisis. We must find new sources of revenue.

The special interest of natural gas and oil producers has effectively resisted a cut in the depletion allowances that are costing the taxpayers $2.75 billion annually. The taxpayers have to make up the additional billions of dollars lost by permitting the designation of oil drilling costs as fully deductible business expenses rather than having them recorded as the capital investment that they are. Why should one industry be treated as "special" when all industry must pay for capital expenditures?

Now, Mr. Speaker, in the name of fiscal responsibility and in recognition of the crisis at hand, I propose that there be a 1-year hiatus in oil depletion allowances. The major oil companies are certainly as able as individual taxpayers to aid their country in the present crisis period. With such a hiatus, combined with consideration of drilling costs as capital investment, we can raise more than $4 billion in the coming year, without an unwise and ultimately self-defeating tax surcharge.

The case for a hiatus in oil depletion allowances is overwhelming. Let me cite just two examples: In 1966, the last year for which figures are available, Standard Oil of New Jersey paid Federal taxes of only $116,000,000, or 6.3 percent, on a net income of $1,830,944,000. And Texaco paid $32,500,000 in Federal taxes on an income of $845,466,000. That is only 3.8 percent in Federal taxes on net income. Why should other businesses pay 48 percent and individuals pay 25 percent while major companies pay less than 10 percent? This is truly oily business.

These figures point dramatically to the need for tax reform vis-a-vis the depletion allowances. During the period of the 1-year hiatus a special congressional committee could review existing allowances and permit the reinstitution of reasonable allowances when the hiatus expires. This, Mr. Speaker, is a much more responsible and realistic approach to our fiscal problems.

For all of the foregoing reasons and many others not mentioned, because we need tax reform not a tax increase, because we must spell out the areas where Federal expenditures will be cut, because an increase in personal income taxes will not accomplish the purpose for which it is offered, I shall vote against H.R. 15414.

I hope a majority of my colleagues will join me in defeating this bill so that we can act with dispatch and wisdom to effectively and responsibly attack the grave economic problems facing our Nation.

Finally, Mr. Speaker, a point of great importance must be made. What really is the source of economic problems? The painful answer is Vietnam. Actually the surcharge is a war tax requested because we are losing the war in Vietnam economically.

What good will military victory in Vietnam be if it destroys our economic base at home? There is basic economic reason, to be added to the overwhelming moral and political reasons, for bringing prompt peace to Vietnam.

Mr. MINSHALL. Mr. Speaker, are protest marches and camp-ins the only way Americans can make their wishes heard and heeded by the administration and the Congress?

I wonder what the attitude of this House would be today if there were several thousand outraged citizens at our doors protesting the injustice of a new addition to the heavy tax burden they already are carrying. Certainly the White House and congressional leadership have been ultra-sensitive to the demands of this and that pressure group. Perhaps a taxpayers' march on Washington is the only means by which the national leadership can be awakened to the frustration and anger of millions of Americans who are fed up with the folly and extravagance of the Federal Government.

These millions of hard-working, responsible citizens are too busy earning a living and taking care of their families to camp out in the Nation's Capital. But they have written and telephoned us, they have talked with us on our trips to our districts, they have responded to opinion polls, with an overwhelming and emphatic demand that spending be curtailed so that tax increases will not be necessary. And they will question whether they have any voice in their Government at all if this surcharge is approved by Congress.

Today's debate is typical of the ramrod method of legislating to which this Congress has become addicted. We have no opportunity to amend or change any portion of the bill, only 4 hours in which to debate its provisions and then vote it up or down.

Listening to the debate today, and on the basis of a great deal of careful study and thought, I am convinced we are gambling against heavy odds that a tax increase would favorably alter the economic situation. The money we are gambling is not ours, though some of my colleagues and certainly the White House seem to take the attitude that it is. That money belongs to American citizens and they are no more convinced than I am that a tax increase is any panacea.

I have not heard one convincing argument that the proposed tax increase would not be passed on to consumers and so actually inflate prices. Nor have I heard any guarantee that a tax increase might not deflate economic activity to such an extent that the net result would actually be a loss of revenue. And I have heard no argument which convinces me that the tax increase would not merely spur even greater Federal spending. And Federal spending has been and continues to be the greatest inflationary evil of them all.

The one thing of which I am certain is that an increase in taxes will work a new hardship on the forgotten American—the American who does not riot, march, camp in or "demonstrate," the American who holds to the virtue of not spending be-

yond his income, who budgets his wages to provide for his family's present and future requirements and who thinks his Government should do the same.

My 14 years in the House of Representatives have been devoted to the principle of economy in Government. My record is open for all to examine. It is a record of which I am proud. If I had had the support of more of my colleagues in my year-in, year-out, votes for economy we would not be here today, June 20, 1968, debating a tax increase. It would not be necessary. We would be on a sound fiscal basis. On the basis of my record I shall vote against a tax increase as a protest against the wanton and reckless spending which threatens to destroy the incentive and initiative of our great country.

I strongly advocate creation of another Hoover Commission to weed out the enormous patches of waste and duplication which exist in the Federal Government and which have contributed to a 1969 budget which is more than double the national budget of 8 years ago.

And I urge that before any change is made in the current tax laws that the entire Internal Revenue Code be completely revised to eliminate the many present inequities.

This is a time for tax relief, not tax increases.

I urge this House to listen to the voice of the people. They know that what this administration really wants is more money to spend, that its promises to curtail the budget are as spurious as they are mysterious.

The people for whom I speak today are honest, industrious Americans who have been imposed upon too long. They are intelligent and patriotic men and women with a far more sensible attitude toward budgeting a dollar than this Government has shown or is showing.

Here are excerpts from only a few of the hundreds of letters I have received regarding the legislation before us today:

Our present situation calls for greater cuts which, if insisted upon by Congress, would make any further taxes unneeded. The present tax load is all that us as individuals and the rest of the economy can stand.

We need greater economy in government, less give-away of our hard-earned money. We the hard-working class of Americans come quite close to losing our incentive to work harder.

The middle-class is seldom heard, but it can hardly be expected any longer to silently sit and watch the fruits of its labors being constantly eaten away little by little through tax increases, inflation and rising costs.

I am not in favor of the surtax and feel it should not be passed. LBJ should not be allowed to force all his extravagent ideas on the people.

Since a cut in government spending has exactly the same effect on our monetary system as a tax increase and since the federal government is spending more tax dollars wastefully and irresponsibly than is to be collected by the proposed tax increase, it stands to reason that there is no need for additional legalized robbery of the taxpayer.

For my part I am not willing to give the federal government one more cent of the money I work so hard to earn—it takes entirely too much now. It is my considered opinion that spending can be reduced sufficiently to take care of any deficit.

The inequities in the present tax law are scandalous. Before Congress votes one cent of increase in the income tax, it should make an exhaustive analysis of the present law and correct the flagrant inequalities of the law.

I am opposed to the surtax or any other form of increased federal taxes because the money that would be raised by such a tax would be committed to federal programs said by the President to be 'necessary'. This does not result in taking money out of circulation, but rather a switch from private to federal spending. How can we control inflation by giving more money to an administration that has avoided fiscal responsibility for so long? How can we end the continuous erosion of the power to purchase essential food, clothing, medical care, housing, education and transportation by authorizing more paycheck withholding taxes?

These are thoughtful statements from responsible men and women and they reflect the sentiments expressed by an overwhelming majority of the citizens I represent. And, I might point out to this House, according to national polls these views are shared by more than 80 percent of Americans today.

I have fought for sound fiscal government and for the taxpayers during my entire career of public service—in the Ohio Legislature and throughout my 14 years in Congress.

This legislation has been ballyhooed as a solution to our fiscal ills. It is not. Now is the time for tax relief, not a tax increase. Accordingly, I shall vote against the tax increase today.

Mr. ASHLEY. Mr. Speaker, a noted financial journalist suggested this morning that the outcome of the vote on the tax surcharge-expenditure reduction bill today will determine whether or not the United States has decided to commit economic suicide. This is strong language but, unfortunately, I do not think it is exaggerated. There can be no doubt that failure to pass this package of fiscal restraint will precipitate an international financial crisis. Anyone who has paid the slightest attention to the deepening situation of recent months must be aware that our national economy, apparently so vigorous, is actually on the razor's edge.

Who can seriously doubt that continued failure of the Congress to come to grips with the fiscal realities facing us will immediately lead to an international run on the dollar and destruction of the international monetary system which has contributed so much to the redevelopment and prosperity of the free world community since the end of World War II?

We all know that this system is predicated upon the dollar as the key reserve currency and that stability has been maintained because of the assurance that foreign governments can at any time convert their dollar holdings into gold.

Experience should also have taught us that lack of confidence in the stability of the purchasing price of the dollar is the critical factor which determines whether foreign governments decide to hold their dollars for investment or to insist upon their redemption in gold. And surely no one can argue that lack of confidence in the dollar is the direct consequence of our failure to take the kind of responsible fiscal action that is essential to assure the stability of our currency.

But this is only part of the story. We know that the fiscal deficit for fiscal 1968 is approximately $25 billion and that an even larger deficit is forecast for next year in the absence of congressional action. In normal years the amount of new credit created by Treasury debt financing is needed to meet the requirements of our growing economy. But if the Treasury is forced to increase its borrowing by the amount of the current deficit, then additional billions of dollars of new credit will be created—and when the supply of money is expanded and credit is easy to get, the certain result is that prices go up.

This is especially true when, as at the present time, the economy is running at near or full capacity. So far in 1968 inflation has added 4 percent to the cost of living and some predict it could reach 6 to 7 percent by the end of the year. This trend, in turn, triggers new demands by wage earners and stockholders alike—and so the upward spiral goes.

Faced with the staggering 1968 deficit and an even larger one forecast for 1969, there are only three possible courses of action other than inflationary borrowing to bridge the gap: cut spending, raise taxes—or do both.

Recognizing that the economy would be thrown into a tailspin by immediate expenditure cuts of $25 billion or by an increase in taxes to produce this additional amount of revenue, Congress at last has decided to combine a temporary 10-percent tax surcharge with a $6 billion reduction in spending.

Mr. Speaker, no one is more unhappy than I am with the prospect of expenditure cuts which threaten to curtail, even temporarily, domestic programs that are absolutely essential in helping to solve internal problems of highest national priority. I reject the view of those who suggest that Federal expenditures aimed at bringing about improved health, better housing and education and job opportunities for tens of millions of less fortunate Americans are profligate and contrary to our national interest. On the contrary, I regard these efforts as the best kind of investment in a stronger United States. I believe that most Americans share this view and the commitment to eliminate the unjust and costly consequences of poverty in our society.

There is reason to hope, Mr. Speaker, that the action which we are talking today will bring about a clear realization of the need for establishing a meaningful system of spending priorities. I see no reason why at least half of the $6 billion curtailment of expenditures should not come from our top-heavy military budget and the remainder from such deferrable programs as space, transportation, agriculture, natural resources, and general government.

In the final analysis, the fact remains that the people least able to afford the

inflationary consequences that would result from defeat of the bill before us are precisely the same people whom we seek to assist through the whole range of programs designed to promote equality of opportunity. Failure to act now to stabilize the dollar can only set back these efforts and further frustrate the hopes and expectations of millions of low income Americans.

In all truth, our ability as a nation to meet our responsibilities at home and abroad requires the courage to take whatever action is necessary to assure confidence in the purchasing power of the dollar. The popularity of the bill before us is not relevant and there is no escape from the realities which confront us. The future of the Nation and the well-being of Americans for years to come hinges upon the vote we cast today.

Mr. COHELAN. Mr. Speaker, we are today considering H.R. 15414, the Revenue and Expenditure Control Act of 1968. This is a bill which would, amongst other things, increase income taxes by 10 percent for those with incomes of more than about $5,000 and would place a mandatory ceiling on Federal expenditures $6 billion below that suggested by the President's budget. The actual surtax this year would be 7.5 percent for individuals and 10 percent for corporations, with an increase of 5 percent next year for both individuals and corporations.

This is a tax bill which has not previously been considered by the House of Representatives, either in committee or on the floor. Instead the tax increase and the expenditure limitations were added to a routine excise tax extension bill which was passed by the House by voice vote. Accordingly, I believe that it may be useful to my colleagues and my constituents to explore this bill in depth.

First we must look at what would happen if we do nothing. Prices, and that means the cost of living, have been going up rapidly over the past several months. Money in savings accounts and bonds is becoming worth less even while it earns interest. People living off fixed incomes—pensioners, annuitants, social security recipients—are experiencing real reductions in their standards of living as they get caught in the squeeze of rising prices and unchanging incomes. They just simply cannot buy as much as they used to. Similarly low-income families—those just barely eking out a living and those receiving public assistance—are finding that they too have even less to go around as prices rise and incomes do not. In short, rising prices constitute a hardship, a literal debasing of our coinage, a tax, if you will, on all of us, and especially on those who can least afford it or do anything about it. Thus even if we were not to consider a tax bill, we would still be placing a de facto tax on ourselves.

Similarly even if we were not to consider a tax bill we would be affecting the stability of the dollar. The United States has had a chronic balance-of-payments problem which has threatened the confidence in the dollar. This year for the first time in a quarter century Americans in Europe found that storekeepers and bankers would not accept dollars. As our gold supplies have decreased, and as our prices have increased making us somewhat less competitive, and as we have imported more goods as incomes have risen here, foreign banks and individuals holding dollars have shown a marked uneasiness about the ability of the United States to hold the present price of gold if we do not take some action to rein in our prices and improve our balance of payments. Thus failure to pass a tax bill might force us to devalue the dollar, raising the price of imported goods we buy, and creating international monetary chaos.

Without a tax bill we therefor would continue to experience the indirect tax of inflation and we run the risk of devaluation of the dollar.

Now, the Federal Reserve Board which sets nationwide interest rates is not blind to what is happening. It has been taking steps in the only way it can to check prices and protect the dollar. The Federal Reserve has been raising interest rates and making it more difficult to borrow money. This is the same device it used a few years ago and which resulted in a bad slump in construction-related trades. Today interest rates are at the highest levels they have been in recent memory. Without a tax increase they will undoubtedly go higher.

High interest rates, too, cause an inequitable hardship. They severely affect the construction industry, virtually choking off needed new housing. They hit hardest those who are in debt and ill prepared to meet the increased costs. And perhaps most importantly high interest rates alone are not enough to hold down prices or protect the dollar. So we would have all the pain, and little of the benefit if we continue to rely on high-interest rates.

It comes down to the point where we really have two choices to keep prices down and maintain the price of the dollar. We can have a tax increase and expenditure cuts or we can have wage and price controls. Those of us who experienced the vagaries of the OPA need not dally too long over the advisability of that approach. The strong point of our system is regulation through the free market, controls destroy this essential virtue.

On this balance, then, it seems to me that the only course of action open to us is tax increase and/or expenditure reductions.

Here, the question is how much restraint; that means how much of a tax increase or reduction in spending is appropriate.

Last month I voted to lower the expenditure reductions from $6 billion to $4 billion because I felt that the higher reductions would be excessive. I felt that higher cuts in spending would needlessly impair our vital programs.

Accordingly, I would today vote for lower reductions if I could—but I cannot. Instead I am left with the Hobson's choice of too much deflation and program reduction or of continuing inflation.

In deciding this dilemma three factors encourage me to vote for the tax increase/expenditure reduction package.

First, I have good reason to believe that the administration will make a considerable effort to maintain the current level of expenditure for our social programs, including those of OEO, model cities and rent supplements, job creation and job training, and elementary and secondary education. It will still be substantially less than we need in these areas, but at least it will be a sustaining and level program.

Second, there is also good reason to believe that the administration will take a major share of the reductions from the enormous defense budget. There has been discussion in the press and elsewhere that these reductions in military spending could approach $3 billion and more, and they will almost certainly exceed $2 billion. Not only are these large cut in the normally sacred defense budget, but they promise to cause us to rethink our military decisions with regard to the deployment of the astoundingly expensive and insufficiently justified antiballistic missile system, and other weapons and logistics systems which are now planned.

Third, in this case I think inflation is the major threat. I do not want to rob those with limited incomes of their livelihoods or their savings. I do not want to foster an international monetary crisis. And most of all I do not want to run the risk of a serious recession. Accordingly, I prefer to take the difficult choice of raising taxes now.

I will vote for the bill.

Mr. RHODES of Arizona. Mr. Speaker, in 1961 at the close of the Eisenhower administration, this country enjoyed cost-price stability, a Federal budget surplus and a strong international economic position. The phrase "Sound as a Dollar" was a compliment and not a punch line for a comedy routine.

Seven years of wild spending by the Kennedy-Johnson administrations have pushed this country to the brink of fiscal chaos. Skyrocketing inflation, soaring interest rates, mounting balance-of-payments deficits, a serious gold drain, and a dollar in jeopardy are ugly reminders of the failure of the Democratic administrations' economic and fiscal policies.

ROAD TO DISASTER

The projected Federal nondefense spending in fiscal 1969 is 129 percent greater than the nondefense spending in fiscal 1960.

In fiscal 1965 the administrative budget expenditures totaled $96.5 billion. Defense costs were $50.2 billion. In fiscal 1969, administrative budget expenditures are estimated to total $147.3 billion. Of this amount, $76.9 billion will be for defense. On a percentage basis, both defense and nondefense spending have increased by 52 percent from 1965 to 1969.

In 4 years, full-time permanent employment in the executive branch has increased by 454,747 to a total of 2,687,500 civilian employees—an increase of more than 20 percent.

The budget deficit in fiscal 1968 will total about $25 billion for an astound-

ing total of more than $65 billion in just 8 years.

The balance-of-payments problem was permitted to deteriorate until in the fourth quarter of 1967 the deficit was at a catastrophic annual rate of about $7.5 billion. In March of this year, our historic trade surplus vanished so that we actually imported more goods than we exported.

In February 1961 our gold reserve stood at $17.5 billion. Today, it is below $11 billion. Foreign dollar holdings now total more than $33 billion. The world's confidence in the dollar has been shaken. A monetary collapse was narrowly averted through the establishment of a makeshift two-price structure for gold and the planned creation of a new form of international money.

Since 1959 the consumer price index has increased 18.2 percent. Prices are now advancing at a rate of 4 percent a year and may go even higher.

Interest rates have reached their highest point since the Civil War and recently the President warned of the possibility of 10-percent mortgage rates. So unprecedented is the rate of increase, the standard books of tables for estimating mortgage payments must be rewritten. Three years ago a home could have been purchased with a Government-backed mortgage of 5¼ percent. Today, the rate of interest is 6¾ percent. This means that a homeowner with a 20-year $20,000 loan will have to pay $4,154.40 more in interest charges.

MYTHS, FALLACIES, AND FANTASIES

So it is my personal view, the President's view, that the $186 billion expenditure is a very lean budget. (President Johnson, May 3, 1968)

Under the proposed 1969 budget, new obligational authority would increase by nearly $18 billion compared to an increase of $7.4 billion in the current year. Total budget authority would increase by over $15 billion compared to less than $4 billion in the current year. Net obligations incurred would increase by $15.7 billion compared to $10.8 billion in the current year. The budget also anticipates an increase in 1969 over 1968 of 45,600 full-time permanent employees in the executive branch.

Moreover, the overall expenditure estimates of the past three budgets have been incredibly wide of the mark. In 1966, the first administration estimate was a full $10.4 billion less than actual spending. In 1967, the spread between the original and final estimate of spending was $10 billion. The original estimate for the deficit in fiscal 1968 was $8 billion. Six months later, the President estimated that the deficit may be $19.8 billion with a tax increase and $22.8 billion without.

Actually, in my judgment, if Congress is left alone, it probably will not reduce appropriations the $10 billion planned, will not rescind the $8 billion and will not reduce expenditures more than $1.5 or $2 billion. (President Johnson, May 3, 1968)

In the first session of the 90th Congress, Republicans were instrumental in saving the American taxpayers $4.1 billion in proposed spending and in cutting $5.8 billion from the President's new appropriation requests. A Republican expenditure limitation of $131.5 billion was adopted by the House of Representatives. In a series of 23 rollcall votes of specific reductions, Republican Members of the House of Representatives averaged 85 percent support. The Democrats averaged only 17 percent support.

There is today available to the President $222.3 billion in unspent authorizations. In the 1969 budget, the President is asking for $201.7 billion in new obligational authority. A $10 billion reduction in the new obligational authority and an $8 billion reduction in the unspent authorizations is a cut of only 4¼ percent from the total of $424 billion which the President would have available to spend if his spending requests were approved.

The President can propose but the Congress must dispose. I proposed a budget. If they don't like that budget, then stand up like men and answer the roll call and cut what they think ought to be cut. Then the President will exercise his responsibility of approving it or rejecting it and vetoing it. (President Johnson, May 3, 1968)

The facts and essential information regarding reductions are best known to the Bureau of the Budget and the various executive departments. A resolution was adopted by the House of Representatives in 1957 that returned the budget to President Eisenhower and requested that he indicate the places and amounts where he believed substantial reductions could be made. In response to this resolution, President Eisenhower recommended reductions of $1.342 billion in a budget of $73.3 billion.

For nearly two years I have urged the Congress to pass a tax bill. (President Johnson—May 31, 1968).

In January 1967 the Johnson-Humphrey administration forecast a deficit of $8.7 billion for fiscal 1968. In June of 1967 this figure was completely discredited when the administration was forced to obtain from Congress a borrowing authority that would accommodate a deficit of $29 billion. It was not until August 3, 1967 that the administration finally acknowledged the precarious state of the economy. On that date, the President forwarded a message to Congress wherein he urged the immediate enactment of a 10-percent surtax. In this message, it was stated that unless expenditures were tightly controlled and the tax increase imposed, the deficit for 1968 could be more than $28 billion.

RETURN TO THE FACTS

The calamitous consequences of unrestrained spending policies and the harsh realities of the presnt economic situation cannot be buried or ignored any longer. We are a nation prodded by disaster.

William McChesney Martin, Chairman of the Federal Reserve System, has warned that the United States is "in the midst of the worst financial crisis that we've had since 1931."

Under Secretary of the Treasury Barr has testified that the United States now anticipates a "back to back" deficit of $20 billion for the current fiscal year and another $20 billion for the fiscal year beginning July 1 unless there is a tax increase. This, Barr stated is "intolerable":

We can't do it unless we eliminate the (veterans) life insurance and your (Government employee) pensions. There is going to be a severe erosion in the purchasing power of the dollar and the value of these life insurance policies . . . there is going to be severe erosion of the international value of the dollar.

From the outset of the present fiscal crisis, Republicans in Congress have demanded the establishment of priorities, a reduction in spending and the revision and reform of existing programs. Our insistence upon expenditure control has been shared by the Republican coordinating committee and the overwhelming majority of fiscal experts in this country and abroad. The Republican members of the Appropriations Committee and the Ways and Means Committee led the fight to make budget cuts, recisions, and limitations on budgetary authority an integral part of any tax increase. Largely at the insistence of Republicans, the bill reported by the House-Senate conferees imposes a $6-billion cut in spending during fiscal 1969 rather than the $4-billion reduction recommended by President Johnson.

On May 29, 1968, a motion by a Democratic Member of the House of Representatives to insist on an expenditure reduction of $4 billion for fiscal year 1969 rather than the $6 billion approved by the House-Senate conferees was defeated by a vote of 137 to 259. Of the 137 who voted for the $4-billion figure, only six were Republicans.

TIME FOR ACTION

The facts are painfully clear. The financial structure of this country has been placed in jeopardy. We have been following the same road to disaster that the British followed—a road that finally led to the devaluation of the pound, wage and price controls, and the crash abandonment of domestic programs and defense commitments throughout the world.

Revenue and Expenditure Control Act of 1968, H.R. 15414, couples a 10-percent income tax surcharge with an order to cut $6 billion in 1969 budget expenditures, $10 billion in new obligational authority, and $8 billion in unspent authorizations. It is the price that must be paid for the disastrous fiscal policies of the Johnson-Humphrey administration. It is the minimum that can be done if we are to move in the direction of fiscal and economic stability.

Mr. RARICK. Mr. Speaker, the conference report on H.R. 15414 is entitled "Revenue and Expenditure Control Act of 1968." Yet we all know adoption of the report will mean one thing—a tax increase.

Before the House is the argument that because of the attack on our currency by inflation and deficit spending we must cut spending and raise taxes.

The tax-raising figures are clearly set out and provided for in the bill.

But nowhere do we find any indication of where and what is to be cut from spending in the $6 billion package deal. Nor is there any assurance that once the

bill is passed there will be any spending cut.

Little explanation is offered as to the cause of how our financial business got into the present so-called critical state. It certainly did not occur overnight. Nor without repeated warnings. Yet, the leadership has done nothing to reduce spending on social programs, corruption, and waste nor has it shown any leadership in starting the economy drive.

This is not the case of those in leadership—because of their concern over financial conditions—coming before the American people with the story that cuts in spending have been made on this appropriation or that appropriation, and appealing for additional help. To the contrary, there has been no showing of corrective action possibly because it is felt to be the Executive's prerogative as to how moneys will be spent and the Congress lacks authority to make recommendations suggesting where or how. If the Executive refuses to identify any cuts before passage of a tax bill, can anyone rationalize he will afterward?

And lastly, blame must be placed somewhere. So the "experts" put it on the American people. Their complaint is that the American worker and businessman have too much money and do not save—they spend too much too fast; so to stop inflation we in Congress are asked to punish the taxpayer by taking more of his money and giving it to the Government so the responsible bureaucrats can spend it.

I say the "experts" are wrong. Why continue to blame the people—to punish the productive workingman?

Nowhere in the new tax proposal is there any provision for control of, nor taxes on the tax-free foundations. This is like pouring gasoline on a fire to put it out.

Dumping billions of taxpayers' dollars, affectionately called "Federal funds" and tax-free foundation grants into the marketplace to compete with the individual's earned dollars also creates inflation.

Until and unless those at the leadership of our country and financial affairs first put their house in order I cannot support the conference report.

I have no doubt but that if the body accepts the report, we will see no actual cuts in spending—but we will have raised taxes. And the cause and inflation will continue.

Mr. MONAGAN. Mr. Speaker, I am supporting the conference report.

I do so because I believe that the control of our domestic and international financial situation is of overwhelming importance to our national future. I fully subscribe to the objectives which the administration has set forth in the field of social legislation and I am proud of the achievements that have been made in this area in recent years and I have supported them. At the same time, it is essential that we balance our activity with our strength. A nation cannot exceed its capacity any more than an individual and the old rule enunciated by Mr. Micawber still holds true.

In the last 2 years we have seen strong inflation, a weakening of our balance-of-payments position, and a rise in international doubts about the strength of the dollar and its capacity to continue its role in international trade. It is clear, therefore, that firm measures must be taken. The recent history of Great Britain shows that a disregard for financial realities can eventually frustrate the development of the very social programs which a government seeks to advance.

Currently, we are seeking to bring Government expenditures under control and to relate them to the national capacity to pay and the major object of attack is the threatened budget deficit which itself would be highly inflationary. Therefore, the surtax proposed in the conference report will do much to reduce this deficit and to cut the inflationary impact. Of almost equal importance is the symbolic effect of this action which shows that we have made a firm commitment toward placing our budget under reasonable controls.

Not the least important part of this package which is presented to us is the stated policy controlling expenditures during the fiscal year 1969. This direction which is contained in section 202 states that Government spending shall be reduced by $6 billion, excepting Vietnamese operations, interest on the debt, veterans benefits and services, and payments from social security trust funds. Also included in these limitations are a reduction of $10 billion in new obligational authority and an $8 billion rescission in old obligational authority.

Some fears have been expressed that the impact of these cuts will fall most heavily upon the social programs. I am confident that this is not the case. I feel that the major impact will be in the defense program where the major expenditure is and I feel that careful examination can bring economies without affecting military efficiency. I believe also that other cuts can be made in space, in agricultural programs and elsewhere. Perhaps we will not be able to do some of the construction and make some of the capital improvements that we have envisioned in the immediate future, but these projects can be placed on the shelf and reserved for the time when military expenditures will be reduced. I am confident therefore that the impact on programs connected with human and social needs can be kept to a minimum, while substantial cuts can be made in spending in areas which will respond to fine-comb treatment.

Without a stable financial foundation, advances in individual well-being will be rendered meaningless through inflation or will be reduced because of insufficient resources. I believe that the steps proposed in the conference report are rather unpleasant but necessary fiscal medicine which must be taken in order to maintain the health of the American body politic.

Mr. FEIGHAN. Mr. Speaker, an editorial which appeared in the Cleveland Plain Dealer this morning sets forth succinctly and cogently reasons why the conference report should be adopted. Our present fiscal situation is critical, in fact, precarious.

We must measure up to our obligations and duty to bring fiscal responsibility to our Nation. We must not forget that the tax reduction which Congress enacted in 1964 reduced our income about $11 billion yearly. It appears that in terms of present-day income it would amount to over $20 billion. Under the 1964 act the taxpayers in the two lower brackets had a tax decrease of about 30 percent. In the present proposal the surcharge does not even affect these first two tax brackets; namely, the first $1,000 of taxable income for a single person and the first $2,000 of taxable income for married couples. As an example, a married couple with two children would have tax exemptions of $2,400—four times the $600 exemption—plus a $600 standard deduction, plus the $2,000 of taxable income on which, as I said before, no surcharge is applied. This means a married couple with two dependents, having a $5,000 income would not be required to pay any surcharge.

My concern for the poor is deep. In my opinion unless soaring inflation and interest rates are controlled and reduced, the poor will suffer most.

Under leave granted, I am including the editorial which appeared in today's Cleveland Plain Dealer:

PASS TAX BILL NOW

The House of Representatives has dallied far too long over the income tax surcharge–spending cut proposal expected to reach the Floor today.

The package must be passed—to preserve the nation's fiscal integrity, to slow down the inflation which has gripped the nation during long months of Congressional inaction—to keep interest rates from soaring to usurious levels.

Voting for tax increases is hard. So is paying them. But it is time to "bite the bullet," as President Johnson put it. We must prove to ourselves and to the world that as a nation we keep our financial affairs in order.

Mr. DOLE. Mr. Speaker, I rise in support of the House-Senate conference report on H.R. 15414—commonly called the Revenue and Expenditures Control Act of 1968.

I cannot, of course, speak for other Members of the House, but I suspect no Member is entirely satisfied with this bill as it has been reported. Some sections deserve strong support in my view, while others are of questionable value. On balance, I feel the measure must be approved. The national interest is significantly involved; no personal consideration in this election year should be allowed to influence the success or failure of this legislation.

THE BASIC CASE FOR H.R. 15414

The Revenue and Expenditures Control Act of 1968 has become an essential measure. The administration—and the majority of the Congress—have simply failed to pay their way for many years. The Federal Government has been required to borrow so much money to accomplish what has been undertaken, that capital is not available for home building, for small business, and for farmers in the quantities needed for necessary operations and projected expansion. The basic industries of this Nation have themselves felt the crushing absence of capital for ordinary purposes—at reasonable interest rates. The high interest rates on

the capital available contribute to an inflationary spiral.

INFLATION MUST BE STOPPED

We have witnessed inflation's insatiable appetite. Inflation has consumed most of the deserved increases the Congress has voted to social security beneficiaries, veterans, and others dependent on a fixed, small income.

Those dependent upon retirement benefits from private industry have suffered also, as have our retired military families. It is most regrettable that those on fixed incomes generally have less purchasing power now than they had 10 years ago—in spite of our attempts to correct the inequities of a society tempted to ignore their needs.

DEFICIT SPENDING IS THE ENEMY

Deficit spending is the enemy. We have learned through bitter experience that deficit spending causes inflation. Protracted deficit spending shows no regard for the little man, who pays dearly when he musters his annual tribute to inflation. Last year, his purse was 4 cents poorer for every dollar his limited income provided. He knows the trend must be stopped. He knows his Government must pay its way. Experience has taught him this. The Congress, too, must heed the lesson.

BASIC PROVISIONS OF H.R. 15414

The Revenue and Expenditures Control Act of 1968 has provisions designed to deal with inflation, and to reduce the Democrats' deficit. The provisions are:

Extend current excise tax rates on automobiles through calendar 1969;

Extend current telephone service excise tax rates through calendar 1969;

Provide a surcharge of 10 percent on individual income taxes from April 1, 1968, through June 30, 1969; and

Provide a surcharge on corporate income taxes of 10 percent from January 1, 1968, through June 30, 1969.

The above cumulative increase in Federal income approaches $15.5 billion through fiscal 1969.

The legislation further—

Provides a requirement for a $6 billion cut in fiscal 1969 Federal spending;

Provides a $10 billion reduction in requested fiscal 1969 appropriations; and

Provides for rescinding of $8 billion in unspent prior-year appropriations.

Many high officials in the administration have come to the Congress and testified in favor of a tax surcharge. Some of these officials have not taken such a strong stand in favor of expenditure cuts. I wish to make clear: I am supporting this legislation because it contains directives limiting Federal spending for fiscal 1969 by $6 billion. This tax increase must not become a vehicle for more Federal spending—thus the essential control features of the bill must be adhered to.

The administration, whose policies of fiscal irresponsibility have become legend in recent years, feels these cuts in spending will severely curtail essential programs. But responsible Members of Congress know better. Nonmilitary spending since fiscal 1965 has increased $38 billion. This single incredible statistic stands as a testament to the deficit spending policies of this administration.

What started out as Great Society legislation now clearly must be credited with causing much of what William McChesney Martin, Chairman of the Board of Governors of the Federal Reserve System, recently called the "worst financial crisis since 1931."

CRISIS OF DOMESTIC DEFICIT FINANCING

The administration has come to us with a crisis of its own making. The Congress and the people have willingly financed the needs of our soldiers in Vietnam and Korea. The crisis is not in military financing. The crisis is in domestic deficit economics. Our domestic spending has caused a domestic inflationary spiral. The war, far from being a boom builder, has been called by most observers a depressant to the economy—largely because of the balance-of-payments difficulties.

It is not surprising that the administration, after carrying on a program reminiscent of the social programs of Great Britain, should now be facing the same debilitating economic diseases suffered by that once great Nation. The pattern, after all, has been clear for years.

THIS IS ONLY A BEGINNING

I wish to make clear my view on this tax surcharge: It is only a beginning. As the Outlook section of the Wall Street Journal observed on June 3, 1968:

> While the results of passage or failure (of the tax surcharge bill) are sure to be significant, history suggests that the war against inflation will persist long after this particular battle is won or lost.

The Congress, if this conference report is passed, will have limited the administration somewhat in its freedom to spend on so-called Great Society programs. But really, the struggle is only begun. Year after year of responsible Federal financing is the only solution to the problems of deficit spending, now recognized as the enemy of the poor and the retiree. The old philosophy of the New Deal and and the Great Society—its unimaginative successor—has proved itself inadequate for a "free society." Only now do most Americans realize the need for responsible managment of our fiscal affairs.

The Government, like the citizen, must simply pay its way.

Mr. VANIK. Mr. Speaker, when the first announcement was made of the conference report on the tax bill on May 8, 1968, I very promptly protested the arbitrary and ill-considered work of the conferees. I told this House of my shock at the unholy ransom demanded by the conferees for the surtax proposal. I felt that this action completely disregarded the mandate of the Ways and Means Committee for a more acceptable bill.

In a floor speech on May 9, I pointed out that the Nation cannot suffer the emasculation of vital programs such as education, health, and welfare, as well as programs directed toward the solution of critical urban needs.

Later, on May 29, 1968, when the House of Representatives voted on the Burke amendment to instruct the House conferees to seek a $4 billion reduction in Federal spending, I voted for the Burke proposal with great reluctance and with great apprehension as to the effect of this legislation in reducing and eliminating Federal programs to preserve urban America.

This legislative concession was at the upper limit of compromise. During my 14 years in Congress, I have endeavored to focus attention on the need for meeting the problems which threaten to overwhelm our metropolitan communities. For the first time, and almost too late, Federal resources began to stimulate the improvement of our educational, health, and social programs. Our communities began to develop hope and to manifest a considerable degree of patience with the governmental process. State and local governments, responding to Federal stimulation, began their own improved programs of education, health, and social betterment.

As far as urban America is concerned, the present proposal will substantially destroy the legislative progress of the last 8 years. In one meatax approach, our constructive gains in these critical areas will be substantially hacked away.

Under these circumstances, I oppose increased tax burdens which also insure crippling cutbacks in essential and critically needed urban programs in health, education, and social service. I cannot ask the taxpayer to pay more for less service which is so vitally needed.

Every component part of our metropolitan communities has a vital stake in the revitalization and preservation of urban life. No suburban community can walk alone—or away from the central problem. Peaceful and secure life in urban America—depends on hopeful solutions to these critical problems. The policeman can arrest and detain but he cannot cure the malady of difficult urban life.

In my community, under the vigorous leadership of Mayor Carl B. Stokes, we are proceeding to strengthen urban life in a program entitled "Cleveland Now," in which all of the metropolitan community resources, both government and private, are being marshaled to revitalize and preserve urban values. This program depends on the flow of Federal funds in established programs. If this tax bill passes, the hopes and aspirations of our community in "Cleveland Now" will go into the deepfreeze.

Eighteen months ago, this bill might have worked as an economic tool. Today it will constitute a drag on the economy which will increase prices and reduce jobs. In addition, our economy will face a tax increase of $1½ billion on July 1, 1968, in increased social security taxes. The full impact of what we do today will not be known for many months to come.

The tax increase will result in even higher prices for food, housing, and utilities. Some utilities have already announced rate increases resulting from the increased cost to them of the surtax. Producers of goods and services can also be expected to pass on the burden of this tax to the consumer who will be on reduced rations because of his increased tax burdens. The result will be a tax-inspired inflation, and the hardest hit

will be the people on fixed incomes and the retirees.

This is the first time in American history in which a domestic tax increase is dictated by foreign circumstances. The basic trouble stems from our adverse balance of payments, which will not be materially affected by this bill. If we continue to spend billions of dollars to maintain forces in West Germany, Japan, and the Middle East; if we are unable to develop satisfactory solutions in Vietnam, our problems with a deteriorating dollar will continue. The surtax can never substitute for the critical policy judgments which are long overdue.

Earlier today, I criticized the manner in which the tax bill was considered—bypassing regular and constitutional procedures.

I am particularly critical of the new tax loopholes created by the conference committee for tax-free industrial bonds. These provisions were never approved by the appropriate committees of either body.

In 1965, over 35 Americans, with an income of over $500,000 annually, paid no taxes at all to the Federal Government. This income, which totals over $5 billion annually, completely escapes Federal taxation.

Long-overdue tax reform would achieve all of the revenue goals of the surtax. Action on tax reform has been promised ever since I have been in Congress. It will never come as long as we legislate new and added taxes which perpetuate injustice and inequity. For example, a 10-percent surcharge is 10 percent of zero for the holder of a portfolio of tax-free bonds.

The quality of our civilization, or of any civilization, can be measured to a large extent by the justice of its tax system.

Mrs. DWYER. Mr. Speaker, there is one fundamental question which the House must answer today in connection with the conference report on H.R. 15414, the Revenue and Expenditure Control Act of 1968. It is this: Will the country be better off with this bill or without it?

With considerable reluctance and with great disappointment that we have waited so long to deal effectively with our financial crisis, my own best answer is that the country needs this legislation desperately.

Not because this is a good bill in the conventional sense. Not because it will solve all our fiscal problems. And not, in fact, that it will accomplish all that is claimed for it. The bill is needed simply because this Congress and this administration have refused to face up to the economic facts of life for so long that there is no longer any other acceptable alternative. The pending compromise of a temporary tax increase and a substantial reduction in Federal spending is the least objectionable, the least harmful course that we can now follow in the effort to enforce responsibility in the conduct of the Government's fiscal affairs.

Responsibility is the key word, Mr. Speaker. It would be easier to avoid this issue, easier to close our eyes to the realities of our financial situation, easier to keep on borrowing and postponing the day when our bills have to be paid, and easier to retreat in the face of the alleged political dangers of voting for a tax increase and a spending reduction. But it would not be responsible. It would be selling our country short. It would be placing our own political safety over the economic security of the Nation. And it would, I am convinced, be underestimating the quality, the intelligence, the common sense of the people we represent.

The rather low regard in which so many Americans hold their Congress is already well known and a cause for deep concern. Our people are tired of a Congress which takes the easy way out, which avoids hard decisions, which places political considerations ahead of the country's welfare. They are looking for integrity and responsibility, for the capacity and willingness to act in the public interest on the basis of a sound analysis of public needs and problems. Our people know the country is in trouble and they expect their Representatives in Congress to be leaders in the search for effective solutions.

The pending legislation, Mr. Speaker, can be the beginning of this effort, at least to the extent that it will help prevent the present crisis from growing worse. For the consequences of failing to pass this bill will be severe, indeed.

If we should fail, we would be placing our stamp of approval on a budget deficit for the fiscal years 1968 and 1969 that could reach a total of $50 billion or more with all that means in terms of inflation, interest rates, adverse balance of payments, and an ever-growing share of our wealth being consumed by interest on the national debt.

If we should fail, we would be opening the doors to an inflation which has already reached an annual rate of 4 percent and is threatening to push the cost of living even higher.

If we should fail, we would be forcing uncontrolled competition for investment capital already in short supply and thereby pushing interest rates to heights which could shut down entire industries, create massive unemployment, and deprive high-priority programs of the funds they need to maintain progress.

If we should fail, we would be telling the rest of the world that there is no future in the American dollar; that there is no hope of financial stability on which true prosperity and growth depends; that there is grave risk in doing business with America.

If we should fail, we would be penalizing the very people we are supposed to be trying to help—the people to whom every increase in the cost-of-living index means less money to buy essentials; the people who must look to Government investment as a means of finding decent jobs, decent housing, and a fair chance in life; the people who have earned through a lifetime of work the right to retire on savings that will maintain their value.

We cannot, therefore, afford to fail. Failure to pass this bill today can only multiply our burdens and face us with an even more intolerable crisis in the very near future. Further postponement of tough decisions is clearly out of the question.

Nevertheless, Mr. Speaker, I urge our colleagues once again not to think that enactment of this legislation is the end. It is only the beginning. At most, it will provide us with time and resources which can be used—if we only will—to reorient our thinking, reorganize our efforts, and restructure our priorities so as to build a sound foundation under our national commitment to economic progress.

Much more must be done and I would strongly recommend special attention to the following objectives:

First. Revise the present system of making fiscal policy—which encourages excessive delay and too much buck passing between Congress and the administration—so as to achieve closer cooperation between the two branches and increase our ability to respond more quickly to adjustments in the economy; a series of smaller, more precise fiscal moves would be both safer and more effective than reliance on a single massive one.

Second. Reform the present tax structure: To close loopholes which allow some to escape all or part of their obligations; to relieve those now being taxed at a disproportionately high rate; and to make the system both as equitable as possible and productive of maximum revenues at reasonable rates.

Third. Reorganize the structure, operations and administration of the executive branch so as to eliminate waste and inefficiency, improve the performance of needed services, and in general obtain greater results for every tax dollar spent.

Fourth. Perfect the system by which Congress appropriates money so as to strengthen our capacity to match spending to revenues and to establish and enforce a rational set of priorities, as opposed to present procedures which tend to isolate individual spending decisions from the budget as a whole and thus facilitate irresponsibility.

PROTECT AND PROMOTE THE JUST SOCIETY

Fifth. Take more effective steps to relieve our domestic economy from excessive dependence on foreign influences; a basically healthy economy should not be unduly threatened by international speculators or the chronic world shortage of gold or arbitrary rates at which various currencies are convertible.

Sixth. Reduce the crushing burden of defense costs by, first, exhausting every possibility for ending or reducing the scale of the war in Vietnam; second, limiting our military obligations around the world through a more realistic reassessment of our vital interests and of the dangers posed by potential aggressors; and, third, exercising much closer scrutiny over the defense budget, especially as it relates to domestic construction projects, overseas military missions, and contracting procedures and profits.

This agenda by no means exhausts what is necessary. And each point on the agenda deserves much more attention than this limited space allows. But it serves, in my own best judgment, to identify the areas in which the Nation and its elected Representatives should move

in order to establish the economic underpinnings of a more just and equitable society.

Mr. BROTZMAN. Mr. Speaker, today I vote for the combined $6 billion cut in Federal expenditures and a 10-percent Federal income tax surcharge. I do so reluctantly, but with the strong feeling that it is the responsible and necessary thing to do in view of the current economic crisis which this Nation faces both at home and abroad.

There is no doubt that the tax increase was made necessary by the irresponsible and reckless fiscal policies of this administration.

The record of this administration has been one of disaster for the consumer and for the businessman. Since 1965 the cost of living has gone up by 8.5 percent. Recent wages increases for the workingman have been lost in the spiraling living costs. The Federal budget has increased by 100 percent since 1960. Interest rates are the highest since the Civil War.

The 89th Congress, of which I was not a Member, alone boosted the expenditures by nearly $60 billion over any previous budgets. That Congress failed to meet its responsibilities by providing the necessary revenues for the $60 billion increase. The result has been massive and runaway inflation. The 89th Congress fed the flames of inflation and now it has been left to the 90th Congress to try to bring this fire under control.

The budget has increased steadily year by year from $92 billion in 1960 to $176 billion in 1968 and a projected $186 billion in the next fiscal year. The administration has asked for a "planned deficit" of $20 billion for this year. The public debt has risen from $286 billion in 1960 to $327 billion in 1967 and an estimate of $351 billion for this year.

During my service in Congress I have consistently fought to reduce Federal spending. Last year I supported moves to reduce the budget by approximately $15 billion. We were successful in cutting it by $6 billion in 1967.

I have sponsored legislation to require the Bureau of the Budget to supply the Congress with accurate and up-to-date information each month on the estimated revenue and expenditures from the Treasury contrasted to the anticipated cost of proposed legislation. The administration has chosen to ignore this recommendation.

The effects of the extravagant spending of the 89th Congress and the built-in increases enacted by that Congress have now caught up with us. We have had to face the painful task of putting our house in order. Like the housewife who must balance the family budget, the Congress is now being asked to put the Federal budget back into line.

While the condition of the U.S. economy was uppermost in my mind when I voted today, I also had weighed the impact of this bill on the individual homemaker.

I concluded that in the short term the housewife would feel additional strain on her budget whether or not this bill became law.

If it had not passed, then the average American shopper would continue to suffer from the effect of inflation and this loss of purchasing power would go on indefinitely. On the other hand, passage of this bill would add temporarily to a family's income tax.

The long-term effects of the two alternatives, however, are another story. Inflation, the pickpocket, tends to go on indefinitely robbing those on fixed incomes and eating up salary increases before they occur.

The tax increase and the mandatory budget cut, on the other hand, promises to give American workers real dollars in their paychecks for the first time in many years. It will protect those on fixed income from erosion in buying power and convert hard-won salary increases into better standards of living for families.

Thus, in my mind, the long-term economic interests of not only the Nation but of its individual citizens would be best served by an affirmative vote on this bill.

The only responsible thing to do, regardless of partisan consideration, was to act to protect the value of the dollar. A sound dollar can mean the difference between a new era of prosperity or an international economic disaster of the proportions of 1931. The enactment of the tax surcharge and spending cut is a step to protect the income and savings of all Americans and to regain the lost respect for the dollar on the international market. It is a direct assault on inflation, the cruelest tax of all.

Mr. BINGHAM. Mr. Speaker, I am distressed almost beyond words by the character of the measure that is before us today for adoption or rejection. On various occasions in recent months, I have proposed and urged that the needed additional revenues be raised through the closing tax loopholes and other needed tax reforms, instead of by a tax surcharge that will bear most heavily on the people of modest income in our society. I deplore the fact that the present package contains no such reforms and that it calls for expenditure reductions in the coming fiscal year which not long ago the President was saying could not be carried out without interfering with essential programs. I have voted on every possible occasion for the adoption of procedures that would open the measure to improvement, both through the inclusion of reforms and through reduction in the required expenditure cuts. As late as this afternoon, I was recorded in support of an unsuccessful effort to insist on the constitutional prerogatives of the House for the introduction of revenue measures, an effort which I hoped would lead to an improved bill emerging from our own House Ways and Means Committee within the next few days.

But now all these efforts have failed. The unhappy choice that is now presented to us is to approve the present measure or to have no tax increase at all in the near future. I have been assured by experienced Members that, if this measure is rejected, there is no chance that a tax-increase bill incorporating reforms and making lesser cuts in expenditures would be brought to the floor of the House later on.

Under these circumstances, I feel that the course of responsibility is to vote for the measure now before us. To vote for any tax increase is painful for an elected legislator; it is particularly painful to vote for an increase such as is called for in the proposed bill, which will cause hardship to thousands of my constituents.

But I believe that the alternative to the enactment of this bill at this time would be even more painful and more damaging: inflation which is already eating away at the pocketbooks of our citizens would probably increase its terrible pace, and in the end the hardships caused might well be substantially greater than those that will be caused by this tax surcharge.

I do not believe the issue of the Vietnam conflict is at all involved in the decision we confront here today. A negative vote on this measure will not speed the end of the Vietnam war one iota. But the rejection of this measure by the House might well do serious damage to the soundness of the dollar, both at home and abroad. It could result in an international rush to turn dollars in for gold, and this could be disastrous, because three times as many dollars are being held in various countries as reserves today as we hold in gold with which to meet such demands.

I agree with many of my colleagues who are voting against this bill that the spending cuts called for are much too deep, and I joined in the effort made the other day to reduce the cuts to $4 billion. But that effort was rejected by the House. The President has now indicated that he can live with the $6 billion cuts. I believe less damage may be done to essential programs by this procedrue than would be done by the cuts that this Congress might well make if the bill before us is rejected.

Moreover, I hope that the cuts we vote today will prove to be so painful that the Congress will modify them later on, and I shall work to that end.

Accordingly, with a heavy heart, I shall vote for the conference report.

Mr. UDALL. Mr. Speaker, as we prepare to vote today on the Revenue and Expenditure Control Act of 1968, I should like to review some history.

Twenty-seven months ago a reading of economic indicators made it clear to me and, I think, to most of this Nation's leading economists that inflationary pressures were building. In a newsletter which I published on March 18, 1966, I told my constituents that, election year or not, I considered it essential that Congress enact a temporary tax increase to head off inflation and all of its attendant consequences.

Unfortunately, at that time the administration was saying we did not need a tax increase. Whether that was election year politics talking or the genuine advice of the Council of Economic Advisors I do not know. I do know, and all the world knows now, it was wrong.

When I came out for that election year tax increase, the consumer price index stood at about 110 on a scale assigning a value of 100 to the average of consumer prices for the years 1957–59. Today it is about 120. What this means is that the

value of the dollar has shriveled close to 10 percent in just 2 years.

By comparison, prices rose just 7 percent in the preceding 5 years.

Mr. Speaker, Congress is partly to blame for this sad and unnecessary erosion in the value of the dollar. To be sure, the administration was exceedingly slow in demanding action to balance income with outlay in Federal operations. The Vietnam war, previously a minor part of the Federal budget, became a major item in fiscal 1966. Projections of military expenditures proved grossly in error that year and the following year. But this is a great and sophisticated Nation, and ours is a great and sophisticated Government; we do not have to be that surprised and that unprepared for developments as important as this. And when the administration saw that a tax increase was necessary, it was the clear duty of the Congress to act with some dispatch. Instead, we have allowed this vitally important matter, with all of its far-reaching consequences on the lives and welfare of all Americans, to languish and nearly die. We have allowed it to become caught in a tug of war over reductions in Federal spending. And all the while time has been running, the clock has been ticking, and the pages of the calendar have been turning.

Mr. Speaker, a detached observer viewing this contest from afar might well have wondered if this Nation still had the capacity to govern itself. Action was clearly needed, yet none was forthcoming.

If we look at the disarray in world economic affairs, the devaluation of the pound, the threat of further devaluation, and the precarious position of the dollar in relation to the price of gold, we can see some of the consequences of this prolonged and outrageous delay.

Today we will be enacting with this tax increase a limitation on Government spending amounting to a reduction of $6 billion from the budget submitted by the President in January. Some of my colleagues see this portion of the bill as a kind of Russian roulette; I see their point, for no one in this Chamber knows what programs will suffer the effects of this reduction. However, I see this as a relatively less important consideration right now than the question of what is going to happen to our economy as a whole. A balancing of income and outgo may be impossible with a war on, but the present imbalance can be catastrophic. Some measure of responsibility is absolutely essential, and it must be demonstrated here and now.

There are those who still say a $6 billion reduction is excessive, that many good and desirable programs will have to come under the ax as a result. I do not doubt it. I think a $4 billion reduction might have been more manageable. But to continue bickering over a difference of $1 or $2 billion when we have delayed so long already is not to demonstrate the kind of responsibility I think is required by the gravity of our economic situation.

I shall vote for the conference report today, not because I like to vote for tax increases, not because I think this is the way to make friends back home, but because I think this is the only course consistent with the economic welfare of my constituents and the American people as a whole.

I shall vote for this tax increase bill with its limitation on Federal spending, not because I want to wipe out the highway program or abolish aid to the aged or the blind, but because I think these programs and all others will be in serious jeopardy if our economy falters or the dollar is devalued.

Mr. Speaker, in voting for this bill today, I want to express the hope that the administration, to which the Congress is abdicating its usual authority to weigh and evaluate expenditures, will exercise the maximum judgment and discretion in making these cuts. I certainly want to make clear that I am not casting a vote to wipe out programs of education and welfare, programs to alleviate poverty or train the uneducated for gainful employment.

At the same time, I see a great many items in the fiscal 1969 budget that could be eliminated entirely or greatly reduced. I am not a supporter of any new arms race, yet this could be the result of our proposed anti-missile-missile system. Dropping that item entirely would be a major step toward the kind of reduction we are talking about today. And there are other items in this category.

Mr. Speaker, I think one result of this piece of legislation is going to be especially salutary. I am not speaking of the easing of inflationary pressures. I'm not even speaking of the savings to the taxpayers of certain budget cuts. Rather, I am speaking of the great educational benefit we will all gain through seeing what happens when major reductions are ordered in Federal programs. I think, Mr. Speaker, we are going to receive a lot of mail from people who did not know exactly where all that money was coming from. There are going to be great hues and cries. There will be wailing, and there will be gnashing of teeth. And all of this will be carried out in full view of the American public. As I see this piece of legislation, it is gong to provide us with the greatest program of adult education this country has ever seen. For the first time many people are going to find out who benefits from what domestic government programs—and in some cases they will discover it is themselves.

For all of these reasons, Mr. Speaker, I plan to vote "aye" on this greatly needed, long-delayed measure before us today.

Mr. HELSTOSKI. Mr. Speaker, when this House passed the Tax Adjustment Act of 1968, it was just a simple bill to postpone the reductions of the automobile and telephone excise taxes and to accelerate corporation tax payments.

What we have before us today is a total stranger coming from the other body, carrying many amendments which were not considered by the House in its action to extend the excise taxes. This is a loosely drawn bill and should be fully considered before final action is taken.

I oppose this bill because of the maze of amendments which have been added. There should have been an opportunity to fully debate the exceedingly broad and far-reaching consequences of this legislation.

The Senate amendments include provisions for a 10-percent surcharge on individual and corporate income taxes and a $6 billion reduction in Federal spending. I had favored a $4 billion reduction and I feel that a $6 billion cut will jeopardize urgently needed social programs, housing, education, food programs, assistance to the poor, air and water pollution control, and health-care programs. If we were to go beyond the $4 billion spending reduction, these programs would be exposed to irreparable harm at a time when expansion rather than curtailment of these vital programs is needed.

The Senate amendments also remove the freeze on the level of payments for the aid to dependent children program under social security, permitting fathers who have no connection with the work force to receive payments under this program.

Further Senate amendments would result in a cutback of Federal employment, apply dollars redeemed in gold to pay debts, roll back textile imports, restore tax exemptions for nonprofit advertising, restore tax exemptions for Presidential convention program advertising, and several other amendments which should be thoroughly debated by the House, rather than accepted on this limited basis of time.

Another provision was inserted into the bill which would permit tax exemptions for industrial bonds under $1 million, but remove that exemption when bonds are issued for industrial development if they exceed the $1 million. I cannot see the validity of such exemptions and nonexemptions. If bonds of over $1 million are taxable, why should those under $1 million be exempt? Both of these are obligations for the issuing authority and should receive equal treatment. Thus this provision too should have "its day in court" and any exemption or nonexemption should be fully debated by the Members of the House.

This large Federal spending cut will only require a large supplemental appropriation bill to be acted upon at some future date. While we are openly cutting expenditures today, we will quietly pass a money bill to cover the many financial deficits which will surely be incurred in the programs to curb poverty, unemployment, hunger, disease, and eradicate slum housing. By making these deep Federal spending cuts, we are ignoring the needs of our society. The future costs will far exceed the savings proposed in this legislation before us today.

This then becomes nothing more than a patchwork of inequities.

When involvement in Vietnam is costing billions and we are forced to ignore the priorities at home, when there are people who earn over $500,000 and pay not 1 cent in taxes, when hundreds of loopholes are available to legally evade the payment of taxes, then we must turn to broad tax reform as the most equitable solution to obtain additional revenues.

It is completely unrealistic that in this day and age, an individual taxpayer is allowed only a $600 deduction as a personal exemption and the same figure for each dependent. Others escape their

share of taxes. There is legislation which I have introduced to increase personal exemptions to $1,200 but that legislation is still being held in committee files.

We should consider reducing the gas, oil, and mineral depletion allowances to yield additional tax dollars. We should make a thorough study of the foundations and trust fund agreements as another source of income to the U.S. Treasury.

The cry from the taxpayer will be quite vocal next April 15. Withholding of wages to cover individual tax payments will begin 15 days after the enactment of this legislation. However, the new withholding rate will not be sufficient to cover the 7.5 percent due in 1968. The new rate will withhold approximately 5 percent. Thus individual taxpayers will have to make up the remaining 2.5 percent when they file their tax return for 1968, or they will receive less in the case where they expect a refund.

Because of the vast number of inequities in this legislation and in our entire tax structure, Mr. Speaker, I cannot in good conscience vote for this measure.

Mr. TUNNEY. Mr. Speaker, I would like to speak in support of the Revenue and Expenditure Control Act of 1968.

I do not like higher taxes; however, the stability of our economic system requires them at this time. We need a tax increase to prevent the inequities of inflation and the deterrents to economic growth of tight money. Our tax system has a major impact on economic growth and stability. We have seen the harmful results of excessive reliance on restrictive monetary policy; in fact, the housing industry has still not fully recovered from the high interest rates of 1966. We must now try to insure that a proper interrelationship between fiscal and monetary policies is safeguarded in the future. Given the present economic situation, this requires a tax increase now. I do not believe that inflation coupled with tight money is a welcome alternative. Inflation erodes everyone's buying power and disproportionately hurts people with low and fixed incomes.

Many experts, business and labor leaders, economists, bankers and financial leaders have stated that if there is no tax increase during this Congress, inflation will be rampant.

It is also very important for us to put our fiscal house in order. This legislation contains a reduction of $6 billion in fiscal year 1969 expenditures, a $10 billion reduction in new obligational authority, and specific recommendations for an $8 billion rescission in old obligational authority.

However, I am extremely disappointed that the Congress is not considering tax reform legislation today in conjunction with a tax increase and a reduction in Government spending. It is for this reason that I voted against the closed rule earlier today. I firmly believe that it is incumbent upon the Congress to immediately proceed with tax reform legislation in order to close tax loopholes.

I have introduced a tax reform bill which would eliminate what I consider glaring inequities in the present tax laws and would bring in an additional $2 billion without taxing the average citizen, who is already too heavily taxed.

The bill which I have introduced outlines five specific areas in need of reform:

First. Lower the oil and gas depletion allowances from their present 27½ percent to 15 percent, and depletion allowances on 41 other minerals from 23 percent to 15 percent. The revenue to be obtained from this change could be anywhere from $500 million to $1.5 billion annually. The U.S. Treasury has recently disclosed that, on an average, the cost of an oil well is recovered 19 times over by the depletion allowance.

Second. The tax-exempt interest provision of industrial development bonds would be repealed. At present this is an unintended Federal subsidy to private industry, some $50 million of revenue annually would be obtained by this change.

Cities throughout the country are today issuing municipal bonds bearing tax-free interest to finance industrial plants and commercial facilities for private, profitmaking corporations.

The usual method by which cities pass their tax benefits to private corporations is to issue bonds to construct a plant in accordance with the corporation's specifications and then lease the structure to the corporation using the rental payments to retire the bond. Because the city's bonds are tax free, their interest rate is lower than the interest rates on bonds which the corporation could issue. The corporation reaps the advantage of the low tax-exempt interest rate.

These bonds are not the same as the worthwhile municipal bonds which assist cities in financing needed public facilities such as schools, roads, and sewer systems.

The Revenue and Expenditure Control Act does make considerable modifications in the tax-exempt status of industrial bonds. I am pleased that this legislation does remove the tax-exempt status of industrial bonds. However, there are major exceptions to this policy which in effect serve to continue the tax-exempt status of many industrial bonds. I question the wisdom of these exemptions when we are voting for a general tax increase along with severe spending cuts.

Third. The avoidance of taxes by forming multiple corporations so each can take advantage of the present provision of only 22 percent tax up to the first $25,000 of corporate income would be eliminated. The bill would provide for only one surtax exemption where a single business enterprise is involved. This could yield up to $150 million annually.

Corporations by dividing income from one source among a number of largely fictional taxpaying entities that for tax purposes only are considered separate corporations but act in the day-to-day functions of the business as one corporation is a widely used method of tax avoidance.

Fourth. The practice of paying estate taxes with U.S. bonds and redeeming them at par value rather than their fair market value at the time, would be discontinued. The effect could yield $50 million per year.

It is presently the practice of the Government to accept in payment for estate taxes Government bonds at their redemption value which is called par value. For the most part when bonds are issued they are purchased at a discount from their redemption value. They are discounted because the bonds pay interest over their lifetime, very commonly 20 years plus paying their par value at the end of whatever period for which they have been issued. For example a person might purchase for $80,000 20-year Government bonds with a par or redemption value of $100,000. If before the end of the 20 years the person died his estate could turn in the bonds to the Government for $100,000 rather than their value at the time of death.

Fifth. A minimum income tax of 10 percent would be imposed on all individual and corporate tax free income in excess of $10,000.

In 1964 the latest year the IRS has figures, 19 of the 482 taxpayers reporting an income of $1 million or more annually paid no income tax. The remaining 463 paid less than 30 percent of their incomes in taxes even though the tax rate for all taxable income in excess of $100,000 is 70 percent.

In 1965 the 20 largest oil companies earned close to $6 billion and paid only 6.3 percent on taxes. Some of these companies paid no taxes at all.

These changes would reduce the inequities in our present tax system by placing the burden of higher taxes on those who now escape paying their fair share.

There is a definite need to rid ourselves of methods of tax avoidance, which do not serve the broad interests of the majority of taxpayers.

Mr. ANDERSON of Illinois. Mr. Speaker, we have had a day of reconciliation, and on yesterday a day of Solidarity. Today we truly face a day of reckoning, it is not just the Congress that will be called upon to "bite the bullet." The more than 70 million wage earners in this country are the ones who will be required to bear the pain of sacrificing a greater share of their already shrunken earnings to the Federal tax collector.

It seems such a short time since the Congress enacted the Revenue Act of 1964 with an approximate $12 billion tax cut. "Whatever the good Lord giveth, He also taketh away" seems to be the cornerstone of the fiscal policies of the present administration. However, I suppose we must take refuge in the new "theology of hope" and extend that doctrine to what will happen at the polls in November when the American electorate renders judgment on the stewardship of this administration.

The unfortunate—yes the tragic—part of the present situation is that we are not simply cancelling out most of the tax decrease of 1964. That melancholy fact has already occurred quite apart from passage of the 10-percent surcharge on individual income and corporate taxes in 1968.

Because of the increase in living costs and because of the increase that has al-

ready occurred in social security taxes a taxpayer is worse off today than in 1964 unless he has had a very substantial pay increase. And despite recent substantial wage settlements the average factory worker enjoys less real income—less purchasing power than he did 30 months ago.

Let me present a specific example. For a family or four with a $10,000 annual income, its Federal taxes are down $258 from 1963, but its social security tax is up $169. When you take into further consideration the rise in the cost of living over this period, this family's after-tax income is worth $1,009 less. Thus, its net loss from 1963 amounts to $920 a year.

The Tax Foundation, Inc., an independent research organization, figures that the average American will spend 2 hours and 25 minutes of his every 8-hour working day just earning money to pay his taxes.

Thus, it is abundantly clear that we are not simply recapturing the tax benefits conferred upon the American taxpayer in 1964. This tax increase because of Government sponsored and Government nourished inflation will add to the $920 loss in purchasing power already sustained by the American family I referred to in my example of a moment ago. And let me emphasize that this administration must shoulder the blame. For as W. Allen Wallis, president of the University of Rochester said:

> Inflation can be generated only by the government. Business firms, labor unions or consumers with exessive market power can do many objectionable things that are contrary to the public interest: but one objectionable thing that they cannot do is cause inflation—or for that matter, prevent it.

Why then vote for a tax increase? Why bail out an administration whose own fiscal policies have unleashed these forces of inflation? Why, indeed? It is because today ours is an economy in crisis. The cost of living is advancing at the highest rate since 1951. Unless the economy is braked it could soar to a rate of annual increase of 6 to 8 percent as against 3½ percent in 1967. Interest rates are at a perilously high point—higher than in a century. Some prime Government obligations are carrying an interest rate in excess of 6 percent. Still higher rates of 10 percent by the end of 1968 could spell the collapse of the housing market and with it the hundred-billion-dollar construction industry. Foreign central bankers are increasingly restive and nervous as they sit with $33 billion in claims against the U.S. dollar and see our good supply rapidly dwindling. Despite the paper gold created to meet the threatened international monetary crisis, this is at best a temporary expedient. And so it goes—no matter in which direction we look we see our economic troubles mounting until they threaten if all these adverse forces should somehow unite to overwhelm us. Who then would be the big loser? Every man, woman, and child in the United States. The retiree, the pensioner would find his savings and his current retirement income so depreciated in value and purchasing power as to be insufficient to sustain him. As the spreading infection spread through our society and people found themselves unable to buy, the results are obvious for even the most uninformed. Mass unemployment, a devalued dollar, a paralysis in world trade, and finally bitter, rending economic depression would grip us by the very vitals of our society. I cannot in good conscience contribute to the fulfillment even partially of that dire prophecy. And I remind you it is one which comes to us from sober and seasoned men who are not accustomed to merely crying "wolf."

Therefore, I shall vote for this combined tax increase and expenditure decrease bill to fulfill my responsibility as a representative of the people. However, even as I do so I would serve notice on the Johnson administration that I intend to insist that it keep its part of the bargain to actually reduce expenditures. I also want to make it clear that I feel this temporary tax increase puts the Congress in the position of the little boy who was forced to hold his finger in the dike to keep the waters from inundating his village. That was a temporary measure as is this. The permanent flood walls of our economy need to be rebuilt by a new administration dedicated to sound fiscal policies instead of the boom or bust philosophy of the current one. I shall also work toward that end so that the American people may look forward to the day when they may have some surcease from those who would laden them with ever more grievous burdens.

Mr. BETTS. Mr. Speaker, the issue before the House of Representatives and, indeed, before the American people today is much more than the question of whether or not to increase taxes and reduce expenditures. The fiscal affairs of our Nation are in such a wanton and perilous state that if immediate responsible action is not taken to restore some semblance of fiscal discipline—

We will be courting the gravest danger for the integrity of the dollar;

We will be subjecting our citizens to ruinous inflation;

We will be exposing our free enterprise system to the disorder of boom-and-bust economic chaos;

We will be threatening the job opportunities, the security, and the savings of our citizens;

We will be playing Russian roulette with the very real possibility of a federally managed economy with the regimentation and stagnation it implies; and

We will be debilitating the capability of our Nation to remain free.

These are dire assertions but unfortunately they reflect the facts that abound at home and in the world around us. The danger is real and is not to be denied. The ruinous course of endless and mounting deficits urged upon us by the spenders must be reversed. We must have the ears to hear and the eyes to see the facts as they exist regardless of how painful or against our inclinations their recognition might be. We must have the will and courage to correct the consequences of the fiscal folly that has been foisted on the American people by an administration that has misrepresented its extravagant actions as being responsible and in the national interest.

In a sense, the ordeal of the decision today is a vindication of those of us who over the years have consistently advocated restraint and responsibility in the management of our fiscal affairs. Yet, I find no personal gratification in being sustained in my longstanding conviction that the administration's policies of the past several years were overcommitting and overextending our national capacity. I claim no personal political justification in the fact that the administration's spending policies which I opposed have resulted in major miscalculation and grievous mismanagement in the handling of our fiscal affairs. I seek no support from the fact that the administration's frequent resort to piecemeal short-term fiscal expedients and gimmickry which I opposed has not succeeded. Instead, I am determined that the seriousness of the present situation shall not be overlooked today nor forgotten in the future.

The revenue and expenditure measure that is before us today will help us deal with an immediate and urgent problem of avoiding a successive deficit in the approximate magnitude of $25 billion or more in fiscal year 1969 on top of a deficit of the same magnitude that is now inevitable in the current fiscal year of 1968. But the vote on this one measure will not solve the long-range problem of dealing responsibly with our fiscal affairs in the years ahead. That will require the unremitting diligence and discipline of every American—elected official and private citizen alike. If the tax increase provided in this bill is to be temporary and the expenditure reduction enduring, it is essential that spending restraint be the order of the day now and for the future.

As a Member of the House of Representatives and as a member of the Committee on Ways and Means I have worked to enable a lessening of the tax burdens imposed on our citizens. My determination in this regard remains unchanged. But unfortunately we must now pick up the tab for our national excesses of the past. To fail to do so would be to invite consequences affecting our entire society in all its aspects in a most serious way.

Therefore, I reluctantly support the temporary tax increase that would be provided by the conference agreement on H.R. 15414 and wholeheartedly endorse the long overdue and urgently needed spending restraint that it would provide.

Mr. DOWDY. Mr. Speaker, in discussing this tax increase bill, there is more involved than just the constitutional question concerning the manner in which it is brought here. All of us are aware of the fiscal condition of the Government, and the deficit spending for 40 years which has caused our inflationary spiral, and which has brought on the demanr for a 10-percent tax increase. Some of us saw what was happening many years ago; it has dawned on others only recently.

While a 10-percent increase is demanded, actually it would require at least a 25-percent increase, and more likely a near 50-percent increase to balance the budget requests that are made of Congress. And that would not be the end of

it—because if we increased the taxes 50 percent, there would result only greater demands for even larger spending programs.

The budget requests for fiscal 1968 were around $140 billion, as I recall, and the budget requests for 1969, which begins in a few days, amount to more than $186 billion, and during the debate, someone has mentioned that amount has already been increased to near $190 billion—quite an increase over just last year.

For years, we have been hearing much talk about the forgotten man. Just who is the forgotten man? It is not Ralph David Abernathy's mob at "Resurrection City"; they are not forgotten. The Government is taking care of them with money taken from you in taxes. It is not the millionaires who clip tax-free coupons. They are not forgotten. Today's forgotten man is the middle-income class, with incomes from $5,000 to $30,000 per year, who pay about two-thirds of the taxes collected by the Federal Government. It is this group that is paying, and paying, and paying.

These forgotten men are asked to pay for the rebuilding of the cities—but it was not they who burned the cities down. Why should they be asked to cough up an additional $25 or $50 billion each year to support Abernathy's campaigners? They are not the forgotten men—the middle-income people are the forgotten men.

The United States is a wealthy nation, but for 34 of the last 40 years, the Government has run a deficit in its spending, causing a 75-percent loss in the purchasing power of the dollar. For 38 of the 44 years preceding De Gaulle, France ran a deficit, causing the franc to lose 99 percent of its purchasing power. The French economy, as a result, was shot to pieces, so they had to have a dictator to act as receiver for the bankrupt government, and De Gaulle was given absolute powers. We do not want a dictator in the United States; consequently, it is getting late for our Government to quit its wastrel spending, to prevent it.

Great Britain had a deficit in its international payments in the last 6 years before it devalued the pound, and was forced by its international banker creditors to devalue, as well as raise its bank discount rate to 8 percent, and to otherwise tighten its belt in fiscal matters. The United States has run a deficit in its international payments for 17 or the last 18 years. The last year we had a favorable balance was in 1957. This was caused by our foreign aid programs. We owe the international bankers in excess of $35 billion. Those bankers have so many of our dollars that they have been trying to help protect the dollar, but they won't do it much longer, unless we bring our payments to a balance. When the international bankers lose faith in the dollar, we will be in the same boat with England, if we are not already.

The requested 10-percent tax increase will not cure our troubles. I think it is no secret the real reason for wanting the increase is to make it possible to further increase Government spending, and that the promised $6 billion spending cut is pure window dressing to promote the tax increase. Remember last year's $4 billion spending cut? We worked hard for it. It has all been quietly added back—and more, too.

It is excessive spending that is causing our trouble. A tax increase would merely result in a further increase in spending, and make matters worse. A tax increase, not accompanied by a significant reduction in expenditures, and there is no prospect of such a reduction, would seriously affect our economy, and would bring bigger and bigger government, with smaller and smaller freedom of activity for the private individual.

Raising taxes will not cure inflation; we already have inflation, and a tax increase may very well make inflation worse, as businessmen and employees recouped the taxes through higher prices and higher salaries and wages which are the result of all inflation.

The only cure for inflation is for the Government to spend less, and to abandon the 40 year spree of deficit spending. This can be done, in spite of the war. Year after year, our nonmilitary spending has been going up as though a war were not going on, and as though money were going out of style. Some programs were boondoggles to start with; others are desirable when we can afford them, but at least they should be held to present levels until we can afford more. Some could be postponed without any great or permanent harm.

A few weeks ago, an Assistant Secretary of Commerce, Mr. Chartener, according to news reports of a speech he made to the American Bankers Association, said that the Nation's basic problem is to balance rising public expenditures with rising tax revenues; that an overlooked factor is the shift in total spending from the private sector to the public sector, as a consequence of which there has been a rapid expansion of activities at all levels of government, and that the huge increases in Government outlays have not been matched by the increasing Government revenues, and that the result has been inflation.

Under our present tax rates, because of built-in factors, the Government income increases by some $8 billion each year. You say this ought to bring a balanced budget? Well, it ought to, but the trouble is, Federal expenditures have been increasing several times that.

So now they want to increase taxes. The one fact that we ought to realize is that a government will never control spending as long as taxpayers can be required to send ever-increasing amounts of money to Washington to be spent. It's like asking a fat man to lose weight by handing him another piece of pie, or trying to sober a drunk by giving him another drink.

It is the nature of governments in general and bureaucrats in particular to spend every penny that is available, whether it comes from taxes or from borrowing. The same can be said of legislatures—they will appropriate every available penny, from whatever source it can be derived.

It is a fact, if Government expenditures were to be held at 1967 levels for just 3 years, the budget would balance itself, without a tax increase. This does not seem to be too much to ask. It could be done by cutting the waste, incompetence, and swollen payrolls, instead of adding to them each year. Much more could be saved if we would pull back, just a little bit, on the aid money being doled out. And if we would abandon the foreign aid program, it would solve the whole problem.

Until there is some restoration of fiscal responsibility and commonsense in the spending policies of the Federal Government, the request for still more tax money will continue to get a cool reception from the people—and it ought to. They are completely fed up with paying increasingly higher taxes to cure a disease which was caused by the wastrel and nondisciplined spending of tax-money they have already paid.

You will recall when the budget for fiscal 1962 was submitted to Congress, it contained the first planned deficit in our history, but President Kennedy's accompanying message promised a balanced budget by 1967. Yet we found 1967 with a deficit, and 1968 with the largest peacetime deficit ever. It was also a planned deficit, and now we have another planned deficit for fiscal year 1969—a large deficit, even if taxes are increased 10 percent as proposed here.

Do you recall how proud the President was that the first budget request he submitted was for less than $100 billion? That was in 1964 for fiscal 1965, as I recall. In 1968, the budget submitted nears $200 billion, with the statement it is a tight budget, and cannot be cut a penny without disastrous results.

One more thought: We have reached a point of fiscal condition that to "soak the rich" would not suffice. If the U.S. Government were to take 100 percent of all untaxed income in excess of $10,000 per annum, it would produce only about $13 billion, which would not even pay the interest on the national debt. A tax increase to furnish the money for the burgeoning spending would necessarily be a "soak the poor" and especially a "soak the above-mentioned forgotten man" proposition.

The only solution for this country is a return to sound-spending policies and reasonably balanced budgets. God help us if we do not. And the longer it is postponed, the more bitter will be the pill. This proposal here, with all its window-dressing, is nothing more than a brief postponement of the inevitable.

It were better laid aside, and get on with the business of establishing priorities, balancing the budget, and saving this Nation and its taxpayers from bankruptcy.

Mr. ADDABBO. Mr. Speaker, I find myself in disagreement with this conference report and find that I must vote against it. In my opinion, this action comes too late and in the wrong form. A great deal of time has elapsed while the proponents of this legislation have endeavored to muster sufficient strength to pass it. Again, I believe we have a case here of taxing the already overtaxed.

During the time which has elapsed since the President called for a surtax,

we could have come up with a meaningful tax reform bill which would have brought in adequate revenue from hundreds who are not paying taxes, many of whom are in the very high-income brackets, and also could have corrected many other tax abuses such as excessive oil and mineral depletion allowances. While closing tax loopholes for "the favored few," we could have brought tax relief to the little man who is hit the hardest by the tax laws of today—certainly, the personal exemption should be set at a minimum of $1200.

Mr. Speaker, I believe we need a tax reform bill, but we do not need this surtax.

Mr. Speaker, as a member of the Committee on Appropriations, I know that our committee is working diligently to cut Federal expenditures whenever and wherever possible. To date we have cut authorizations by approximately $6 billion and expenditures by close to $2 billion. We all know that we must economize, I believe that an arbitrary figure is not the way—each item should be studied carefully and cut if possible.

In my opinion, the "package deal" is not the way to bring about fiscal responsibility.

Mr. KING of New York. Mr. Speaker, I rise in opposition to H.R. 15414, the Revenue and Expenditure Control Act of 1968.

The administration is telling the American taxpayers that the tax increase is needed to meet a serious financial crisis, to curb inflation, to solve our balance-of-payments problem, and to preserve the integrity of the dollar abroad. In other words, the administration is blaming the taxpayers for our present problems and is expecting them to carry the full responsibility for our present fiscal difficulties. To my mind, this merely diverts attention from the fact that our present troubles are due to a "Government spending panacea"—not by the American people spending their own money but by excessive deficit Government spending. At the Federal level, expenditures increased by $68 billion between fiscal years 1965 and 1969. Only $30 billion of that increase is attributable to national defense. Interest on the public debt has gone up by $4 billion and the remaining $34 billion represents an increase in spending for social welfare. Thus, in simple terms, our problem is not one of inadequate revenues but excessive Government spending, and a tax increase without an equivalent reduction in expenditures will merely give the Government more money to spend without solving the problems.

The Revenue and Expenditure Control Act of 1968, which we are considering today, couples a 10-percent income tax surcharge with an order to cut $6 billion in 1969 budget expenditures, $10 billion in new obligational authority and $8 billion in unspent authorizations. After many months of stalemate, however, the administration has not submitted a revised budget, it has not told us where the $6 billion dollar reductions in Federal spending will be made and therefore, we have no way of actually knowing whether these cuts in nondefense Government spending will materialize. Hardly a day goes by that we are not asked to support some civilian-type increase in such programs as poverty, welfare, health, education, and related matters. We who make up the economy bloc in Congress; those of us who have consistently advocated fiscal responsibility, have publicly stated time after time that a day of reckoning would come unless Government spending was controlled.

There remains a wide credibility gap between the Congress and the administration and every administrative pronouncement must be viewed with skepticism. But I earnestly believe that a continuing program of spending reductions begin immediately and that it is incumbent upon the administration to provide the principal leadership with the cooperation of the Congress in this regard.

Mr. Speaker, many elements go to make up fiscal responsibility in a nation such as the United States. Today, more than ever before, the greatest need is for a wise rate of public spending. The American taxpayer is already heavily taxed. We need less spending, not more taxes. The Federal Government should take in its belt before it asks the average citizen to sacrifice more of his take-home pay.

I have repeatedly said that if nonessential and deferrable Government spending and overlapping Federal programs would be eliminated, a tax increase would not be necessary. I have further stated that no solution to our fiscal problems is possible until and unless there are definite spending reductions at least equal to the amount of the increased revenue provided through any tax increase. In my opinion, the administration should submit a revised budget after a review of all possible economies before authorizing higher taxes for even greater spending.

Mr. FASCELL. Mr Speaker, the stability of our economy and the soundness of our future depend on our action today. To insure that stability we must approve the temporary tax surcharge and the expenditure cut of $6 billion for fiscal year 1969.

It is the responsibility of the Congress to establish a framework within which a sound fiscal policy can be structured, and the inflationary trend halted. Limiting expenditures, and establishing priorities is one of the steps. I have voted consistently to reduce the President's budget request wherever feasible—in fiscal 1968, this amounted to a reduction of $5.6 billion. An even greater effort is necessary today.

The proposal we are considering will hold spending at a limit of $6 billion below the level anticipated in the 1969 budget. We have stipulated that this figure can be exceeded only if the war effort in Vietnam, the social security program, veterans' benefits, or interest on the national debt require more money than we now anticipate.

In addition to this $6 billion cut in spending, there is a requirement for $10 billion in reductions of new obligational authority and loan authority, as well as $8 billion in unobligated balances of outstanding obligational and loan authority which was approved before fiscal 1969.

Specific reductions have not been determined, but we do know that such substantial cuts will obviously cause us to reduce Federal support for many worthwhile programs. This is indeed regrettable, but in the face of the current fiscal crisis, these sacrifices must be made.

The more controversial aspect of this bill, of course, is the temporary 10-percent income tax surcharge. Realization of the need for the additional tax, however, has been steadily growing. As one writer pointed out:

> This is something like taking medicine. We don't particularly like it, but we feel very strongly that we must take it.

Congressional action on tax measures must always coincide with fiscal needs and the financial situation in the country. I supported, as did a majority of the Members, a substantial income tax cut in 1963. Today, the needs have reversed themselves, and it is urgent that we reinstate a part of that cut. The increase however, is in fact less than half of the 1963 cut, and will leave taxes still well below the previous level.

My support of this measure today represents the continuation of my efforts to provide congressional guidelines for a responsible fiscal policy and stable economy which will most benefit the country's prosperity and growth. Accordingly, I fully support and shall vote for the adoption of the conference report.

Mr. WYMAN. Mr. Speaker, this tax bill increases the tax on our people, but it does not make the cuts in spending that are widely understood as being essential and a condition precedent to acceptability of a tax increase. I will vote to cut spending, but I cannot be a party to the deception that is in this bill. What actually is being done here is giving the President his tax increase but without making the $6 billion reductions in expenditures.

Oh, yes, the bill gives lipservice to the expenditure reduction. It provides that the spending level shall be reduced $6 billion for fiscal year 1969 but who does the spending, Mr. Speaker? The President, and the President under this bill will determine where to cut, how much to cut and, frankly, whether or not to cut, because those of us who serve on the Appropriations Committee know perfectly well that the President can avoid the sanctions of this bill by executive gimmickry and supplemental appropriation requests.

To make matters worse, the President can make reductions in spending in an election year in areas in which he knows public pressure will force Congress to restore. He has taken this route before with impacted area aid, the school lunch program, and so forth. It is less than honest to claim that this legislation imposes the restrictions on spending that are claimed for it.

Everything is deferred here. It is put off. It is "left up to the President to come back to Congress with," that is everything except the tax increase. This is real, and it is present, its bite will be felt by all taxpayers in the next installment

in estimated tax due and payable in September.

Mr. Speaker, Congress should make the $6 billion spending reductions before it imposes this added tax burden on the American people. As a matter of fact, it should make expenditure reductions sharply in excess of $6 billion and thereby reduce the tax need and it can, but it refuses to do so, taking the devious alternative route of shifting the obligation to the President.

Nor is that tax increase attempted to be justified as a war tax. The President has not come to the Congress and said we must have this tax increase to finance his war in Vietnam. More than this he has time and again publicly stated his unwillingness to cut back the spending levels of the Great Society programs, so what we have here in a very real sense is a tax increase to finance Great Society program spending.

This is not for me. The vast majority of my constituents want no part of such a tax package.

And what are the claims for the reduction in new obligational authority and the rescissions? The bill provides a reduction of $10 billion in new obligational authority for fiscal year 1969 but the Appropriations Committee will pretty close to reach this on its own. Even here the bill excepts the costs of the war in Vietnam and certain other categories. This, too, is not a real reduction. I predict there will be a net increase of appropriated funds via the supplemental route. Wait and see. This is bound to happen if this tragic war in Vietnam continues throughout fiscal year 1969.

And what about the $8 billion in rescissions? Here again there is gimmickry. The language of the bill says that the President "shall cause a special study to be made." The whole proposition is deferred. He is to come back to Congress later and make suggestions as to where old obligational authority can be cut back. He will not do this, Mr. Speaker. He will leave it to the next President, and besides Congress ought to be doing this anyway, but it has not done so in this bill.

So, Mr. Speaker, this is another illustration of deception in which fundamentally we are giving the Great Society free spenders more dollars from the American people by increasing taxes without truly cutting either the spending or the obligational authority. I cannot be a party to this deception and I cannot vote to increase taxes on this basis.

Mr. MATSUNAGA. Mr. Speaker, any tax increase is never popular, and the conference report before us is no exception. When a tax measure is coupled with a drastic cut of $6 billion in expenditures which will seriously affect programs designed to alleviate the plight of the poor, the sick, the aged, and the disadvantaged, it becomes an extremely difficult task for a Member of Congress, responsive to the wishes of his constituents to vote for such legislation. Yes, Mr. Speaker, it will take real political courage to vote for adoption of this conference report, for it is certainly not the popular thing to do.

Because of my deep concern about the lack of funds for education, poverty, health, and other welfare programs which I helped to legislate, I was not quite prepared to vote for a conference report which provided for a $6 billion cut in Federal spending. My fears in this respect were considerably alleviated when I was advised by the Secretary of Health, Education, and Welfare that failure of the measure before us today would likely result in even bigger cuts than would be required under the pending conference report.

Mr. Speaker, I have sat here in this Chamber all afternoon listening to the debate. Cogent arguments, for and against the conference report have been made. I am now convinced that this Nation of ours is indeed faced with a crisis, and unless we act boldly and positively today we will be inviting disaster to our own national economy and to the international monetary system.

I am convinced too that failure to pass this measure today will result in an even heavier tax on those who would be paying the increased tax and a burdensome new tax on the poor, who would not be paying a penny more under the provisions of this legislation. That additional and new tax will come in the guise of inflation, and it will be far in excess of the tax here proposed.

Furthermore, Mr. Speaker, if inflation should set in, the domestic social problems which we now face would be magnified far beyond our capability to cope with them even without the proposed $6 billion cut in Federal spending.

Mr. Speaker, I am convinced that while voting for the conference report may not be the popular thing to do, it is the right thing to do. Let us, then, here and now, do what is right.

Mr. RANDALL. Mr. Speaker, I oppose H.R. 15414 which has been described as the Revenue and Expenditure Control Act for 1968. If we substitute the word tax for the word expenditure in that title and substitute the word spend for the longer word expenditure, I can express the reasons for my opposition in a very few words to say we are not undertaxed but we are certainly overspent.

It is my judgment there is a fallacy in the argument the surtax will be an antidote for inflation. This is not my opinion alone for many respected economists say that the inflationary trend which has been observed in the last 6 months will continue on into 1969 even if a surtax is enacted. For the Congress to impose a surtax on individual wage earners is to treat the wrong patient for a disease he does not have. A far more reasonable and logical approach would be for Congress to look at spending it authorizes and to set up a list of priorities and then to adhere to those priorities by eliminating a long list of nonessential expenditures. I strongly favor the expenditure reductions in H.R. 15414 but I am opposed to increasing taxes on our American citizens at this time. It is my considered opinion to do so would be to penalize the wage earner for a condition which the Government itself has created. The real culprit is Federal spending.

I am much concerned that this measure may be recessionary. Rather than simply a brake, I am afraid that it might become an economic overkill, and I certainly do not want to be one of the participants in the overkill of what has been called our heated economy.

While there is no assurance this will slow down inflation until well into next year, there exists concurrently the possibility that this tax increase would break the momentum of our economy with a possible resulting recession which we would all regret. The risk of an overkill of inflation is too great for me to support this measure at this time. Certainly this bill is not a solution to all of our problems. The best way to restore confidence here and abroad is through the further reduction of Federal expenditures.

Throughout the debate there have been references to who among the membership are fiscally responsible, and who among us are not responsible. At one point, it was suggested that there will be many who have voted for spending programs who will oppose the bill today because the expenditure reductions are too far-reaching. There have been suggestions offered that those who have supported programs calling for large expenditures now have no recourse but to support this tax increase bill. This is comparable to the situation which exists when those who dance must pay the piper. I, for one, will never question the sincerity of the reasons for a stand by any Member of this House. I can only speak for myself, and every Member must live with his own conscience.

I think it is appropriate to point out that my office staff has compiled, by date and by rollcall number, including the page of the CONGRESSIONAL RECORD, where I have opposed over $18 billion in expenditures, after the removal of all possible duplicates, in the 90th Congress.

I must oppose H.R. 15414 because of the perpetuation of tax inequities which exist. Put differently there was no consideration given to tax reform. I heard the chairman of the Ways and Means Committee say that we must remember, while there are inequities that should be removed which will favor taxpayers, there are also inequities that should be removed which will favor the Federal Government. He said they will balance each other out and there may be no yield of new revenue. He could be right, but all of us would feel much more comfortable if those inequities we have heard so much about had been considered in hearings before going on to pass a tax increase. Lack of any tax reform at all is just one additional reason that I will not support H.R. 15414.

I am most opposed to the provision of H.R. 15414 which affects our industrial development bonds. Although there is an exemption to an amount of $1 million, the treatment of these industrial development bonds as municipal bonds, and therefore providing interest-free income, will be terminated retroactively as of May 1, 1968. There will be those who say these bonds no longer provide the issuing States with a competitive advantage, because they are now issued by 48 of the

50 States. On the other hand, the small amount of taxation or the income to be derived by the Federal Government in the form of taxation will be more than offset by the losses to our States. It has been estimated that each $10,000 industrial bond will create one job. The average tax paid on that $10,000 bond could not be over about $400 per year, but the average tax paid by the worker whose job has been created by the bond will be over $675 per year. Moreover, the bond will ultimately be paid off and the Government's tax increase will cease, but the worker's job will continue and his tax payments to the Government will continue, as will tax payments on the earnings of the company whose operations were made possible by industrial bonds.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 5 minutes to the gentleman from Virginia [Mr. BROYHILL].

Mr. BROYHILL of Virginia. Mr. Speaker, I rise in support of the conference report.

If you can show me one Member of this body who is indifferent in regard to extracting from his constituents the fruits of their labors through excessive and increased Federal taxation, I will show you one of our colleagues who will not be long among us.

It is never pleasant or desirable or politically popular to increase taxes. But that is not the issue we have before us, Mr. Speaker. It is not a case of what we want to do. All of us are on the same side in regard to objecting to increasing taxes.

The question is, "What is the necessary thing to do in view of the fiscal crisis with which we are confronted?" I do not believe that is a debatable matter, Mr. Speaker.

The dollar is indeed in trouble. As pointed out by the Chairman of the Federal Reserve Board, we are confronted with the most serious fiscal crisis since 1931. As so eloquently pointed out by the distinguished chairman of our committee a few moments ago, we are experiencing the highest interest rates in over 100 years. Increased inflation is eroding the savings of all of our people. The tight money market is causing many of our small business concerns to go out of business. The value of the dollar is being questioned abroad. Foreign bankers are threatening a run on our depleted gold supply. This problem cannot be ignored. We cannot turn our backs and expect it to go away.

We must recognize that the primary cause of this problem is spending more money than we are taking in—deficit financing, if you please. The only way of correcting that, or, I should say, actually there are two ways of correcting the problem. One is to increase revenues, which we could do by increasing taxes or productivity; the other is to cut back on spending. The majority of the Committee on Ways and Means felt that we should do both.

I may point out that in recommending to the House favorable action on this conference report, the Committee on Ways and Means does so after exhaustive studies and consideration. I realize that the gentleman from Missouri disagrees with me on that statement. But I feel we have had the matter before us for study and consideration ever since January of last year. Since last October we have had extensive hearings and studies on the subject of a surtax. We have had before us experts from every segment of our economy—economists, long-haired, short-haired economists, representatives of the financial institutions of this country, banks, businesses, industries—and without exception, every one of those expert witnesses agreed that we must have an increase in taxes, and actually supported the surtax bill which we have before us for consideration.

Almost all of them agreed that we should also have a cut in spending. Of course, this was the difficult part. This was the cause of many months of delay in bringing this matter before the House for consideration. Many of us on the committee tried for months to get the administration to agree on a substantial cutback in expenditures. We were not unmindful of the fact that it was politically difficult to cut back on spending programs. We are not unmindful of the fact that it is politically difficult to vote against new programs which are allegedly designed to solve all the problems with which we are confronted and all the human suffering.

Many of us, I know, have had election campaigns when we have run against demagogs—I may have wanted to call them nuts in some instances—who criticized us and charged us with having voted against legislation in the interest of children, education, and health. They talk as if we had an endless supply of money.

Mr. Speaker, we have come to the showdown. We are running out of money. We have been dancing with the devil, and now we have to pay the fiddler. Another way of putting it is that the chickens have come home to roost.

The measure we have before us today is the result of a compromise, as all major legislation must be. It provides an increase in revenue of approximately $10.6 billion a year, but it also provides for a cut of $6 billion in spending.

I know it is not as much of a cut as some of us wanted, it is a great deal more than some of us would have preferred, but it is better than nothing. It is a good compromise.

Incidentally, Mr. Speaker, this problem with which we are confronted may be a blessing in disguise, because it is giving us the opportunity to point out, before it is too late, with emphasis, that we cannot solve all the problems with which we are confronted with the Federal dollar, that there is a limit to the amount we can spend.

Certainly the cuts in this legislation are going to hurt, but I feel, and most members of the Ways and Means Committee feel, a tax increase without a cut in expenditure or some restraint on spending would be devastating.

I would prefer not to have the bill at all, but I am going to vote for it because I see no choice, Mr. Speaker. Whether we voted for all the spending programs we have in existence or not, many of our constituents have enjoyed the benefits of the Federal money which has been appropriated, and now we have to pay the bill. I say I see no choice if we are going to exercise any degree of fiscal responsibility.

Recently in trying to reach a decision on the surtax legislation and some of our other more recent activities, the thought crossed my mind with some frequency as to just how many of our citizens we are legislating for.

Normally we would, in voting passage of a bill, do so with the assumption that all of our citizens would come under the purview of the legislation.

Recent events have raised some doubts, however.

For instance, are the residents of Resurrection City, its leaders and organizers, camp followers and financial supporters, included when the Congress of the United States acts? Are they, for instance, covered in the gun legislation signed during the past 24 hours by the President of the United States?

I ask because of some peculiar events that have taken place in Resurrection City since its inception, some as recently as last night. I speak of the muggings, knifings, beatings, and the hot pursuit of innocent citizens by residents of Resurrection City, some of whom admit to violence as a result of simply being looked at. I speak of residents of Resurrection City caught in these acts of violence fleeing behind the walls of the city to protection and immunity from arrest by police.

Unless Resurrection City is a new nation within our own Nation, I question the apathy to this violence displayed by some of our local enforcement officials. If the residents of Resurrection City have been granted fiefdom above and beyond the constitutional limits of the U.S. Government, I think the Congress is entitled to know about it.

Has some secret treaty been signed between residents of Resurrection City and the White House, the State Department, the Park Service, and the Department of the Interior?

Have individuals or agencies of the Federal Government provided the residents of Resurrection City with exemptions from the penalties of crime? With immunity from arrest? With a sanctified boundary over which no free man can step, not even a member of the Park Police or Metropolitan Police departments in pursuit of persons seen committing acts of violence? If so, by what authority?

During solidarity day we heard much about demands, listened to threats, and endured much slander about the integrity of our Nation and the validity of our American way of life. I am happy that the insults did not arouse the majority of our residents who had to endure them.

Today, however, we are passing a law that happens to deal with taxation and spending. It is designed to obligate every resident enjoying the privileges of American citizenship. But does it?

Does anything we do here anymore include all of us? Affect all of us? Require acts of responsibility and good citizenship from all of us?

I ask not because of the legislation we are voting on today. We are told that despite the Cadillacs, TV sets, transistor radios and steak dinners that residents

of Resurrection City are too poor to pay taxes. I simply use the occasion to raise the question. If we vote today on this matter and require all of our citizens strict adherence to the letter and intent of the law then we must be willing perhaps within the next few days to take steps to insure the same compliance from all of our citizens in relation to other events.

I vote for this measure today on the assumption that there are no exempt citizens, no exempt nations within our Nation, no exempt fiefdoms, monarchies, territories or kingdoms, within the continental United States.

I vote for this bill, as I will for others, with that same assumption and with the implied assurance that the Congress will also act if need be to enforce this judgment we impose on our people today as it will enforce any other judgment we make after due deliberation.

Mr. Speaker, in our relations with the rest of the world confidence is an essential ingredient. I support the conference report in the hope that it will be a step towards restoring confidence both at home and in the international financial markets. While neither I as an individual Member of Congress—nor my party—must assume responsibility for the course of action which has brought us to the brink of disaster, that is not the issue. The issue is one of fiscal responsibility. If the conference report is not approved and we have a financial panic in this country, everyone will suffer—Democrats and Republicans alike.

While I think that the benefits which will come from increasing taxes have been grossly exaggerated, the fact is that the financial community—both at home and abroad—as well as American business, and the American consumer, have been told that there will be chaos if this conference report is voted down by the House. It makes no difference whether this is right or wrong, the fact that this is what the people have been told and what many believe makes this action essential.

I think that the agreement reached by the conferees with respect to a tax increase and expenditure control is a reasonable compromise. I would have preferred more emphasis on cutting back expenditures and less emphasis on raising additional revenues. I also would have less reluctance to vote for increased taxes if the administration showed greater enthusiasm toward expenditure reduction.

Nevertheless, the conferees are to be congratulated for coming back to the House with a bill that will reduce the actual expenditure level for fiscal 1969 by as much as $6 billion. Even more important, a total of $18 billion will be taken out of the pipeline. Before this administration or the next administration, can spend that $18 billion, the Congress will have to enact new spending authority.

I do not regard this expenditure reduction and tax increase as being a panacea, but in view of the fiscal chaos we presently face, it is a step in the right direction. The American people must, however, be told that this bill will not by itself correct the destructive effects of the administration's fiscal policies over the last several years.

The basic problem confronting the United States is economic dislocation both at home and abroad as evidenced by a decline in the international confidence in the dollar; continual deficits in our balance of payments; the highest interest rates in 30 years; and very severe inflation imposing the cruelest tax of all on our citizens. The principal cause of these economic difficulties has been the runaway expenditure policies of the present administration. The growth in Federal expenditures in the last 8 years of the Democratic administration has been astronomical. The prevailing philosophy has been that there is no problem so great that it cannot be cured with huge expenditures of Federal funds, and no problem so fundamental that patience and reflection are as important an ingredient in its solution as dollars.

The figures speak for themselves Mr. Speaker. Using figures consistent with the new unified budget concepts, expenditures during 1960, the last full fiscal year under President Eisenhower, were $90.4 billion. Without the expenditure reduction Congress required by the legislation now before the House, expenditures would be approximately $186 billion—well over twice the expenditures for fiscal year 1960. Even with the reduction ordered by this bill, expenditures will approach $181 billion, still twice as high as the level prevailing in the last full fiscal year under President Eisenhower. It can be plainly seen by anyone willing to examine the figures that the Government has been appropriating funds faster than intelligent programs for spending them can be devised and tested by experience.

The huge deficits we have been running have not been due to the inability of the American economy to produce tax revenues. Again, during the last full fiscal year of the Eisenhower administration—1960—revenues were $92.4 billion. With the current tax increase total Government revenues for fiscal year 1969 will be around $180 billion, up nearly $88 bililon from fiscal year 1960. Despite this tremendous increase in revenue, the Federal debt outstanding has increased from $289 billion to an estimated $387 billion at the end of fiscal year 1969, an increase of around $100 billion. Without this bill, this figure would be even higher. As a result of this, the interest on the public debt has increased from $8.2 billion in fiscal year 1960 to $14.4 billion in 1969. If no restraint is exercised, this figure will soon have been doubled by the Democratic administration.

The administration claims that the present economic problems—both domestic and international—are the result of an overheated economy, and that the American people must therefore be asked to contribute a larger sum of their earnings to the Federal Government. Yet the administration has paid very little attention to the problems created by increasing Federal expenditures and huge deficits. It is with the greatest reluctance that the administration reported the expenditure reduction contained in this bill.

The philosophy prevailing called for imposing new burdens on the American people while exempting Government from sharing in the sacrifices. Mr. speaker, the President has his priorities in the wrong order. The present economic problems are directly attributable to the magnitude of Federal governmental expenditures. That is why I place primary emphasis on expenditure reduction although I feel fiscal responsibility requires that I support this entire bill.

Despite the responsibility of the Government's fiscal policies for present problems, the administration has done everything it can to hide the facts from the American people. The administration consistently over-estimated the costs of the Vietnam war—sometimes by as much as 100 percent. Devices such as the participation sales gimmick were used to deliberately understate the level of Federal expenditures. One-shot fiscal transfusions in the form of accelerated corporate payments and graduated withholding of income taxes were recommended to reduce the deficit. In short, the underlying difficulties were ignored, and every effort was made to hide the true facts from the American people. I agree with Harry Emerson Fosdick that democracy is predicated on the concept that extraordinary things can be expected of ordinary people. If the administration shared this faith, they would have been more forthright with our people. Apparently the only extraordinary contribution the administration feels our people are capable of making is in the form of higher taxes.

But faith in the people has always proved the core of Republican philosophy, from Abraham Lincoln to Dwight Eisenhower.

The Republican members of the Ways and Means Committee first sounded a note of caution as early as June of 1966 on the occasion of an increase in the public debt limit. Again, in February of 1967 when the debt limit had to be increased in order to accommodate a further deficit and again last June the Republicans on the committee clearly predicted the consequences of the administration's fiscal policies.

When the debt bill was before the Congress last June I warned the House that the administration's policies were creating real balance-of-payments problems for the United States. At that time I stated:

> Of particular concern to me is the impact the Administration's deception may have on the international financial situation and America's balance of payments problems. The willingness of foreigners to refrain from cashing in dollars for our dwindling gold reserves depends on the faith they place in the fiscal integrity of the United States Government, and the determination of the Administration to maintain a sound dollar.
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> This Administration shows no readiness to maintain the value of the dollar. President Johnson is encouraging—even demanding—that large domestic expenditures be authorized by the Congress at a time when we may be running the largest deficit since World War II. The increased demand gen-

erated by this expansionary policy is bound to increase imports—a critical factor in the decline of our export surplus over the last two years. By driving up the price of American goods we impair the ability of our industries to compete in the international market and drive down exports.

I sincerely regret that I have been so accurate. But my accuracy was not due to extraordinary foresight, but the clarity of the problems facing us. Playing the ostrich the administration has continued to ignore the fundamental problems, and is now informing the Congress unless we pass this tax increase, the consequences to the international position of the dollar will be disastrous.

If the administration had listened to those of us who were sounding the alarm bell and pointing to the true nature of the problem—runaway Federal governmental expenditures—we could be well on our way toward developing realistic solutions. Instead of cures, the administration recommended temporary palliatives. On the fundamental causes of our economic difficulties, the administration adopted the attitude of Scarlet O'Hara: "I'll think about that tomorrow." Mr. Speaker, tomorrow is here, and yet the administration is offering the American people and their representatives in the Congress no realistic or long-range solutions.

The administration has oversold this bill by representing it as a panacea for all of our economic difficulties. But the problems remain. Unless the administration cooperates with the Congress in establishing expenditure priorities, the mistakes of the past few years will be repeated. I must frankly tell the American people that the administration has shown very little disposition to cooperate.

A major problem in the deterioration of our balance-of-payments problem—in addition to ballooning domestic Government expenditures—stems from impact of Government expenditures on our international accounts. The recommendations to improve our balance of payments made by the administration this year again fail to deal with this fundamental problem. Instead, the administration sought to impose heavy new burdens on the American people and American industry—the very sectors that have been responsible for our successful performance in international trade. Some of these were unprecedented, such as the heavy taxes on Americans traveling abroad recommended to prevent our citizens from exercising one of their basic freedoms—the right to travel—and the Congress wisely rejected the proposal. Others, such as the controls on direct investment and repatriation of earnings by the Commerce Department and the Federal Reserve Board pursuant to executive order are beginning to have deleterious effect. In March of this year imports actually exceeded exports on a seasonally adjusted basis.

Mr. Speaker, these are hard and discouraging facts. But those of us who over the past few years have admonished the administration to face the basic problems and propose fundamental cures will not be discouraged. We have more faith in the American people and our democratic system than the administration. Provided with the truth about the true dimensions of the problems, the American people will elect a government that will propose solutions responsive to these problems.

That is why, Mr. Speaker, I have taken special pains to dispel the notion fostered by the administration that this bill is a cure-all. It is not. If the administration will cooperate with the Congress, it should help, and I, therefore, encourage my colleagues to join me in supporting this bill. But it is even more important that we have the courage and determination to face the fundamental domestic and international problems facing our Nation.

Mr. ULLMAN. Mr. Speaker, I yield myself 7 minutes.

Mr. Speaker, I have great faith that this body will do the things it has to do when the Nation demands it.

It has been said that we cannot pass a tax increase bill in an election year. But I know that this body is going to enact a tax increase this year. The facts and the evidence are so overwhelming as to the need for the increase, that this is the only course of action we can take which will allow us to live up to our responsibilities in this critical time.

Mr. Speaker, this Nation is in crisis. We hear a lot about the social crisis. It is in the headlines almost every day, and certainly we do have grave problems in this area.

But a crisis of equal importance, or possibly even greater importance, is our economic crisis. It does not produce headlines, but its forces are so terribly powerful that it can drag this Nation down to a recession.

What we are now debating is the most important legislation that the Congress has considered in this session. The tax increase-expenditure reduction bill now before us is of crucial importance to the health of the Nation's economy, and I urge my colleauges to support it.

Inflation must be halted. The integrity of the dollar must be protected. Now is the time for responsible, statesmanlike action by this Congress, action that will restore confidence and stability in the economy and in our monetary dealings with other nations.

Mr. Speaker, Chairman WILBUR MILLS deserves the gratitude of every Member of this House and of every American citizen for his valiant efforts to establish a sound fiscal policy, and for his determination to maintain congressional integrity in money matters. As a member of the Ways and Means Committee, I am pleased to have had a part of that effort. Chairman MILLS has been a bulwark of strength in insisting that increased taxes must be accompanied by sizable expenditure reductions. The wisdom of this position is obvious: a tax increase without reduced Federal spending would not curb inflation; it would not relieve the pressures of tight money and high interest rates, but would only be an additional burden on the tax paying consumers of the Nation.

Since I was elected to the Ways and Means Committee in 1961, there has been a dramatic and systematic policy of Federal tax reduction. In 1962, business depreciation schedules were revised and we initiated the investment credit to stimulate the business economy. In 1964, we reduced the income tax of every citizen—the largest reduction in the history of our Nation. In 1965, we eliminated or reduced almost all Federal excise taxes. These measures combined have shifted more than $30 billion annually from the public to the private sector of the economy.

As a sponsor and supporter of these tax reductions, I naturally would much prefer to continue these policies. It would be the popular thing to do. However, the Nation is now involved in a foreign conflict that requires direct expenditures of over $2 billion per month. The total national defense budget and other fixed costs alone will require nearly $130 billion in the current budget. If our economy is to support these and other needed costs without having runaway inflation, we must tighten our belts. This means increased taxes and reduced Federal spending wherever possible.

In Ways and Means Committee hearings on the tax bill, almost every witness, including representatives from the National Association of Manufacturers, the AFL–CIO, leading businessmen, economists, and financiers urged adoption of a tax increase to relieve the pressures of inflation. Since these hearings, growing concern and support has been voiced from virtually every segment of the economy.

I have outlined many times over past years the ill effects of faulty fiscal and monetary policies. The resulting inflation, tight money, and high interest rates have a direct and devastating impact on every consumer and wage earner, and they are particularly harmful to the Nation's housing program and Oregon's lumber industry.

Mr. Speaker, the effort to curb inflation has been my uppermost concern for these past several years. Although the record of controlling inflation has been better in the United States than in almost any other industrialized nation, we can do better. We should do better. And with statesmanship and political courage, we will do better.

In 1965, when the economy first showed signs of overheating, I expressed my growing alarm over the apparent reluctance of the administration and the Federal Reserve Board to take the necessary steps to meet the problem with the proper mixture of fiscal and monetary restraints. Inflationary interest rates could only result in a slowdown in homebuilding and threaten to end the longest and most vigorous economic upturn the Nation had experienced in modern times.

I was greatly disappointed that the Federal Reserve Board resorted to the same tired economic cliches and proceeded to bring about dramatic increases in interest rates and cause severe dislocations in our economy. When nothing effective was offered by the administration to correct these early inflationary tendencies, I called for consideration of an excess-profits tax and modifications in the investment tax credit to minimize inflationary pressures and to check over-

heating in the economy in the areas where it was most rampant—in investment and in defense-related industries. On March 25, 1966, in Palm Springs, Calif., I said: "There is nothing more disruptive of balanced economic growth than the economic strangulation of tight money."

But no action was forthcoming from the administration, the Treasury Department, or the Federal Reserve Board to reverse the heavy-handed use of monetary restrictions and introduce effective fiscal measures to achieve a balanced control of our economic problems.

In June 1966, I conferred with the Secretary of the Treasury and the Chairman of the Council of Economic Advisers on the growing problems of the economy. Following these discussions, I wrote the President and said that—

Unless corrective actions is taken soon, the tight money policies imposed by the Federal Reserve Board and supported by recent decisions of your administration will destroy the economic gains we have made. You, Mr. President, are the only one who can effectively express and implement the basic policies and programs to meet this crisis in our economy.

It was during the summer of 1966, Mr. Speaker, that we witnessed the beginning of the credit crunch that crippled the Nation's housing program and the lumber industry of my State. The barometer of new starts in housing had dropped to a record low, and it was at this time that I drafted legislation to get to the source of the major dislocations in the economy. The Defense Emergency Tax Act of 1966 called for the suspension of the investment tax credit for 1 year and the imposition of a temporary 4-percent emergency tax on corporate income. In addition, my proposal would have placed a 5-percent surcharge on that portion of corporate income which exceeded a 4-year average.

The second bill I introduced, H.R. 16643, would have amended the Defense Production Act of 1950 to permit the President to impose broad installment credit restrictions. These measures were designed to selectively attack the problem areas in the economy.

I made it clear at the time I introduced these bills that other efforts were needed if our efforts were to be effective. In July of 1966 I said that—

It is absolutely essential that the Federal Reserve Board take corresponding action to lower discounts rates and consider also the use of Open Market Committee purchases to take the pressure off the securities markets.

Unfortunately, neither of my proposals nor comparable remedies introduced by other Members of the House were given active consideration. The administration recommended against them and the Nation continued down the road of fiscal irresponsibility, without constructive and effective economic leadership. The measures finally adopted by the administration in September of 1966, including my proposal for a temporary suspension of the investment credit, proved to be too little, too late.

At that time, Mr. Speaker, I spoke again of the damage that was being done to the economy of the Nation, to the State of Oregon, and the Second Congressional District because of the tight money policies of the Federal Reserve Board and the administration which supported it. I told of the drop in housing construction, the layoffs, shutdowns, and short workweeks at lumber bills, and the economic stagnation high interest rates and tight money were bringing about. I repeated the warning that every American family would feel the sting of mounting inflation. At that time I strongly recommended a moderate tax increase coupled with expenditure reductions. It was apparent that we could not continue on a guns-and-butter economy with the fast-escalating costs in Vietnam and growing demands for greater expenditures in domestic programs. It was then that I asked for some of the same measures the Ways and Means Committee has approved, that the Senate has now passed, the conference committee has recommended, and which we are considering here today.

In February of 1967, I spoke from the floor of the House in opposition to proposals to cancel the 4¼-percent ceiling on Treasury bonds and thus give complete control of interest rates to the Treasury Department. I am pleased to say that the fight to retain congressional control over Federal bond interest rates and over the national debt was successful, although greater flexibility was permitted the Treasury Department in financing Government obligations. Later in that same month I said that—

Effective coordination of monetary and fiscal policy by the administration, the Congress, and the Federal Reserve Board is absolutely necessary for economic stability.

Finally, Mr. Speaker, late last year the administration was forced to realize that a policy of guns and butter could not succeed. Suddenly the Ways and Means Committee was asked to consider a tax increase to reduce a potential $29 billion deficit for the current fiscal year. Some of the President's economic advisers finally woke up to see domestic inflation and a weakening of world confidence in the dollar. We were threatened with the destruction of the remarkable and unprecedented economic gains experienced by the United States in the first half of this decade.

When the President proposed an increase in taxes to the Congress, it was obvious to Chairman MILLS and others of us on the Ways and Means Committee that the proposal was deficient in two important respects. First, it failed to recognize the mood of the Congress and of the people of this country that there should also be a thorough reevaluation of national priorities involving Federal expenditures, and second, that without such a reevaluation and without substantial reductions in expenditures during this time of crisis, a tax increase would not and could not be approved. To ask the American taxpayer to tighten his belt without, at the same time, demanding sacrifices in public expenditures would assure defeat of any anti-inflationary fiscal measures. For those reasons, when the bill came before the Ways and Means Committee, I seconded a motion to table until an agreement could be reached to reduce expenditures and establish new priorities for Federal spending.

On April 2, the Senate acted to impose a $6 billion expenditure reduction along with the President's proposal for a 10-percent surtax in an amendment to the House passed excise tax bill. In view of that action, I strongly supported the Ways and Means Committee resolution of May 6 instructing the joint House-Senate conferees to favorably consider a suitable tax increase coupled with current expenditure reductions of at least $4 billion and reductions in obligated appropriations of an additional $10 billion.

On May 8, the House-Senate conferees approved a temporary 10-percent surtax, to expire on July 1, 1969, and total budget and expenditures reductions of at least $16 billion. I am hopeful that this legislation will help meet the Nation's fiscal crisis, curb inflation and increase confidence in the dollar. Let me make it very clear, however, that if we fail in this effort today, we will have invited an economic crisis of disastrous consequences. The entire Nation is watching. The whole world is watching to see if this Nation has the courage to put its fiscal house in order.

Let us talk about the present status of our Nation for a minute. This Nation is a Nation at war. We are spending in this fiscal year some $80 billion on our defense effort, $26.3 billion going directly to the Vietnam war front.

Let us look at the Nation's economy. Never has this Nation been more prosperous. Never have more people been working. Never have people earned more or lived better than we are today.

Yet despite that fact we are looking today at a $28 billion deficit in our administrative budget in fiscal 1968, not counting participation certificates as a way of reducing expenditures. Even on the uniform budget basis that deficit will amount to about $25 billion.

I am not one who says we have to balance the budget every year and that the country will go on the rocks if we do not, because that is not true. Budget balancing depends upon time and place and circumstances. Believe me, if we look at the national economy today, if we look at our international balance of payments, if we look at the gold crisis this is the time and the place when we must be fiscally responsible. Today we are in a precarious balance both here at home and around the world. We are living on the edge of a precipice.

That is the kind of economic crisis we have on our hands.

Let us look at some of these problems. Let us look at interest rates. Never in the last 100 years have interest rates in this country been higher. They have not been higher since the Civil War. Anybody who is dealing in the mortgage market knows the cost of these high interest rates and knows that we are living on the thin edge.

Mr. Speaker, let me assure my fellow colleagues that if we try to borrow the money necessary to finance

another $25 billion deficit, you have not seen anything in the way of interest rates. And what it will do to your home town and what it will do to the economy of this Nation no one knows. But we do know we cannot afford to take a chance on this issue.

Then let us look at inflation. You have all seen the economic indicators and watched the prices rise. You have heard our chairman talk about how high corporate profits are, and you have seen the wage spiral, and you know of the other evidence of inflation. You know the direct relationship between fiscal responsibility and inflation. Again we cannot afford to take chances with further inflation in this country.

Then, Mr. Speaker, let us turn abroad and look toward the balance of payments. The crisis was so great last fall that the President came up on January 1 with a special program to try to counter it. Let me assure you that that balance-of-payments problem has not been resolved. The problem is with us today just as much as it was on January 1. A a matter of fact, there are many ominous signs in the world today that might well make this situation worse than it is at the present time. Of course, one of the major results of the balance-of-payments problem is our gold outflow. It was not very many months ago that we had $14 billion in gold and then $13 billion, and I guess we have $10.4 billion now.

The SPEAKER. The time of the gentleman has expired.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield the gentleman 2 additional minutes.

Mr. ULLMAN. And we cannot afford to take chances with the gold problem, because a gold crisis could develop at any time that would put this whole economy not just on the brink of a crisis but right in the middle of a crisis.

Let us look now at world trade. Our Committee on Ways and Means is now examining the problem of trade. Many of the Members of this body have bills in that would in some way deal with the crisis in world trade, and this is directly related to what we are considering here today. This Nation must maintain its competitiveness around the world, and unless we contain inflationary pressures, and limit interest costs, we are going to lose that competitiveness. There is nothing else you can do about it. There are not any laws that you can pass that will correct it. In large part the answer is what we are doing here today. This bill will not solve all of our problems, but we can remain competitive by being fiscally responsible. It will also help us hold down inflation, hold down interest rates, and lessen the deficit in our balance of payments. This is the answer.

Even with favorable action today, the battle against inflation, tight money, and high interest rates will continue. The Federal Reserve Board discount rate now stands at the highest level in history. This condition threatens once again to bring the home building industry of the Nation to its knees. It serves also as one of the most inflationary cost-push pressures in our economy. I have been deeply disturbed at the Federal Reserve Board's disregard for the harsh and unequal impact of this high interest policy. I am convinced that there are effective credit control devices available to the Board that have not been used effectively, and have strongly urged Chairman Martin to adopt these alternatives. With favorable action by the House today, the Federal Reserve Board will again have to face the responsibility of effecting timely revisions in monetary policy.

Mr. Speaker, we talk about the need for better social programs. We all believe that improvements in these programs are necessary. But unless we are able to check this problem of inflation, to get at the problem of high interest rates and to improve our balance-of-payments position, there is nothing we really can do to improve these social programs.

Mr. Speaker, if this Nation should slip back into economic chaos we would have lost 10 or 20 years of progress in the social welfare field, because unless our Nation is fiscally sound we cannot go forward with programs to advance the social betterment of our people.

Mr. Speaker, I urge the Members here today to take the way of responsibility and to enact this very important piece of legislation.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield such time as he may consume to the gentleman from Washington [Mr. HICKS].

(Mr. HICKS asked and was given permission to revise and extend his remarks and to include extraneous matter.)

Mr. HICKS. Mr. Speaker, who, given a choice, would want a tax increase? Nobody, of course, including Members of Congress.

But the time when we had a choice is long past. The alternative to a tax increase and reduced Federal spending is runaway inflation, economic chaos for a time, then wage and price controls, a bureaucratic monster, rationing, hoarding, black markets, probably some attendant corruption among some of the public officials directly involved.

Two years and more ago, in the U.S. House of Representatives and in a newsletter, I urged a temporary tax increase and spending cuts; others did likewise. No such action was taken. Results of this failure to come to grips with inflation are known to every housewife.

Inflation has struck with a vengeance. Two years ago a surtax of perhaps 5 percent and spending cuts of $2 to $3 billion may have been sufficient. Today both figures have doubled. And so much momentum has inflation gathered that even those doubled figures may not be effective enough. There is increasing sentiment, as reflected in the mail I receive from Pierce and Kitsap County residents, for the drastic measure of wage-price controls.

Let us examine the problem, as well as we can in a limited time.

INFLATION

Simply put, inflation is increased prices for goods and services. When the supply of money available to spend increases faster than our productivity of goods to buy, prices rise and your dollar buys less. Over the last 2 years prices generally have risen 6.7 percent, and the rate is accelerating; the current inflation rate is 4.5 percent per year.

About 2½ years ago the already booming economy was strained abruptly by sharply increased public spending, largely for the Vietnam war; defense now takes about $80 billion a year, $30 billion of it for Vietnam. The heavy defense buying made demands on production that already was almost at full capacity, and this competition for production between public and private consumption helped pull prices up. A shortage of skilled workers developed, forcing competition for them and pushing wages and salaries higher without an equal increase in production. When wages and production increase at an equal rate, prices tend to remain stable. For the past several months contracts affecting wages and fringe benefits have been increasing at 6 percent or so, while production has increased only between 3.2 percent and the current rate of 4.4 percent. To further complicate matters, the money supply is increasing at an annual rate of 6½ percent, and total spending has gone up at a rate of 8 percent over the past several months.

Now, all of this means higher costs of production, passed along to the consumer in higher prices, triggering a drive for higher wages and salaries. Further higher outlays for wages and other costs in turn make production costs and prices still higher, so wages have to go up again, and so on. This is the infamous inflationary spiral in action.

Inflation affects everyone to some degree, and so must the cure. There are three major areas of remedy.

TAXATION

Our unprecedented 7-year prosperity has been based in part on the premise that when the economy falters, taxes should be lowered to leave more money in consumers' hands so demand goes up. That was why the income tax was reduced an average of 14 percent in 1964. It worked.

The other side of the coin is that when an economy overheats, taxes are increased to take some money out of circulation and reduce demand.

This is where we were 2 years and more ago, and this is where we are again. There is more money around than goods to spend it on.

Since production is at near capacity, we cannot overnight increase the amount of goods to equal the amount of money. Therefore, in order to reduce demand we reduce the amount of money available for spending.

That is done through a general income tax increase, which takes a few dollars out of every consumer's pocket and out of general circulation. It also reduces the Federal budget deficit, which itself contributes to inflation because it is one source of new money added to the economy.

An additional help would be income tax reforms to distribute the tax burden more equitably. But we simply do not have time to fight this battle now, although I will continue to do everything in my power to further this objective.

SPENDING REDUCTIONS

What would be the point of taking more money from taxpayers if it merely meant that the Government would be spending it instead of the consumer? That would just be shuffling the spenders, and would not solve the problem of the money supply growing faster than productivity.

The money has to stop being spent while ability to produce catches up. Few object to the general principle of reducing Government spending. It is when reductions get specific that opposition builds up as it becomes obvious which individuals and interests are going to be affected. Should we for instance, cut Boeing supersonic transport funds? Shipbuilding? National Park support? Forest Service operations? Education aid? Farm subsidies?

The rub is that a cut does not come out of the general budget of $186 billion for fiscal 1969. Of that total, around $80 billion is for defense, the most difficult area to get Congress to cut. Outlays required by existing law, such as those for social security, medicare, interest on Government bonds, deserved pay increases for Federal employees, veterans benefits, and so forth, amount to some $72 billion. That leaves something like $34 billion in the controllable budget where cutting is possible. There is vehement disagreement over the figures, but the ones I have used illustrate the point that the cuttable portion of the budget is comparatively limited.

Every area in the country is going to feel the effects of any cuts, and our area is no exception.

MONETARY POLICY

The third major control valve is monetary policy, through the Federal Reserve System. Control of the supply of money to member banks and the interest rate which they must pay for this money is determined by the Federal Reserve Board.

During early 1966 the Fed raised interest rates to make borrowing more expensive and reduce the flow of money, applying only one of the three available controls to curb that inflationary spiral. It slowed inflation, but it slashed drastically into homebuilding and other mortgage-financed construction so important to our local economy. In other words, one important segment of our overall economy, homebuilding and related industries, bore virtually the entire brunt of controlling everybody's inflation.

We can not afford to have this happen again, at least with the intensity of 1966's "credit crutch." It is part of the answer, and in fact a combination of monetary policy and demand for money has raised interest rates again. But use of monetary policy alone to stop inflation which is spiraling as swiftly as it is currently, would result eventually in money being so expensive to borrow that most investment, development, expansion, and progress would slow to the point that we would have a major recession.

All three of these remedies—tax increase, reduced Federal spending, and monetary policy—must be applied in proper proportion so that everyone who is affected by inflation will have a share in stopping it.

WAGE-PRICE CONTROLS

If those remedies fail to stop inflation, we may have to turn to the last resort, wage and price controls.

In the past, in this country and others, such controls invariably have led to shortages of goods, rationing, and black markets. They require a whole new, gigantic bureaucracy to administer the controls, and administrators are subjected to such intense pressures that corruption often sets in among them.

Wage-price controls are a little better than rampant inflation in the long run. They may be required in America if we are unable to raise taxes and cut Government spending sufficiently to achieve the desired result without also producing a serious recession and unemployment. In curing inflation we must be very careful to avoid a cure that is as bad as the disease.

What is to be hoped is that industry can obtain more efficiency and greater production at current relative costs, that businesses will keep prices reasonable despite the temptations of greater profit, that labor will keep wage demands within increases in productivity, and that for a temporary period Government as well as the individual consumer will hold down spending to cover only their higher priority needs.

BALANCE OF PAYMENTS

Another facet of our economy directly affected by inflation is international trade. Our domestic expansion has created an excessive demand and so more goods are imported from other countries, and at the same time inflation has raised the price of our products so they are less competitive than before in the world markets and our exports have fallen. This gives us a balance-of-payments deficit at an estimated current rate of $2.1 billion a year.

Many suggest quotas on imports. This would be certain to provoke retaliatory restrictions on our products by other countries. Since many American industries require foreign markets if they are to be profitable—4 million jobs in the United States depend on exports—we can hardly afford to endanger them.

The answer would seem to lie, again, in increased efficiency and productivity in industry, keeping wages within productivity limits, and controlling our inflation so American prices are competitive.

The foregoing gives an indication of why for the past 2-plus years I have felt a temporary tax increase was and is necessary to bring inflation under control.

I urge the acceptance of the conference report.

Mr. BURKE of Massachusetts. Mr. Speaker, I yield such time as he may consume to the gentleman from Minnesota [Mr. KARTH].

(Mr. KARTH asked and was given permission to revise and extend his remarks and to include extraneous matter.)

Mr. KARTH. Mr. Speaker, I rise in support of H.R. 15414, the Revenue and Expenditure Control Act of 1968. I shall cast my vote for this important legislation because it is in fact the only responsible means of redressing the current fiscal imbalance, of strengthening the American dollar, of giving confidence to our currency, of preventing inflation, and of reducing interest rates for homes, automobiles, personal loans, and industrial expansion.

Whereas enactment of a tax increase may not always be the popular thing to do, for the record I would like to make clear my feeelings that, by passing this measure, we shall in the long run avoid more dangerous fiscal problems which now loom on the horizon. I need remind no one that the impending $20 billion deficit, a product of the war in Vietnam, imperils the economic stability not only of our country, but of the free world. By enacting a $6 billion budget cut, coupled with surtaxed income estimated at $10 billion, we can more closely balance this deficit.

I might add at this point, that should we fail to take action today, it is not at all unlikely that a more stringent tax bill would be required to raise not $6 billion, but perhaps $16 or $20 billion. If fiscal balance is not to be arrived at through tax increases, or combinations of tax increases and spending cuts, then a $12 to $16 billion spending cut seeems to be the only alternative. If you are concerned about educational, training, and vocational programs losing moneys by virtue of the $6 billion cut, let me point out clearly that a cut twice that size would eliminate them completely. Therefore, I believe we must act responsibly now, to avoid even greater difficulty in the future and accept the lesser of several evils.

Another aspect of the question before us today is the matter of where budget cuts will be made. Of course, no one knows exactly what programs will have to be cut to achieve the expenditure reductions.

I am confident, however, that in those programs contributing to the social improvement of our Nation, cuts will be either avoided entirely or so minimal as not greatly to affect the process of nation building. Let me be specific: I believe that urban, antipoverty, and educational spending must be maintained at present levels, if not increased, if we are to remain a healthy, progressive society that enables all citizens to live in decency and to fulfill their potential.

I would also like to state once again, as I have so often in the past, that the most likely candidate for budget slashes is that of military spending. As the annual cost of wars, present and past, edges ever closer to the $100 billion mark, I think it outrageous that we hold every penny of defense spending inviolate. Surely at a time of fiscal crisis, and without endangering this Nation's security, some areas could be cut back, and deeply.

For example, I am certain if the Appropriations Committee would investigate the Department of Defense budget, they would find at least $5 to $7 billion attributable to nonessential funding and duplication. I believe that in this regard we must shift our priorities. Social justice—empty stomachs if you will—demands that we do no less.

Mr. Speaker, I would like to call one other point to the attention of my colleagues in connection with the legislation before us today. Nearly a year ago, in August 1967, I requested that the Treasury Department demonstrate statesmanship by proposing to Congress a thoughtful overhaul of our entire income tax philosophy, particularly by closing the loopholes in the present system. With no tax increase forthcoming at that time, it seemed to be a propitious moment for general tax reform.

Whereas I am not the first to be disappointed by inattentiveness to this problem, I must say I had hoped that the opportunity might be used constructively. Obviously it was not, and as a result, the average taxpayer will continue to shoulder an unfair share of his country's economic load, while the Nation's loophole beneficiaries reap enormous tax-free benefits.

Finally, Mr. Speaker, while I am not entirely satisfied with the bill before us today, I would urge my colleagues to vote for its passage. It is the most responsible thing we can do to assure the fiscal future of our Nation.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from Ohio [Mr. CLANCY].

(Mr. CLANCY asked and was given permission to revise and extend his remarks.)

Mr. CLANCY. Mr. Speaker, I rise today not only to voice my objection to this conference report, but to express my continuing concern for the causes that have brought us to consider this legislation. Today, the chickens have come home to roost, and many of us are regretfully saying that we told you so.

It is almost beyond comprehension that the Federal budget has doubled since 1960 with little concern on the part of the Democratic administration and the Democratic controlled Congress. Since 1960 the budget has been increased by approximately $70 billion, and it is because of this, to a great extent, that we have a rate of inflation of astounding proportions. We have witnessed an increase in the national debt from year to year, and serious questions have been raised as to the dollar's value and stability in the international money market.

The entire economic picture is one of complete disregard for the interests of the American taxpayer and the theories of the new economics have proved a total failure. To remedy this situation the administration today seeks only to increase revenues by increasing the amount of taxes to be paid by individuals and corporations, and we have not seen to date anyone in the administration spelling out line by line reductions of the budget. There has been no inclination shown or any intention stated to change present spending policies. The increase in revenues as proposed in this legislation will only permit increased spending in equal or greater amounts in utter disregard for the total economic outlook.

Many of us warned of the dangers inherent in the spending policies of recent administrations, but those warnings have gone unheeded. We are now witnessing the unfortunate results of a program of planned deficits. We are all feeling the effects of inflation and the wage-price spiral which are a direct outgrowth of an unbalanced budget.

Constructive proposals have been offered to reduced spending, after establishing priorities, well in excess of the $6 billion cut unwillingly accepted by the administration. The areas involved would be nonmilitary defense spending, foreign aid, domestic poverty programs which have failed to prove themselves of value, research and development programs, and public works. In addition I am convinced that drastic reductions can be made with respect to our agricultural expenditures. There is at least a degree of credibility in proposing spending reductions as temporary economic aids which is lacking where tax increases are concerned. The history of tax legislation is not one that bears out the proposition of a temporary tax measure. Public dissatisfaction and opposition to the present surtax proposal must be largely weighed in these terms. The people would more willingly accept this measure if there were some reasonable basis for them to believe that the measure would end at its expiration date in June 1969. The national consensus, whose credibility has been shattered too often in this and other areas by recent administrations, projects the feeling the surtax will more likely than not be continued. We cannot permit this year's revenues to be the base upon which the next year's budget is calculated. It is well past the time for this body to demand fiscal responsibility from the administration for the Congress is increasingly being held accountable for its lack.

Those whom we represent must feel we are aware of and responsive to their interests. It is a denial of those interests to demand an additional share of their income without providing additional services benefiting them. The public is already overburdened with excessive taxes. Yet we cannot pass the mounting debt on to future generations with little or no concern. We are already reaching a point where merely paying the interest on the national debt is a substantial figure in the annual budget, and where proposals to retire the national debt are no longer considered as serious suggestions.

Even at this time we have no more than a fond hope that the administration will implement the $6 billion spending reduction and no indication whatever where the reductions will be made. Members of the Ways and Means Committee sought to secure realistic spending controls since the President originally proposed a tax-increase measure in August 1967. Some who would otherwise support this bill are unwilling to do so because of the refusal of the administration to indicate just where reductions in Federal spending will be effected.

The expectation that the total sacrifice should come from the people, that they should continue to underwrite the costs of the Great Society is not one which this body should sanction. The history of this legislation is permeated with a lack of good faith by the administration.

Many of the programs which I voted against have created this situation and have caused the request for increased taxes. The ultimate result of such excessive spending is the creation of a tax burden which could become intolerable, increasing higher costs of living and continued increases in all forms of taxation. It is my honest conviction that there are solutions to our current financial problems other than those promoted by this administration. The one which I favor and the one which I feel correctly places the responsibility at its source would reduce Federal spending to a point where the surtax measure would not be necessary. This is a difficult but not an impossible solution. It is one which does not break faith with the millions of people whose income is being dissipated by tax increases and inflation. It places a restriction on the Federal Government of operating within its means which is no more than is expected of any individual or enterprise.

My opposition to this legislation being considered today is twofold. The proposed $6 billion spending cut in no way defines the areas or programs from which the spending reductions are to be made. It allows the administration a free hand to make them indiscriminately or even to not make them at all. It is not asking too much to require an outline from the President as to where these cuts are to be made; or in the alternative, through congressional action to impose these reductions on the administration. Second, the areas of reduction could be far greater than $6 billion without impairing essential defense or essential domestic programs. A proposal which would reduce spending in nonessential areas by $15 billion has been suggested by the gentleman from Missouri [Mr. CURTIS], and is one which I feel is of great merit. If spending were reduced to this degree any tax increase would be unnecessary.

It is not at all unreasonable to impose a spending cut of $15 billion as Mr. CURTIS has proposed. I feel this could be done without impairing necessary or essential items since the reductions would be made in the following areas: $2 billion would be realized by cutting back the number of American troops stationed in Europe. Reductions in foreign aid, the amounts allocated to the various development banks and military aid abroad, not connected with the war in Vietnam, would provide an additional $3.5 billion. Of the $17 billion being spent on research and development, a reduction to $14 billion would neither be unrealistic nor be fatal to any of the programs thereunder. Public works cuts could yield a savings of $3 billion, provided projects that have not been initiated would be deferred until economic stability were restored. Additional and substantial reductions would be realized by cutting the space program by $1.5 billion; by limiting increases in Fedreal employment, another $1 billion; and $2 billion in savings effected through a review and redirection of the agricultural programs. Finally, $1 billion in interest costs, involved in servicing the national debt, could be realized by effecting these reductions.

Making substantial reductions in our Federal budget and declaring a national moratorium on new, unnecessary spending programs would be a far better method of fiscal competency and our desire for self-discipline. The citizens of America would benefit far greater from this course than by imposing an additional tax burden already much too great for some to bear.

I am very much opposed to the tax increase provided for in this conference report because without a meaningful and substantial cut in the budget, it will only serve as an encouragement for the bureaucrats and big spenders to pause momentarily, than take off on other wild-eyed sprees.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 5 minutes to the gentleman from New York [Mr. CONABLE].

(Mr. CONABLE asked and was given permission to revise and extend his remarks and to include extraneous matter.)

Mr. CONABLE. Mr. Speaker, we come today to do an unhappy duty, a duty which should not have been necessary. None of us likes to raise taxes or to take a step which inevitably will inhibit development of many desirable programs.

As has been said here, there are many available excuses for voting against this obligation, but none of them is as pressing as the need for the restraint, public and private, which this conference report represents. I hope the measure will pass by a wide margin, because most of the knowledgeable people of our financial community and of the world financial community want this assurance that we are capable of the discipline upon which sound money and a stable progressive system must be based. We cannot continue to debauch our dollar by deficit spending and remain the last best hope of the world.

Mr. Speaker, the rest of the world seems to have realized this before we did ourselves. We have had our warning in the economy's super heat and the inflation to which our distinguished chairman referred in his opening remarks. We had better learn our lesson now.

In light of what has been said about sections 9 and 10 of the bill, I would like to quote in part a telegram from the Governor of our State which I received today. These sections relate to industrial development bonds. The telegram reads as follows:

> The bill as reported by the conference committee does not contain an exception authorizing the use of tax-exempt bonds to finance industrial structures and buildings in slum areas, although it does meet some of the objections raised in my telegram of May 26 to members of the Committee on Ways and Means and the Senate Finance Committee.
>
> This exception is one of the key features of New York's program to attract as much as five billion dollars in private monies to rebuild the slums. The absence of tax exemption for public obligations which will furnish the seed money to attract private capital to theses areas would curtail efforts to rebuild our cities. I realize that it may be impossible to further amend H.R. 15414, now pending before Congress.
>
> If so, and in the event that the bill becomes law, I strongly urge that immediate consideration be given to amending section 103 of the Internal Revenue Code to provide exemptions for bonds such as those to finance rehabilitation of blighted urban areas.
>
> NELSON A. ROCKEFELLER.

Mr. Speaker, let me say that the members of the conference, and the various committee staff members, have been most generous in their review of the problems these sections will create in New York, and we are grateful; but some problems remain, and I am happy to have heard the assurance by the chairman that further study will be made of the impact of these sections on the public purposes to which many of our States have put tax exempt bonds.

Mr. ROBISON. Mr. Speaker, will the gentleman yield?

Mr. CONABLE. I yield to the gentleman from New York.

(Mr. ROBISON asked and was given permission to revise and extend his remarks.)

Mr. ROBISON. Mr. Speaker, I appreciate the distinguished gentleman from New York yielding to me and I wish to state that I intend to follow the gentleman's leadership and vote for this measure. Actually, Mr. Speaker, I see no alternative but to take this step.

Mr. Speaker, I got to thinking on my way down to work this morning that the "happening" here, today, has all the elements of a shotgun wedding.

The cast of characters?

Well, there is this House—the reluctant and frightened "groom"—finally hauled before the altar of fiscal responsibility by the stern father-figure of the President, a figure no longer to be either loved or feared except, now, for the weapon of public opinion he still holds in his hands though no one at this ceremony is quite certain in which direction that weapon is pointed.

The "bride"?—the Nation's economy, unhappily pregnant to be sure, with belly swollen by inflation; fretful and nervous about her condition, and ashamed of it, too, though truth to tell she is less to be condemned for it than her over-permissive "father"—the President—and her formerly apathetic "mother"—the general public—who long ago forgot the need to set an example of self-discipline for the guidance of others.

And who is presiding at the ceremony? Well, selecting this character gave me some pause but, if he would forgive me, perhaps it ought to be the distinguished gentleman from Arkansas [Mr. MILLS], the honest marriage broker through whose efforts, more than any other's, we are now "gathered together."

The usual two witnesses are present, too, in the person of the other body—the Senate—that has already tentatively signed the wedding certificate, and in the persons, though less clear to see, of those bankers and governments holding our dollars abroad and wondering if this affair will come off in time.

When the time comes, there will be those who will object to this marriage—some saying perhaps the economic "physicians" are wrong in their diagnosis of the bride's condition and maybe all she has is a tumor, while others will say such a marriage itself is wrong, and will never work out.

Ah, yes, Mr. Speaker, but what of the generation yet unborn?

Wherein lies our duty?

For some weeks now, I have kept my own personal scorecard of the pros and cons for voting either way on this measure, knowing full well I would eventually be invited to the kind of affair I have just described.

On one side of that scrap of paper I listed the reasons why I should not vote to endorse this marriage—on the other, the reasons why I should.

One can find plenty of reasons to put on either side—and many of them are almost equally compelling. But, when you get to the bottom of each list, where do you put the one compelling factor—the overriding national interest?

That, it seems to me, must be our sole concern here, today.

For what is involved is the future strength of this Nation—a strength already badly sapped by the inflationary pressures we have let loose in our economy through our unwillingness to face up to the need to set our fiscal house in order.

Today, we have a chance to begin to do just that—and we, as responsible legislators and as concerned Americans, can no longer rationalize away that chance by arguing that the spending cut here involved is too big, or too small, or that tax "reform" ought to come first, or even, as I believe I could say, that since we did not "dance the tune" why should some of us "pay the piper."

Mr. Speaker, our responsibility is clear—painful though it may personally be.

Let us accept that responsibility.

Let us pass this measure.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 3 minutes to the gentleman from Texas [Mr. BUSH].

(Mr. BUSH asked and was given permission to revise and extend his remarks.)

Mr. BUSH. Mr. Speaker, this is a time for leadership. This is not a time for politics. I do not want to vote for a tax increase. I do not like constantly being in a position of having to vote for spending cuts—cuts that often directly or indirectly affect my own district. But the terrible fact is that we have no choice.

Let us be frank with one another—this country has a serious problem. We cannot allow our country to continue down the "business-as-usual" road that we have been following in recent years. Not only do we have an emergency in Southeast Asia, but we also have an emergency here at home. Whether we like it or not, the war in Vietnam demands that we make available to our military personnel there the necessary resources as long as we are actively engaged.

The war has to be paid for and it is being paid for. The question is will we finance it by conventional methods—such as those being discussed in the bill before us today—or shall we finance it by unconventional measures—such as we have been doing to date.

We have created a Federal budgetary deficit of approximately $30 billion. European nations are being asked to absorb

short-term claims, arising out of our chronic balance of payments deficit, that they do not want to hold. Nine-month treasury bills are selling at 6.086 percent interest. And this is before the Treasury of the United States has begun to try to finance the huge deficit it faces for fiscal year 1969 in the absence of the package before us today.

Unemployment has dropped 3½ percent and labor contract settlements have been escalating. Union contract settlements so far this year have resulted in wage increases of over 6 percent. In manufacturing, unit costs are increasing at close to the 4 percent annual rate. The rise in costs has been passed through the form of higher prices. The cost of living, which increased at an annual rate of only 2¼ percent during the winter and spring of 1967, has been increasing at a rate of 4 percent or more since last summer. This in turn is leading to demands for higher wages, which in turn will contribute to further upward pressures on prices.

The inflation in U.S. costs and prices has had its toll on our international trading position. In 1966, U.S. exports exceeded imports by a margin of about $3½ billion in the spring and summer of 1967, but fell off late in the year and almost vanished in early 1968. The deterioration in our international competitiveness is the critical long-term factor contributing to our balance-of-payments difficulties.

We have been fighting a very expensive war but we have made no substantial effort at home to cut spending. The crisis in Vietnam and the domestic crisis of our society, combined, are dangerous enough that we cannot afford to delay any longer the need for reducing the budgetary deficit and the establishment of real and meaningful priorities for allocation of our resources.

I am a pragmatist, and I know there are political dangers involved in voting for a tax increase. But, if you believe your country is in trouble, serious trouble, do you not think you ought to stand up for the tough decisions too?

Several months ago I joined with eight other Members of the House and introduced a proposal which recognized the tremendous problem of human needs facing this country but also recognized the problem of increased Federal spending.

The proposal made specific budget cuts totaling $6.5 billion in areas that we felt were low priority and it earmarked $2.5 billion for additional application to the areas of human need. If this proposal proved anything, it is that it is possible to make substantial cuts in domestic spending within a framework that we will not destroy programs that are helping the poor and underprivileged of this country.

None of us wants to cut school lunches or any program that is giving substantial benefit to human needs of the people of this country. Why cannot the executive branch take this view and work out a program to do this? This is all the tax package before us asks.

It asks for a reduction in the levels of Federal spending by $18 billion. It is not specific where these cuts have to come. It only asks that the executive branch take a realistic look at its spending and cut where programs or personnel are the least needed. It asks that the executive branch take a good look at those so-called uncontrollable factors and see just how uncontrollable they really are. And I hope that, if this package does pass today, that the administration will look at the reductions it suggests as weighed against the immediate needs of the people of this country.

Let us take a minute to think how the average American looks at this legislation. He looks around and he sees no sense of urgency on the part of the Government, no sense of sacrifice, no real effort to cut spending in any way. He knows he has a problem of rising interest rates and inflated retail prices. He knows the budget is up $10.2 billion for the year and he knows that domestic spending has spiraled. He may not know that it has increased 129 percent since this administration took over in 1960 while defense spending has only gone up 74 percent. But he watches TV and he hears the President call for beautification. He sees the Federal payroll up by 45,600 people in one year despite a promised cutback.

He hears all kinds of conflicting predictions on this horrible frustrating war. He hears the President tell him he wants a 10-percent surcharge to cool off the economy. And on top of all this he is told that, "We are only asking you to give us back half the tax cut we gave you in 1964." But then this plain citizen looks at his total tax bill and he sees a big increase from 1964. Total taxes collected in 1964 per capita was $723—in 1967, total per capita taxes were $895, up 24 percent in 2 years.

The problem is that the American public is hearing one thing and seeing another. He is being told that all is well and happy, but "you must pay more taxes, you must sacrifice" and yet he sees his Government failing to sacrifice. He simply does not believe his Government. It is indeed an awful thing. He has lost confidence in his Government.

It is not the obstructionism of the Ways and Means Committee or this Congress that has delayed the surcharge this long. It is the failure of the administration to tell the people the truth. It is the failure of the administration to establish priorities. It is the failure of the administration to take those tough political steps necessary to demonstrate that this call to sacrifice is not a one-way street—that the Government is willing to cut back at the same time it is asking the American people to sacrifice. And that is why it is so important that the increase be accompanied by these substantial reductions in Federal spending.

Without the commitment on the part of this Congress and on the part of the administration to reduce the rate of spending—Government spending—the expansionary forces which have been driving our economy forward during the past year will continue to be operative.

Last, let us look at the arguments being used to vote "no" on this package. There are several "outs" being offered.

There is the war "out"—"I would not vote for this bill if a penny of the new revenues goes to pay for the war."

There is the tax reform "out"—"I would not vote for the package because if we had tax reform we would not need to raise taxes."

There is the spending gambit being used by some of the main proponents of big spending—the people who should vote to pay the piper. It goes like this: "I would have voted for the bill with $4 billion in cuts but I can't go $6 billion." This is an escape—a pure and simple escape.

There is the specific cut objection. Although no cuts in specific projects are detailed under the legislation, the argument goes like this: "I'd vote for the package, but I've been told the money will come out of the programs for the cities, or out of programs for education, or out of any other area dear to the district of the objector." And yet many suggestions, including the human renewal fund, has been made which show the cuts can come in areas other than areas of human need.

All of these arguments are made, for the most part, by people who have consistently voted for more and more Federal spending. It seems to me that people who vote for spending programs, in time of crisis really ought to vote the funds to pay for them.

There is one other main argument. In my opinion it has a more logical basis than those offered above—but it is mainly a political argument. It goes like this: "I have consistently voted to cut spending—the best antidote to inflation—if my spending cuts had been accepted by the majority, we wouldn't need a tax bill and lastly, if we bail out the spenders by raising taxes and count on the administration to cut spending, we simply solve their problem for them and permit them to keep on spending away. 'They put the garbage on the porch—let them clean it of.'"

There is plenty of political logic here, but in my opinion, it is too late for politics.

To those who have not been consistent—who have voted for spending, but are reluctant to vote for this package—I would say, We have a financial crisis before us.

We must pay for the war.

We do not have a tax reform bill before the House, and if we did, it is inconceivable to me how it could raise the kind of revenues necessary to reduce the deficit to manageable levels.

There is no plan or even need to cut in the area of human needs.

Those who spend must be willing to take the tough step and vote to pay for the spending.

And to those who have voted consistently to cut spending, I would simply say that the problem is too acute for politics—it is absolutely essential that the deficit be reduced—that steps be taken to start restoring confidence in the dollar—that the inflationary pressures be lessened—that we demonstrate, in spite of the irrefutable logic that the spenders should produce the votes to pass the bill, that those who vote to cut spending are

willing to take the tough, but responsible, step of raising taxes and cutting spending in order to protect the economy of this country.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 5 minutes to the gentleman from New York [Mr. FINO].

(Mr. FINO asked and was given permission to revise and extend his remarks.)

Mr. FINO. Mr. Speaker, I rise in opposition to the proposed 10-percent surtax even though the Johnson administration has finally agreed to a $6 billion cut in Government spending. If ever there was a case of "too little and too late," this is it.

There seems to be a new ideology in this country which says that Federal spending is the answer to every problem and that the middle-class taxpayer who does not volunteer to be plucked harder each and every year is not doing his social duty. I completely disagree with the tax and spend theory. Very simply, I believe in less taxing, less spending, and less programing.

We are being told by this administration that the tax hike is necessary in order to protect the dollar and curb inflation. The best and only way to protect our dollar is to eliminate Federal deficit spending which is the primary cause of inflation. We must insure confidence in the dollar by taking all necessary steps to control inflation.

Congress has been struggling to cut excessive spending but with little help from the executive branch. This administration has been spending this country into bankruptcy—both financially and socially. There is no question in my mind that there are many programs which ought to be cut in preference to a tax increase.

First, foreign aid: If you take our outright foreign aid, our military aid and armaments loan programs, our contributions to various regional development banks, our support of the United Nations, together with other related items, then our foreign aid totals up to something like $4 billion a year. I favor cutting this in half. The United States cannot be the world policeman when it cannot police its own streets.

Second, the space program: This program does the average American no good at all. It is all gravy for the fat cat defense industries. I do not see what the point is of putting a man on the moon over the dead body of the typical American taxpayer. And at the rate prices are going up, they will be on the moon ahead of our space effort.

Several billion dollars are going into the space program each year, most of them enriching the State of Texas. I would also like to see these programs cut in half.

Third, Federal roadbuilding and construction program: Some of these projects are pure pork barrel and should be deferred. I expect we could save enough to amount to a half billion dollars.

Fourth, Vietnam: The amount of money flowing into Vietnam is both staggering and wasteful. It takes something like $130,000 to kill one Vietcong. At this rate, we would do better with bribes. We could probably bribe 20 Vietcong to turn in their guns with the price it takes to kill one. Let me add that the corruption in South Vietnam is enormous. Every year, hundreds of millions of dollars are swindled by our "loyal" allies—the South Vietnamese. I do not advocate cutting off any of the money needed to suport our troops, but I believe that we should stop aid to the South Vietnamese warlords and black marketeers. I am sure that we could save hundreds of millions of dollars without interfering with the war effort.

Fifth, war against poverty: This program is actually a war against the taxpayer and a war against middle-class morality. Very little of the money used actually goes to help the poor. The program is a payroll for beatniks, troublemakers, and agitators. About $2 billion is wasted on this program each year, and I believe that $1 billion could do the job if it was administered by intelligent and careful Government agencies and officials.

Sixth, model cities program: This is the program through which millions of tax dollars are being used to underwrite school busing and other school racial balance plans. I oppose this program and I believe that the $1 billion that the President is trying to spend on it could be better spent elsewhere.

Seventh, welfare: Many of my constituents have written to me describing how the only people in their buildings with new clothing and new televisions are welfare recipients. In New York City alone, welfare rolls have doubled in the last 2 years to a point where 800,000 people are being bankrolled by the taxpayers. Not only this, but many of them are not needy. I have received letters telling me how welfare "clients" drive up to a point of two blocks away from the welfare center. They change their clothes, put on rags, leave their clothes in the cars, and collect money for new clothes from the welfare bleeding hearts. This program should be completely reshaped, and I am sure that hundreds of millions of dollars could be saved.

Eighth, rent subsidy: This and other programs try to rob Peter to pay Paul. Why should one man work to raise tax dollars so his neighbor can have a similar apartment. We can save some money cutting this out.

Ninth, Federal research: Another wasteful variety of Government spending relates to Federal research. The ivory tower planners are now spending about three-quarters of a billion dollars a year on social science research. This includes items like $55,000 for a social history of comic strips and cartoons. I suggest that we can do without this type of expenditure.

Tenth, farm program: This is still another wasteful program that has only benefited the large farm operators but not the little farmer. This program should be cut and cut substantially.

Eleventh, U.S. troops in Europe: At the present time, we are spending more than a billion dollars a year to maintain a large force of 250,000 U.S. troops in Europe. I am completely opposed to spending U.S. taxpayers' dollars to protect fat and flush European nations well able to protect themselves. These troops should be brought home and the budget reduced accordingly.

Twelfth, loopholes in tax laws: It is estimated that some $4 to $5 billion could be raised annually by closing some major loopholes in our tax laws. Numerous bills have been introduced in this session of Congress to accomplish this end. But we have heard nothing from the administration on the subject. Could it be that the oil depletion allowance—a major area of tax abuse—is sacroanct under this administration? I am for much tougher taxation of the war-profiteering defense corporations. They should not be allowed to get rich off the blood, sweat, and tears of the war in Vietnam.

Administration spokesmen argue that the economy is expanding and that the proposed tax increase will not have adverse effects. However, economic forecasts in the past have been notoriously fallible, and the situation is not so clear-cut that we can expect infallibility today. For example, the rate of unemployment is up, and industrial production and especially construction have a lot of idle capacity yet. Enactment of a tax increase might well reverse the recovery the economy has made.

A tax increase would take more purchasing power from the middle and low income groups who are paying increasingly higher State and local taxes as well as heavy Federal taxes. These factors, coupled with the increase in the cost of living, could result in such a cutback in demand from the private sector of the economy that a slump could result. A tax increase, under these circumstances, might result in less revenues than it would hope to gain.

The only alternative is to reduce Federal spending on all nonessential programs. Even though the proposed tax increase has been termed "temporary," it would still be less flexible as an economic tool than an adjustment in spending levels. I, for one, will never vote for a tax increase until I am convinced that good-faith efforts have been made to reduce spending substantially.

I urge the Members of this House to vote against this bill and insist that this administration tighten its financial belt.

Mr. MILLS. Mr. Speaker, I yield to the distinguished majority leader, the gentleman from Oklahoma [Mr. ALBERT] 5 minutes.

Mr. ALBERT. Mr. Speaker, I thank the distinguished chairman of the Committee on Ways and Means for yielding. I take this time to read a letter dated June 19, 1968, from the President to the Speaker. The letter is as follows:

THE WHITE HOUSE,
Washington, D.C., June 19, 1968.

Hon. JOHN W. MCCORMACK,
Speaker of the House of Representatives, Washington, D.C.

DEAR MR. SPEAKER: The House of Representatives will vote tomorrow on a measure of overriding importance to the health and strength of the national economy—the anti-inflation tax bill.

I have urged the Congress for nearly two years to enact this essential legislation. Now the hour is here and the time has come to

help America sustain the unparalleled record of unbroken prosperity of the past eighty-eight months.

We dare not lose this opportunity to act. I call upon the House to meet its responsibilities and to pass this crucial measure.

The tax bill has been coupled with a $6 billion expenditure reduction. The need for the tax increase is so imperative and so essential to the national interest that I have previously stated that I would accept this package. I reaffirm that position.

Passage of the tax bill will not only strengthen the economy, it will help the poor children of America. Last year the Congress placed a ceiling on the number of poor children who could receive Federal welfare payments. The tax measure before the Congress contains a provision to defer this welfare "freeze". It will permit almost a half million poor children and their parents to receive the money they need to live with human dignity and hope. If the tax bill is not enacted, the freeze will continue, and tens of thousands of children will be denied the assistance they need for the basic essentials of life—food, clothing, and shelter. This will be a cruel and bitter disappointment to the pood children who so desperately need help.

I ask every Member concerned with bettering humanity to take this into consideration when they vote tomorrow. We must not strip from the arms of the poor children of America the life-line of sustenance they so urgently require.

So I urge the House to put delay behind it and vote this measure into law.

Sincerely,

LYNDON B. JOHNSON.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 5 minutes to the gentleman from Iowa [Mr. GROSS].

(Mr. GROSS asked and was given permission to revise and extend his remarks.)

Mr. GROSS. Mr. Speaker, I hope the distinguished majority leader will stay on the floor for just a second. I must comment on the letter he has just read, apparently from the President of the United States, asserting that we have had unparalleled prosperity in tihs country for the last 88 months. If we have had unparalleled prosperity in this country for the last 88 months, and there are 30 million people living in poverty in this Nation, as I suspect the President is still saying, there is something badly wrong with the management of this country. I suspect that if the President would get himself a mirror and take a look he would probably find out what is wrong.

The gentleman from Arkansas [Mr. MILLS] spent a considerable amount of time this afternoon telling us of the dire circumstances facing the country. That statement does not square in any way, shape, form, or manner with the President's "unparalleled prosperity" except to confirm that we have had sad and tragic management of this Government for 88 months.

Mr. Speaker, if ever a Congress has been treated to a variation of the shell game it is in connection with this legislation and the end is not yet.

It started innocently enough—as most such games do—when the House was asked several months ago to approve a simple extension of the excise tax schedules. With scarcely a murmur of protest, little dreaming of what was to follow, the common, garden variety House Member—of which I am one—followed the recommendation of the mighty Ways and Means Committee.

There had been ugly rumors that this innocent legislative wayfarer from the House—This simple excise tax bill—might meet an uncertain reception at the other end of the Capitol, but we did not worry, did we? After all, we had the U.S. Constitution on our side for, as every schoolboy knows, section 7, clause 1 of article I, provides that "all bills for the raising of revenue shall originate in the House of Representatives," and the Senate may only propose or concur with amendments.

And, after all, we had the mighty House Ways and Means Committee to protect our constitutional prerogatives, did we not?

Well, our innocent, simple little legislative wayfarer made the journey to the Capitols northland and disappeared into the big tent, only to appear weeks later with two peas and three shells. One pea was labeled "$10 billion tax increase," the other pea was labeled "$6 billion spending cut," and the third shell was, of course, for the purpose of concealing any evidence of where the $6 billion in cuts would be made.

"They can't do this to us," said some members of the Ways and Means Committee, referring to the usurpation of constitutional prerogatives.

"On that issue," they said in effect, "we'll fight them until purgatory freezes over and then skate back on the ice."

Others on the House Ways and Means Committee joined in the outraged chorus but for a different reason. They insisted the $6 billion pea ought to be labeled $4 billion. In this they were joined by the occupant of the White House who insisted that those wanting more than a $4 billion pea, and the shell to go with it, could be characterized as blackmailers and phonies.

Came a day when it was decided the numbers game—whether it would be $4 billion or $6 billion—would have to be settled before the shell game could start. Six billion dollars got the nod and, without another whimper, the occupant of the White House agreed to join in the game.

And so the stage is set for today's episode of "now you see it and now you don't." Mr. and Mrs. Average Everyday Citizen can be dead sure and certain that if Members of the House again follow the recommendation of the Ways and Means Committee and the Democrat leadership they are going to get an eye full on July 1 and thereafter of the pea labeled "$10 billion tax increase." But they should also have a pretty good idea that they are going to be in trouble when the shells start moving and they try to find that little pea labeled "$6 billion in spending cuts."

For the past year, Mr. and Mrs. America watched the game of economy musical chairs that was played in Congress. Some of them were still watching last week when the $9 billion supplemental appropriation bill was approved by the House thus wiping out in one fell swoop a substantial part of the alleged savings of the previous months.

They were watching again, less than 24 hours later, when the House refused to cut $10 million off the authorization for the Peace Corps. Instead it was authorized to spend $112,800,000 in the next fiscal year—$5,300,000 more than was appropriated for this year.

Mr. Speaker, there is no worthwhile evidence that Congress has any serious intention of cutting expenditures in exchange for a tax increase. For weeks, yes months, have some of us looked in vain for a bill of particulars from President Johnson and the leadership in Congress telling us where we might reasonably expect a $6 billion reduction in spending would be made. Only silence has greeted our requests that we and the public be informed.

Yes, this country faces a financial crisis but that did not develop overnight. It is the culmination of years of free-wheeling spending—of annual multibillion-dollar deficits—of rocketing debt and inflation. It was a mistake to have reduced taxes in 1964, and I voted against it. It will be a mistake now to increase taxes without a commensurate cut in spending for this will only compound the felony of fueling the incendiary flames of inflation.

I ask again, as others have before me, where is the assurance that there will be a cut in spending of $6 billion or any other amount? Where, how, and when are these cuts to be made? Where is the bill of particulars that every taxpayer and every Member of Congress has the right to expect in exchange for a 10-to 12-billion-dollar increase in taxes?

Virtual silence greets these requests for solid information and I have no alternative but to vote against the conference report.

Mr. MILLS. Mr. Speaker, I yield 5 minutes to the gentleman from Massachusetts [Mr. BURKE].

(Mr. BURKE of Massachusetts asked and was given permission to revise and extend his remarks.)

CALL OF THE HOUSE

Mr. GROSS. Mr. Speaker, I make the point of order that a quorum is not present.

The SPEAKER pro tempore (Mr. PRICE of Illinois). Evidently a quorum is not present.

Mr. MILLS. Mr. Speaker, I move a call of the House.

A call of the House was ordered.

The Clerk called the roll, and the following Members failed to answer to their names:

[Roll No. 200]

Cohelan	Hays	Resnick
Cunningham	Holland	Selden
Diggs	Irwin	Thompson, N.J.
Evins, Tenn.	McMillan	Tuck
Flood	Mosher	
Griffiths	Nedzi	

The SPEAKER pro tempore. On this rollcall 417 Members have answered to their names, a quorum.

By unanimous consent, further proceedings under the call were dispensed with.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

Mr. MILLS. Mr. Speaker, I have yielded to the gentleman from Massachusetts [Mr. BURKE].

Mr. BURKE of Massachusetts. Mr. Speaker, my distinguished colleague

from Massachusetts [Mr. KEITH] joins me in a question that I would like to direct to the chairman. I would like to have the attention of the chairman. It is a rather lengthy question, but it is very important to the Commonwealth of Massachusetts.

Mr. Speaker, my colleague and I would like to inquire as to the application of the transitional rules for industrial development bonds in a case in which the entire State of Massachusetts is clearly concerned. I am referring to a proposed industrial development bond issue to finance the modernization and improvement of the General Dynamics Fore River Shipyard. The renovation of the shipyard is necessary to enable General Dynamics to build economically the huge new ocean-going vessels now being constructed. In connection with the improvement of the Fore River shipyard, it is also necessary to dredge and otherwise improve the waterways leading from the shipyard to the ocean.

In addition to the improvement of the waterways from the shipyard to the ocean, in June 1966, the State of Massachusetts has incurred design costs with respect to a new bridge to replace the present Fore River bridge. The new bridge having a greater width and higher span is designed to provide easy access of the large vessels between the General Dynamics Fore River Shipyard and the Atlantic Ocean. The estimated cost of the bridge is $33 million with Massachusetts assuming responsibility for 35 percent of this amount. The fact that the bridge is tied in closely with the modernization and improvement of the General Dynamics Fore River Shipyard is clearly set forth in the press announcement made by Governor Volpe at the time negotiations were begun on the basic design of this bridge. When these negotiations were announced in June 1966, the Governor stated:

The entire project, including the high-lift type bridge which would permit General Dynamics Electric Boat to bid on the largest ships being built today and for those anticipated in the future, carries an estimated price tag of some $33 million, with the Federal Government possibly paying up to 65 percent of the overall expense.

A number of steps have been taken with respect to this industrial development bond issue which, I believe, indicate that a commitment has, in fact, been made prior to May 1, 1968. Let me cite some of the commitments, as I understand them, which have been made.

First, the U.S. Army Corps of Engineers has been authorized and is prepared to proceed with the $12.5 million navigation improvement project I referred to in the Weymouth Fore River and Town River.

Second, the Commissioner of the Massachusetts Department of Public Works, the Honorable Edward J. Ribbs, has stated that the Massachusetts Department of Public Works as agent for the Commonwealth of Massachusetts was required to sign the customary assurances that the Commonwealth would provide the necessary easements, rights-of-way, and so forth, normal in projects of this type. In addition, the Massachusetts Department of Public Works through its Waterways Division on September 13, 1967, sent a letter to the city of Quincy asking for a like assurance from it. The city of Quincy on April 9, 1968, transmitted its signed assurance.

Third, under Massachusetts law before an industrial revenue bond may be issued, the State department of commerce and development must issue a certificate of convenience and necessity. This agency may not issue a certificate, however, until receiving a favorable recommendation from the State industrial finance board. The chairman of the State industrial finance board, who also is the commissioner of the department of commerce and development, the Honorable T. W. Schulenberg, on February 2, 1968, wrote a letter to Mr. Robert V. Laney, general manager, General Dynamics Division, Quincy Division, in which he said with respect to General Dynamics' interest in obtaining revenue bond financing:

I am now able to extend that assurance, so that your firm might be able to take into consideration the availability of industrial revenue bond financing in its computation of construction and financing costs.

Further on in this letter, Commissioner Schulenberg stated:

You are to be assured that the Commonwealth of Massachusetts, the City of Quincy, and the Town of Braintree, will expedite your request for an industrial revenue bond issue as soon as the necessary statutory and corporate prerequisites can be accomplished.

It will also be recalled that I indicated that Mr. Schulenberg is chairman of the State industrial finance board. With respect to the board, he said in this letter:

The State Industrial Finance Board, which met yesterday, has also expressed its interest in aiding your expansion efforts. You can, as well, be assured of their cooperation.

There is much other material available showing that, from the very initiation of the amendment to the Massachusetts constitution providing for industrial revenue bond financing, the interest of the State, as evidenced in many actions which it has taken since that time, has been to make possible the development of the Fore River shipyards in order to provide more employment in the Commonwealth of Massachusetts. However, it seems to me that the material that I have outlined to you is the clearest expression of this intent.

At this point I would like to ask the gentleman his opinion as to the status of these industrial bonds.

Mr. MILLS. Mr. Speaker, as my colleague, the gentleman from Massachusetts, knows, I have had an opportunity previously to know of the question of the distinguished gentleman from Massachusetts [Mr. BURKE], and the distinguished gentleman from Massachusetts [Mr. KEITH].

As my colleagues know, there are a series of transitional provisions in the industrial revenue bond section agreed to by the conferees providing exemptions with respect to interest on industrial revenue bonds where commitments have been made in the past. Under these transitional rules, if certain types of commitments were entered into before May 1, 1968, the tax-exempt status of the bonds will apply if they are issued before January 1, 1969, and if they otherwise would have been tax-exempt industrial revenue bonds.

One of these transitional provisions provides that the tax-exempt status will continue if in connection with the issuance of the obligations, or the use of the proceeds to be derived from the sale of the obligations, or the property to be acquired or improved with the proceeds, a governmental unit has made a significant financial commitment. It is important to note that this refers to "a" governmental unit and not necessarily "the" governmental unit issuing the industrial revenue bonds.

While I, of course, have not had the opportunity to delve into all of the negotiations between Massachusetts or the local governments in Massachusetts and General Dynamics, yet it would appear from what my colleague has said that there has been a significant financial commitment on the part of a governmental unit. I am referring to the agreement on the part of the Commonwealth of Massachusetts and the city of Quincy to supply easements with respect to the dredging project and also the commitment that Massachusetts apparently has made with respect to the construction of the bridge over the Fore River, at least to the extent of the design costs of this bridge. An additional factor which might also be considered in this regard is the commitment of the Corps of Engineers to undertake the $12.5 million dredging project. I am assuming that these projects, as my colleague indicates, are in large part made necessary by the improvement and modernization of the shipyard.

There also is the possibility that the letter from commissioner, or chairman, Schulenberg to General Dynamics constituted a commitment on the part of the governing unit to the issuance of the industrial revenue bonds or the project in connection with which the proceeds of the obligation are to be used. There is also a transitional exemption in the provision for commitments of this type made before May 1, 1968.

In general terms, I would say that this appears to be a commitment of the type with which the conferees were concerned, and I would expect that bonds for this type of project would qualify for tax-exempt status, although, of course, with a project as involved as this one, it would be necessary for this to be verified by the Treasury Department.

Mr. BURKE of Massachusetts. Mr. Speaker, on behalf of my colleague [Mr. KEITH] and myself, I thank the chairman.

Mr. Speaker, I include at this point the documents referred to earlier.

[From the Governor's Press Office, State House, Boston, June 9, 1966.]

Governor John A. Volpe announced today that negotiations were underway for the basic design of the proposed new bridge to replace the present Mare River Bridge linking Quincy and Weymouth by June 1, 1971.

The Chief Executive said the "entirely feasible project" was tied in with the planned construction of the six-lane "Shawmut Trail" highway from the Southeast Expressway at the Braintree-Quincy line to Route 3A in Hingham.

The entire project, including the high lift-type bridge which would permit General Dynamics/Electric Boat to bid on the largest ships being built today and for those anticipated in the future, carries an estimated price tag of some $33 million, with the Federal Government possibly paying up to 65% of the overall expense, Volpe said.

The Governor stated the negotiations for the basic design of the new bridge were begun with Parsons, Brinckerhoff, McQuade and Douglas, of Boston and New York, which earlier had been selected as consultant architect engineer for the project.

He noted that the firm enjoys the greatest esteem and respect in the type of construction contemplated and has vast experience in the field of movable bridges.

The proposed 2,125-foot long bridge would be located on a new line some 100 feet up stream from the current 30-year-old draw span, he said, and would be a movable up-down bridge similar to the operation of the railroad bridge across the Cape Cod canal.

The Governor said the proposed span would have a lift-type area measuring 450-feet in length compared to the 175-foot width of present bridge. It would be capable of rising to a height of 175 feet above mean high water against 70 feet for the present draw span.

The construction of the new bridge, Volpe said, in permitting the famed Rore River shipyard to bid for contracts on much larger ships, ultimately would boost employment at the yard from the current 8,000 level to about 17,000 according to figures from officers of Local #5 of the Marine Workers Union of America.

This factor could open new employment prospects for workers scheduled to be laid off from Federal Government facilities, such as the Portsmouth, N. H., naval shipyard, and also could result in millions of dollars annually in new taxes, business income and salaries for the city of Quincy and the Commonwealth and their citizens, the Governor said.

Volpe said he was informed earlier about the feasibility of the project by the Department of Public Works (DPW) which had drawn up preliminary plans for the new bridge and the extension of the Southeast Expressway to Route 3A.

The DPW said that at the appropriate time, it planned to coordinate the design efforts for the bridge with the New England Division of the U.S. Army Corps of Engineers, currently directed to make a preliminary study of dredging the existing 200-foot wide channel from the shipyard to deep water by another 10-feet to a depth of about 40-feet at low tide.

Volpe was informed that this coordination is mandatory and could possibly lead to Department of Defense participation in the funding of the lift-type section of the bridge.

The DPW also plans to maintain the closest liaison with the Division Office of the Bureau of Public Roads in view of their interest in the Federal Primary Road System.

Volpe said the proposed bridge could be built with a minimum of interference with existing highway traffic, although erection of the movable span might cause some interruption to navigation.

The vertical clearance of the movable span when closed would be 70-feet above mean high water against 40-feet on the present span.

The bridge, when it was necessary to move a ship through, could be raised an additional 105-feet in about four-minutes to a total clearance height of 175-feet.

The bridge approach from the Quincy side would be 1,060 in length, while the Weymouth side approach would measure 615 feet. Both approaches would have a maximum 4% grade.

In the past 3 years, Volpe said, it had been necessary to open the current draw span 1,378 times to accommodate ships which could not clear its 40-foot vertical height above mean water. On each occasion, traffic was tied up for an average length of time some 7-minutes.

It is estimated that in a similar three-year period, with the proposed lift-type span, it would only be necessary to raise the bridge 277 times, with the corresponding reduction in traffic interference.

Volpe said that at this time the proposed Shawmut Trail was very sketchy as to what route it would take, so it is not possible to say now just how much private property would have to be taken. He said when the route's line was proposed, property owners would have ample opportunity to express their opinions on the matter. It was highly unlikely, he added, that the Shawmut Trail would use any section of Quincy's Washington Street or Weymouth's Bridge Street, the current approaches to the draw span.

Plans for the proposed bridge, however, will require the taking of one storage-type, two-story building from the Fore River shipyard, but the Governor said the yard had pledged "its maximum cooperation with the project."

Section I work, encompassing the Expressway extension to the Quincy approach, apparently would go to basic design by January 1, 1967 with construction expected to begin July 1, 1970 and be completed November 1, 1972. The 2.14 mile section is estimated to cost $9 million.

Section II, the bridge itself and the approaches, calls for basic design to be completed by January 1, 1967, with the review and approval of the final bridge design scheduled for December 1, 1968. Tentative plans call for the work on the substructure, estimated to cost some $4.7 million, to begin February 1, 1969 and to be completed February 1, 1970. In the meantime, an estimated $12.3 million contract for the bridge's superstructure would be let October 1, 1969 with completion set for June 1, 1971.

A $500,000 contract to remove the old Fore River Bridge then would be let, with the work scheduled to be finished by December 1, 1971. Until the old span was torn down, the new bridge would not be used for water traffic.

Section III work, which includes the six-lane stretch from Bridge Street in Weymouth to Lincoln Street in Hingham, would go to basic design about January 1, 1967, with approval of the final design set for March 1, 1972.

The $7 million contract for actual construction is scheduled for possible award July 1, 1972 with completion of the 1.88 mile section scheduled about November 1, 1974.

Volpe said the approaches would be of expressway design, with three traffic lanes and a breakdown lane in each direction and separated by a 20-foot median.

The design and location of these approaches would bypass the congested areas of Quincy and Weymouth and also would remove through traffic from local streets, he said.

They are necessary, the Governor said, because the tremendous increase in population of the area south of Fore River Bridge, together with the loss of rail service, has greatly hiked the traffic flow over the present bridge and its approaches.

A 1964 traffic survey showed 28,000 motor vehicles per day using these facilities. A DPW report said this volume far exceeds the facilities' rated capacity for safe travel. The planned six-lane highway would handle this volume, plus the anticipated traffic growth for a 20-year period. Volpe noted. The present bridge when constructed in 1936 was considered adequate to permit passage of all vessels constructed up to that time and all that could be foreseen in the future.

However, the great increase in the size of ships during and since World War II has exceeded the best naval forecast of that time. The bridge's width of 60 feet also was considered adequate for future traffic needs.

But the 175 foot width of the present draw span, the direction of the present channel and a point of land centered on the channel some 1,000 feet downstream, all restrict the movement of large ships. This has resulted in a loss of business for the shipyard, loss of business to tradesmen, and loss of taxes to both Quincy and the State. The construction of the new lift-type span, in addition to permitting the hipyard to bid on the biggest vessels being constructed and for those anticipated in the future, also would permit the oil farms upstream to get delivery from the largest tankers.

FEBRUARY 2, 1968.

Mr. ROBERT V. LANEY,
General Manager, General Dynamics, Quincy Division, Quincy, Mass.

DEAR MR. LANEY: Now that the General Court has enacted, and the Governor has signed, both the Industrial Revenue Bond Act and the so-called Ship-yards Assessment Act, the Commonwealth is ready to initiate, at such time your company is ready to act, the necessary procedure to finance the renovated ship-yards at Quincy which you have been considering for so long a time.

You have been assured by Governor Volpe of the State's willingness to cooperate in the planning and construction phases of the bridge and highway projects in your area, as they would effect the construction of your new plant and the contracts you are anticipating. It is my impression that the Department of Public Works has already adjusted some of its designs to meet that commitment.

We have also assured you of our great interest in making competitive financing available. I am now able to extend that assurance, so that your firm might be able to take into consideration the availability of the industrial revenue bond financing in its computation of construction and financing costs. The Massachusetts legislation makes available financing at as competitive a rate as can be offered by any other state.

You are to be assured that the Commonwealth of Massachusetts, the City of Quincy, and the Town of Braintree will expedite your request for an industrial revenue bond issue as soon as the necessary statutory and corporate prerequisites have been accomplished. I suggest that you inform us as soon as your construction plans and financing arrangements have been firmed.

The State Industrial Finance Board, which met yesterday, has also expressed its interest in aiding your expansion efforts. You can, as well, be assured of their cooperation.

It has been a pleasure, needless to say, working with you and your associates throughout the formulation and passage of the Revenue Bond Financing Act. It is not often, may I add, that such cooperation has been evidenced on any effort—particularly when the General Court extends itself, as it did, to work out the assessment procedure in the Shipyard Act so that you might be able to utilize the financing tool they had just devised. Thanks again for your cooperation, patience and assistance. Thanks, too, for the recent letter and its nice words to the members of my staff.

Sincerely yours,

T. W. SCHULENBERG,
Commissioner.

MASSACHUSETTS DEPARTMENT OF PUBLIC WORKS,
Boston, June 5, 1968.

His Excellency JOHN A. VOLPE,
Governor of the Commonwealth, State House, Boston, Mass.

DEAR GOVERNOR VOLPE: Last September the U.S. Army Corps of Engineers notified this Department that it was authorized and prepared to proceed with the $12,500,000 navi-

gation improvement project in Weymouth Fore River and Town River that would provide a 35-foot deep channel from Nantasket Roads in Boston Harbor, through the Narrows and Nantasket Gut to the two rivers named.

With the turning basins, berthing areas and anchorages provided for in the Corps of Engineers proposal, there can be no doubt as to its inestimable value to the Commonwealth and the communities of the South Shore.

This Department, as agent for the Commonwealth, was required to sign the customary assurance that the Commonwealth would provide the necessary easements, rights of way, etc., normal in such projects.

This Department, through its Waterways Division, on September 15th sent letters to the City of Quincy, and the Towns of Hull and Weymouth, the three communities involved, asking for a like assurance from them.

The City of Quincy, on April 9, 1968, transmitted its signed Assurance.

The Town of Weymouth at a regular Town Meeting on March 12th, voted against approval of the project.

On March 20, 1968, we received a letter signed by the Chairman and the other three members of the Weymouth Board of Selectmen that they would actively support the project when it was brought before the next legally constituted regular or special Town Meeting, "scheduled for May or June".

So far the Town of Hull appears to have taken no action whatsoever.

I respectfully request and urge Your Excellency to bring the full weight of your office to bear on the officials of both Hull and Weymouth to make certain that such a beneficial project, at no cost to the Commonwealth, is not lost by default.

Sincerely,

EDWARD J. RIBBS,
Commissioner.

Mr. Speaker, in conclusion, I would like to point out, that I am going to vote for the conference report today because the alternative to its approval by this House is continued and accelerating inflation. So it really boils down to a Hobson's choice. It is a question of which kind of tax do we want. Do we want a cruel inflation tax that will take a bigger and bigger bite from the pockets of American taxpayers, particularly the low and middle income groups, or will we enact the tax which would be provided for in the conference report and which makes special exemption for the low-bracket taxpayer and the poor?

Members of the House know that I did not favor an expenditure cut in the magnitude of $6 billion, and on May 29, I moved this House to substitute a $4 billion cut for the $6 billion reduction in the bill. My motion regrettably was rejected.

I still wish that my motion could have prevailed, I can say that I feel much better about the expenditure cut provisions after having heard the presentation earlier this afternoon by the distinguished chairman of the Committee on Ways and Means. The gentleman from Arkansas has again manifested his extensive and detailed knowledge of the Federal budget and has assured us that the lion's share of the expenditure cuts can be made in the defense and research and development areas. He has shown that the $6 billion in reductions can be made without the adverse impact that we feared in those agencies such as the Department of Health, Education, and Welfare and the Department of Housing and Urban Development, which in large measure administer the social welfare programs and the programs of deepest concern to our cities.

With that assurance and because we must take some action to halt the cruel tax of inflation already upon us, which falls unmercifully on the poor and those with fixed retirement incomes, I will vote for the conference report.

Unless we pass this legislation, which will be a major deterrent against inflation, we will be asking the low-income groups of Americans to pay the highest price of all. Inflationary price rises in the food, clothing, and drug store items hit them hardest since higher prices take a greater proportion of their limited incomes.

Inflation, of course, affects all Americans directly or indirectly. Those in the high-income levels, however, whether by salary or investment, usually have some relief or remedy available to them in the form of increased wages, higher dividends and interest receipts, or other upward income adjustments. By contrast, inflation is most devastating to those who must rely entirely on fixed retirement incomes.

For those living on average fixed incomes, price increases in food, rent, and other necessities, frequently make it necessary for them to make real and difficult sacrifices in order to obtain the necessities of life. These deprivations are the price they are paying for inflation in the later years of their lives.

The Congress has recognized the plight of a good many of our citizens in this untenable position by voting upward adjustments in social security payments from time to time. These adjustments, however, have barely kept pace with the rise in prices. Having earlier recognized the need of our older citizens for social security, let us not stand by while their limited funds are diminished by inflation. We have an obligation to them, and to all Americans, to endeavor to maintain the purchasing power of the dollar. We will be helping to meet that obligation by voting for this conference report.

I am pleased that under the conference agreement the tax surcharge will not apply to individual taxpayers whose income are below specified levels. Some 16 million taxpayers in the lowest income brackets will be completely exempt under this provision. For example, a married couple with two children, with an income of less than $5,000 a year, would pay no surcharge. And, of course, the one out of every four families in the United States who now pay no tax at all would still pay no tax under this legislation. It is personally gratifying to me that such exemptions have been placed in the bill to ease the burden of our low-income citizens and particularly those on fixed retirement incomes.

In summary, I believe the provisions of this conference report, while I do not approve of everything in it by any means, is, on balance, legislation that must be passed. It will help to halt inflation, and I believe it will also serve to ease the current credit crunch and help to bring down the record high interest rates that now prevail in our economy. These high interest rates are particularly harsh on young families who aspire to homeownership and on small businesses in their quest for needed capital.

We really have no choice other than to vote for this conference report, and I urge its approval by the House.

Mr. MILLS. Mr. Speaker, I yield 5 minutes to the distinguished chairman of the Appropriations Committee, the gentleman from Texas [Mr. MAHON].

Mr. JONAS. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield to the gentleman from North Carolina.

Mr. JONAS. Mr. Speaker, I ask unanimous consent that my colleague, the gentleman from Ohio [Mr. Bow], may revise and extend his remarks following the remarks of the gentleman from Texas.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from North Carolina?

There was no objection.

Mr. MAHON. Mr. Speaker, I had planned to make the same request as has been made by the gentleman from North Carolina, that the gentleman from Ohio [Mr. Bow], the ranking minority member of the Committee on Appropriations, be permitted to revise and extend his remarks at the conclusion of my remarks.

Mr. Speaker, I ask unanimous consent that I may insert in the RECORD in connection with my remarks certain tables which are explanatory of some of our fiscal problems.

The SPEAKER pro tempore. Is there objection to the request of the gentleman from Texas?

There was no objection.

Mr. MAHON. Mr. Speaker, perhaps a little background from the standpoint of the Committee on Appropriations might be appropriate in connection with the debate on the pending conference report.

During the last few years the Congress has embraced a tremendous amount of new legislation calling for the expenditure of many additional billions of dollars. This has placed upon the Committee on Appropriations tremendous additional responsibilities. Overall Government expenditures, including all the new legislation, have been rising on the average at the rate of between $15 and $20 billion a year in very recent years.

Last year, we fought valiantly to reduce the projected spending and appropriations, and we were able to reduce fiscal 1968 expenditures by some $4.3 billion below the President's budget, and we were able to cut budgeted obligations by a much larger amount—something over $11 billion, overall.

What have we done this year in the House of Representatives? In eight appropriations bills for fiscal 1969, including two reported to the House today, we have considered about $51 billion in budget requests for new obligational authority. From the eight bills—including the Departments of Labor, Health, Education, and Welfare bill, and the legisla-

tive branch bill, which were approved by the Committee on Appropriations today and which are scheduled for consideration by the House next week—we will have reduced new appropriations or obligational authority requests for the fiscal year 1969 by nearly $6.4 billion. That is new budget obligational authority; that is appropriations.

In the pending measure, it is proposed that we reduce appropriations or new budget obligational authority by not less than $10 billion. It would appear that we are moving toward the $10 billion figure, and I believe there is reasonable basis for saying that we may achieve that portion of the package which is before us today.

Now, with respect to some other features of the pending package, may I preface by saying that it is fundamentally the responsibility of the Congress, primarily through its Committees on Appropriations, to deal with expenditures and appropriations. But we were confronted with a very unusual situation in view of the crisis in fiscal matters involving not only the interests of this country but of the entire free world. So, at the request of the President, the Director of the Budget, the Secretary of the Treasury, Mr. MILLS and Mr. BYRNES of Wisconsin of the Committee on Ways and Means, and others, the Committee on Appropriations joined in an effort to try to put together a package on taxes and spending which it was hoped the House would find acceptable as one means of dealing with a very critical national fiscal situation. All were concerned that something had to be done, that some actions had to be taken.

After numerous meetings and hearings and negotiations to come to some sort of an agreement as to how we could cut appropriations and expenditures further, we finally passed a resolution through the Committee on Appropriations 7 weeks ago in which we provided for much of the package which is before us today. We did not vote on the tax portion of it, but we did vote for the appropriation or obligational authority cut of not less than $10 billion and we did vote for an expenditure cut not less than $4 billion rather than $6 billion. On the vote as to whether we should have a $6 billion cut in expenditures or a $4 billion cut, the vote was 23 for the $4 billion and 21 for the $6 billion.

The committee resolution also embraced the proposition of a study of carryover balances with the view to recommended rescissions of not less than $8 billion.

The SPEAKER. The time of the gentleman has expired.

Mr. ULLMAN. Mr. Speaker, I yield the gentleman from Texas 3 additional minutes.

Mr. MAHON. Then, on the final motion on the $4 billion expenditure reduction there were no votes against this cut in the Committee on Appropriations. Many who had voted for the $6 billion abstained from voting, but the vote was 20 to 0 in favor of supporting the spending reduction. So we have done what we could.

The Committee on Ways and Means, of course, voted for substantially the same package, but in conference with the other body the conferees apparently found it impossible to come to an agreement, and a $6 billion expenditure cut was agreed upon in conference upon the insistence of the other body, and this is a part of the package embraced in the conference report now before us.

Mr. Speaker, we can achieve a $10 billion cut in appropriations. It will be very difficult for us to achieve the $6 billion expenditure cut. I along with a majority of the Appropriations Committee had favored the $4 billion figure. But we will do everything reasonably within our power to achieve the proposed reductions. I hope that we will pass this legislation today by a very heavy vote in order to put this House on record and make it clear to this country and to the world that we propose to protect the dollar and the economy of the country.

Some people are worried about some of the new programs, our social programs and other programs. I would say that in programs directly related to the subject of aid to the poor we have increased the expenditures since 1960 by three times. In 1960, Federal expenditures for the poor were some $9.5 billion. In 1963, the last year of the program under President Kennedy, it was $12.5 billion. For fiscal year 1968 it is estimated to total some $24.6 billion. According to the President's budget it is estimated that expenditures for these programs in aid to the poor will total this for fiscal year 1969, about $27 billion. So it is clear that these expenditures have been going up very rapidly during these years. I will include some supporting statistics under leave to extend my remarks.

Mr. Speaker, it seems to me that if we want Federal programs, we ought to be willing to pay for them. If we are not willing to pay for them, then we should postpone them until we are willing to raise the taxes to pay for them.

I hope this House will face up to this problem today and resolve not to launch programs for which Members are not willing to vote the revenues required to pay for them. If we make that point and nail down that fact and stay by it, then there is hope for the maintenance of fiscal and economic stability. Otherwise, it seems to me there is no real hope that we can preserve our economy and preserve the high rate of employment which our country now enjoys.

This bill is only one step toward that goal. It is not the final step. It is only one step in a program which I hope will bring about an atmosphere in the House where Members will say: "If we vote to authorize a program, we will also vote to provide the revenues to fund the program." Anything less than that, it seems to me, is unacceptable at a time of full employment and a booming economy.

If this attitude can be achieved in Congress and in the country this measure will represent a real landmark in recent legislative history.

Mr. HALEY. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield to the gentleman from Florida.

(Mr. HALEY asked and was given permission to revise and extend his remarks.)

Mr. HALEY. Mr. Speaker, one of the things that is disturbing to many of us who have not voted for these programs is the fact that many of the people here today who have voted for these programs should vote for this bill and should not vote against it.

Mr. Speaker, I did not make these expenditures and did not vote for them. I think the people who have voted for these expenditures in previous years which have brought about this terrific deficit should vote for this package so to speak. But I still feel no obligation to vote for it because I have tried to warn the people of this country and this Congress and this Nation that we have a runaway situation here and we are spending money just like it were water and without any fiscal responsibilty.

Mr. MAHON. Mr. Speaker, may I say to the gentleman from Florida I only have a limited amount of time?

Mr. HALEY. I think the gentleman from Texas can get more time if he desires to do so. There are people who will vote against this package who should vote for it. I do not feel obligated to do it because I have not made or voted for any of these expenditures to which reference has been made.

Mr. MILLS. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield to the gentleman from Arkansas.

(Mr. MILLS asked and was given permission to revise and extend his remarks.)

Mr. MILLS. Mr. Speaker, this is not just a problem of any one office. This problem imposes a responsibility upon all of us. We are in a very critical fiscal situation. I could find any number of excuses myself for saying that it was not my fault that we are in this situation. I did vote for and I know my friend, the gentleman from Texas [Mr. MAHON], voted for certain of these programs. Regardless of how any Member voted, however, all of us are responsible now for preventing the situation from setting worse than it presently is.

Mr. MAHON. Mr. Speaker, I would say to the gentleman from Arkansas that I voted against many of the expensive programs of recent years. But I feel we all have a responsibility to our country and that how we may have voted is not the overriding consideration at the moment. I think it is imperative that we pass this bill and in good faith do everything we can to make it operate successfully. It is going to be painful in many instances. I am not arguing against necessary Federal spending. I am only saying that if we want to spend Federal dollars for various programs and projects, let us have the moral courage and let us have the decency to vote for the revenues with which to pay for those programs. If we do not want to vote for the revenue necessary to carry out these programs, let the programs be postponed until we are willing to support them with increased revenue.

Mr. ANDREWS of Alabama. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield to the gentleman from Alabama.

(Mr. ANDREWS of Alabama asked and was given permission to revise and extend his remarks.)

Mr. ANDREWS of Alabama. Mr. Speaker, last week, or week before last, did not the other body vote out a $5.6 billion housing bill? And, today I understand that the House Committee on Banking and Currency voted out a $6 billion housing bill.

What would the gentleman from Texas suggest be done about that bill which will probably become the law before the end of this session and which will cost the taxpayers of the United States about $6 billion?

Mr. MAHON. We must watch our step on these new authorizations because authorizations lead to spending. They are the seedbeds of Federal spending. And, if we do not have the necessary revenue let us not pass the authorization bills. I have not yet had an opportunity to study the new housing bill, but the figures involved would seem to be much too high. And there may be some new features that will require very careful consideration.

The SPEAKER pro tempore. The time of the gentleman from Texas has again expired.

Mr. MILLS. Mr. Speaker, I yield 2 additional minutes to the gentleman from Texas [Mr. MAHON].

Mr. CAREY. Mr. Speaker, will the gentleman yield?

Mr. MAHON. I yield to the gentleman from New York.

Mr. CAREY. Mr. Speaker, I would like to thank the gentleman for yielding.

I have a deep regard and respect for the gentleman from Texas [Mr. MAHON], and for the entire Committee on Appropriations. However, I do not believe it is quite accurate to state that the trouble we are in, and the difficulty we are now encountering in protecting our dollar is caused by the burgeoning social programs that will not be allowed by this bill. We get one assurance that none of the programs that go to the poor, to the cities, and to the schoolchildren, and so forth, will be affected by the bill, and if that is so, then that assurance should be made definitely and clearly.

But the gentleman very well knows that, coming up next Tuesday in this House, will be the appropriation measure on health, education, and welfare, and that there is not a single program in that measure that has not been cut back from what it was, and reduced beyond the 1968 levels.

It is one thing to suggest that these social programs are the thing that has put our Nation in trouble, but when we are asked to vote for taxes, then I say that I will vote for the taxes to support the programs, but I will not so vote when I know that the programs will be cut next week after we have voted for the taxes to pay for them.

Mr. MAHON. I would say to the gentleman from New York that all programs, generally speaking, are going to have to be cut, the defense program and other programs if the expenditure provision in the pending measure is to be reached.

Mr. CAREY. And the school programs, and others.

Mr. MAHON. Some of these social programs are going to have to be reduced. But the fact is that we are spending vast sums at a rapidly accelerating rate in an effort to do something for the poor; $27 billion is estimated for the forthcoming fiscal year.

In reading some of the newspaper accounts one would think that this Congress has never done anything for the poor, and for social programs when, as a matter of fact, the Congress has been most generous in this respect. Under leave granted, I will illuminate this point by inserting a table from the budget on expenditures for the various broad functions of the Government in the last 10 or 12 years.

My plea is this: Let us raise the revenues and make it possible for us to finance necessary programs that we insist upon having.

Mr. CAREY. Mr. Speaker, if the gentleman will yield further, the distinguished chairman very well knows that the increase in the gross national product between 1960 and 1968 would more than accommodate the additional revenues that come to this country to pay for that much of the programs, and for those people who need it. We have not lost control of the funds that should be going to the poor, the gentleman knows where they are going, the gentleman knows the increase in the budget is for the war, and that that is what has done it.

Mr. MAHON. Mr. Speaker, under leave granted, I include three items:

First. The resolution adopted by the Committee on Appropriations on May 1, approving the spending reduction package involving $10 billion in appropriations—new budget authority—$4 billion in expenditures, and $8 billion in rescissions.

Second. Some excerpts from remarks which I made in the House on February 29, including supporting statistics, on the matter of Federal expenditures in aids to the poor.

Third. A table from the President's budget for 1969, showing expenditures—outlays—by various broad functional categories for the fiscal years 1958 through 1967, actual, and estimated from fiscal years 1968 and 1969.

The material referred to follows:

COMMITTEE RESOLUTION

Resolved, That it is the sense of the Committee on Appropriations that in view of the compelling need to maintain price stability, strengthen the domestic economy, and strengthen the dollar at home and abroad, the legislative and executive branches of the Government, in the overall best interests of all the people of the Nation, should pursue a two-pronged fiscal policy of saving every budget dollar that can safely be saved and securing every dollar of additional revenue that can reasonably be secured. The Committee on Appropriations recommends the actions hereinafter set forth as necessary to assist in accomplishing these objectives.

SEC. 2. The total of proposed appropriations and other new budget authority for the fiscal year 1969 should be reduced by not less than $10,000,000,000 below those estimated for that year in the budget for 1969, not counting the portion of actual appropriations and other new budget authority for such year that may exceed the budget estimates therefor for (1) special Vietnam costs, (2) trust funds, and (3) items (other than trust funds) included under the heading "relatively uncontrollable" in the table appearing on page 15 of the budget for 1969. In the event such total reduction is not effectuated through appropriation and other spending authority actions, the executive branch should take such further actions as will achieve not less than such total reduction, and such further amounts shall be rescinded.

SEC. 3. Budget outlays (expenditures and net lending) during the fiscal year 1969 should be reduced by not less than $4,000,000,000 below those estimated for that year in the budget for 1969, not counting the portion of actual budget outlays for such year that may exceed the budget estimates thereof for (1) special Vietnam costs, (2) trust funds, and (3) items (other than trust funds) included under the heading "relatively uncontrollable" in the table appearing on page 15 of the budget for 1969. In the event such total reduction is not effectuated through actions by the legislative branch, the executive branch should take such further actions as will achieve not less than such total reduction.

SEC. 4. The executive branch should cause a special study and analysis to be made of unobligated balances of appropriations and other budget authority available in the fiscal year 1969 which will remain available for use after June 30, 1969, and make a report thereon to the Congress in connection with the budget for 1970, including specific recommendations for legislation to rescind not less than $8,000,000,000 of such unobligated balances.

EXCERPTS FROM RECORD OF FEBRUARY 29, 1968, PAGES E1345–E1346.

Mr. Speaker, in presenting these statistics on increased Federal spending in various aids to the poor over the past several years, I do not mean to suggest that I voted for or supported all of the programs or items of increase that make up the figures. The information is based not on my views or votes, or on the views or votes of any other individual Member of Congress, but rather on the basis of funds available under laws enacted—except, of course, as to the forthcoming fiscal year 1969, as to which the amounts are pending here in Congress in the fiscal 1969 budget.

In fiscal year 1960, the last full fiscal year of President Eisenhower's administration, the Federal Government provided aid to the poor of some $9.5 billion.

In fiscal year 1963, the last full fiscal year of President Kennedy's administration, the Federal Government provided some $12.5 billion in aid to the poor.

For the current fiscal year 1968, we have already provided, in aids to the poor, some $24.6 billion, and the President, in his budget for fiscal year 1969, has requested funds for various aids to the poor totaling about $27,700,000,000.

These totals rather dramatically show, in capsule form, the rapid growth of Federal aids to the poor in rural areas and in the cities alike. These are only Federal funds; there would be billions additional in State and local funds.

Mr. Speaker, I renew my plea that we adjust ourselves to the necessity of fixing priorities, reducing Federal outlays wherever reasonably possible, and being willing to seriously consider raising the necessary revenues to pay for the programs which Congress continues to support.

If Congress supports these various programs, and if Congress votes for the programs, it would seem to me that, especially at this time of relatively high national prosperity, Congress should undertake to raise

the revenues necessary to pay for the programs.

In further elaboration of the totals representing Federal aids to the poor in various programs, and other pertinent figures, I am including selected tabulations listing various amounts on the basis presented in the President's budget message of last month:

SUMMARY OF SELECTED DATA ON FEDERAL AIDS TO THE POOR AND OTHER DATA

[In billions of dollars]

	1960	1963	1968	1969
1. Federal aid to the poor (all agencies)	9.5	12.5	24.6	27.7
	1961	1964	1968	1969
2. Federal outlays for health (all agencies)	4.1	5.1	13.9	15.6
3. Education, training, and related programs (all agencies)	3.3	4.7	11.6	12.3
4. Federal aids to urban areas (all agencies)	7.5	9.9	19.2	22.2

Note: These items cannot be added to a total because there is duplication involved; for example, the education, health, and training programs which aid the poor are included in their respective categories and in the poverty category; some of the education funds go for educating doctors, and these expenditures are included also in health.

FISCAL YEAR 1969 AS A PERCENT OF PRIOR YEARS

	1969 over 1968	1969 over 1964	1969 over 1961
1. Federal aid to the poor	+113	[1] +220	[2] +290
2. Federal outlay for health	+112	+305	+380
3. Education, training, and related programs	+106	+260	+370
4. Federal aids to urban areas	+115	+224	+296

[1] 1969 over 1963.
[2] 1969 over 1960.

The tables following contain supporting details for each of these four selected categories:

1. FEDERAL AID TO THE POOR (ALL AGENCIES)[1]

New obligational authority for Federal funds; expenditures for trust funds]

[In billions of dollars]

	1960	1963	1968	1969
Education	0.1	0.1	2.3	2.5
Work and training	(2)	(2)	1.2	1.6
Health	.6	.9	4.1	4.7
Social insurance trust funds (OASDI)	4.0	5.3	7.9	8.9
Other cash benefit payments	4.3	5.1	6.7	7.0
Other social welfare and economic services	.5	1.0	2.4	2.9
Total	9.5	12.5	24.6	27.7

[1] From p. 36 of the 1969 budget. Figures for fiscal years 1961 and 1964 are not immediately available, but in process of completion.
[2] Less than $50,000,000.

2. FEDERAL OUTLAYS FOR HEALTH (ALL AGENCIES)[1]

In billions of dollars]

	1961	1964	1968	1969
A. Development of health resources	1.1	1.8	2.8	3.2
Health research	.7	1.1	1.4	1.5
Construction and medical education	.4	.7	1.4	1.7
B. Provision of hospital and medical services	2.7	2.9	10.4	11.7
Medicare			5.1	5.8
Medical assistance (including medicaid)	.3	.5	1.8	2.1
Other services (mainly VA and DOD)	2.4	2.4	3.5	3.8
C. Prevention and control of health problems	.3	.4	.7	.7
Total, all health programs	4.1	5.1	13.9	15.6

[1] Expenditures for both Federal funds and trust funds. (See special budget analysis of Federal health programs for further detail.)

3. FEDERAL FUNDS FOR EDUCATION, TRAINING, AND RELATED PROGRAMS (ALL AGENCIES)[1] (BUDGET AUTHORITY)

[In billions of dollars]

	1961	1964	1968	1969
Preschool, elementary, and secondary	0.6	0.7	2.9	3.0
Higher education	1.4	2.1	4.4	4.5
Vocational education, work training, and other adult or continuing education	.3	.3	1.6	2.0
Training of Federal Government personnel	.9	1.2	1.7	1.7
Other	.3	.4	1.0	1.1
Total, all programs	3.3	4.7	11.6	12.3

[1] Source: The special budget analysis of Federal education training, and related programs; 1961 and 1964 figures are, obligations.

4. FEDERAL AIDS TO URBAN AREAS: GRANTS-IN-AID AND DIRECT PROGRAMS (ALL AGENCIES)[1]

[In billions of dollars]

Agency	1961	1964	1968	1969
Department of Health, Education, and Welfare	2.2	3.1	8.2	8.9
Department of Housing and Urban Development	.3	.6	1.7	2.7
Department of Transportation	1.6	2.0	2.4	2.9
Veterans' Administration	1.8	1.7	2.4	2.6
Office of Economic Opportunity			1.3	1.6
Other agencies	1.6	2.5	3.2	3.5
Total, all agencies	7.5	9.9	19.2	22.2

[1] Source: Department of Housing and Urban Development. Urban areas are defined to include communities of 2,500 or more.

BUDGET "OUTLAYS" BY FUNCTION, 1958–69

[In millions of dollars]

Description	Actual										Estimate	
	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Expenditures:												
050 National defense	44,461	46,667	45,848	47,532	51,179	52,275	53,682	49,586	56,771	70,095	76,491	79,792
150 International affairs and finance	2,912	2,790	3,310	3,242	4,034	4,279	4,434	4,196	4,343	4,110	4,330	4,478
250 Space research and technology	89	145	401	744	1,257	2,252	4,171	5,091	5,932	5,424	4,804	4,574
350 Agriculture and agricultural resources	2,541	4,718	2,893	2,877	3,491	4,398	4,545	4,032	2,764	3,156	4,412	4,474
400 Natural resources	1,203	1,233	1,084	1,626	1,736	1,607	2,042	2,140	2,167	2,113	2,416	2,483
500 Commerce and transportation	2,922	4,367	4,643	4,929	5,193	5,516	6,283	7,043	6,789	7,308	7,695	7,996
550 Housing and community development	−36	30	21	157	160	193	151	116	442	578	698	1,248
650 Health, labor, and welfare	15,763	18,019	19,105	22,368	23,963	25,677	27,201	28,143	33,194	39,512	46,396	51,945
700 Education	375	550	659	740	842	953	1,109	1,309	2,449	3,602	4,157	4,364
800 Veterans' benefits and services	5,076	5,183	5,063	5,392	5,378	5,666	5,552	5,634	5,707	6,366	6,798	7,131
850 Interest	6,936	7,070	8,299	8,108	8,321	9,215	9,810	10,358	11,285	12,548	13,535	14,400
900 General government	1,010	1,159	1,332	1,508	1,653	1,799	2,072	2,231	2,316	2,452	2,618	2,827
Special allowances											100	1,950
Undistributed adjustments to amounts above	−2,076	−2,239	−2,272	−2,506	−2,547	−2,666	−2,931	−3,164	−3,421	−4,022	−4,591	−5,049
Total, expenditures	81,177	89,693	90,385	96,717	104,660	111,465	118,122	116,715	130,740	153,238	169,856	182,797
Net lending:												
050 National defense	1	−12	−7	−41	(1)	−64	−31	−3	−1	−3	−2	−4
150 International affairs and finance	433	418	−235	127	528	−95	−283	−21	100	540	716	675
350 Agriculture and agricultural resources	472	700	457	462	648	731	642	777	911	1,221	899	1,135
400 Natural resources	3	6	11	18	21	18	23	16	19	19	16	7
500 Commerce and transportation	56	71	27	74	193	145	139	275	193	138	158	125
550 Housing and community development	165	1,064	1,078	64	490	−1,012	−301	−147	1,984	1,708	3,257	1,355
650 Health, labor, and welfare				(1)	1	1	2	19	32	572	21	−538
700 Education	165	180	204	201	231	288	225	229	376	445	384	335
800 Veterans benefits and services	261	245	363	296	248	−146	129	88	214	532	370	211
900 General government	−12	−14	−15	−3	−8	−11	−1	16	5	2	−40	−37
Total, net lending	1,544	2,659	1,882	1,198	2,351	−145	545	1,249	3,832	5,176	5,779	3,265
Total, expenditures and net lending	82,720	92,352	92,268	97,915	107,011	111,320	118,667	117,966	134,572	158,414	175,635	186,062

[1] Less than $500,000.

Source: Table 17, on p. 540, President's 1969 budget.

The SPEAKER pro tempore. The time of the gentleman from Texas has again expired.

Mr. BOW. Mr. Speaker, today I speak not as a partisan, not as a Republican, but as an American deeply concerned for my country. I approach this vote with no thought about what bearing it may have upon my future service in the Congress. I am interested only in service to my country.

I wish to add that nothing I say today is intended to be critical of my Democratic colleagues or any other Member.

Mr. Speaker, enactment of H.R. 15414 will constitute the first real step that this Congress and this administration have taken toward fiscal responsibility. The bill limits expenditures during fiscal 1969. It goes further to provide a multi-billion-dollar cut in appropriations provided by Congress in prior years. Here is the foundation upon which we can build a sound economy, and it is only with a sound economy that we will be able to accomplish all of the necessary and desirable projects that are required in this country.

I view this vote as the most important of my service in the House.

It marks the turning point in the fiscal policy of the United States.

It can mean the difference between a new era of prosperity or an international economic disaster of the proportions of 1931.

And if I am correct in this appraisal, it can mean the difference between an opportunity to build political stability and peace and the inevitablity of political upheaval and war.

The most casual student of modern history recognizes that Hitler's rise to power and all of the evil consequences leading to World War II were an inevitable outgrowth of financial decisions made in Europe and America during the dark days of 1929, 1930, and 1931. We are making equally important decisions here today.

I tell you that this vote is more important than the political future of any Member of Congress.

I care not whether any one of us is sitting in this chamber in 1969, for the defeat next fall of any one or all of us would be a small price to pay if we here today reestablish sound fiscal policies in the United States and worldwide confidence in the dollar.

But, Mr. Speaker, I do not really believe that a vote for budget cuts, for a temporary surtax and for reduced deficit spending will bring vengeance from the voters. I am confident that the American people are sick and tired of inflation. They are worried about the value of their dollars. They know that recent wage increases have been more than absorbed by rising costs. And over 20 million Americans who live on the fixed incomes of retirement or disability are desperately anxious for us to stop inflation. Yes, Mr. Speaker, the American people will welcome an end to reckless spending and they will accept the tax increase because they know that their government, like their own households, must tighten the belt when the going is rough.

I have observed the efforts of some of my colleagues to rationalize and explain away their desire to vote against a tax increase in an election year.

I have observed their efforts to depreciate the importance of the budget limitations that accompany the tax increase.

The fact is that the budget limitations constitute a major turning point in our fiscal policy.

This compromise package will hold spending at a level $6 billion below the level anticipated in the 1969 budget. This is a ceiling that can be breached only if unexpected costs of the war in Vietnam, the social security program, veterans benefits or interest on the debt require more money than we now anticipate. This is historic. The spending of this Government has increased steadily year by year from $92 billion in 1960 to $176 billion in 1968 and a proposed $186 billion in the next fiscal year.

Today we will say "stop." This is the limit. This is the turning point.

We are leveling off and we are going to reduce.

We are going to reduce because there is more to the fiscal packet than this spending limitation. There is a requirement for $10 billion in reductions in new authorizations. We are not going to add those $10 billion to the President's checking account. We are cutting back. Moreover, Mr. Speaker, we are taking back some of the money that is already in that checking account. We are saying that we gave you too much in years gone by. Review your needs. Review your priorities. And tell us where we can take back $8 billion that is already in your checking account.

As our distinguished Chairman of the Appropriations Committee, the gentleman from Texas [Mr. MAHON], has pointed out time and time again, the President can spend only what we make available. Here is a major turning point in fiscal history, for we are not only refusing to make available all that the President wishes—we are taking back part of the money that a too generous Congress has authorized in the past.

In addition, the bill contains important restrictions upon the size of the Federal payroll.

INTERNATIONAL CONSIDERATION

A few years ago in an historical election campaign we heard a great deal about the prestige of the United States—about whether other people in other lands loved us or respected us. At the time I thought it the most futile and foolish issue. But there is a relationship between nations that is important, and we are discussing that relationship here today. We do not need to be or expect to be loved by anyone, but we are dependent upon others. We are dependent upon their willingness to go along with us in this time of financial difficulty so that the value of the dollar and the stability of international financial transactions can be preserved. And they will go along with us only if they have reason to believe that we are mending our ways, that we are worthy of confidence, that the dollar is going to be protected by sound and sensible financial policies here at home. We cannot ask the rest of the world to protect the dollar if we fail to do so ourselves. And that is another issue to be decided here today.

I remind you that for 40 years the liberal economists have told us not to worry about the public debt because we owe it to ourselves. Now we find that we owe a great deal of it to men and women in France, Sweden, Britain, and Switzerland, and they require assurance that we are not going to wipe out the value of their investment in the American dollar.

BOW AMENDMENT REVIEWED

I think it is appropriate today to review the development of the expenditure limitation in the 89th and 90th Congresses. I have often felt that I was traveling on a lonely road. Time after time I offered the expenditure limit as an amendment to fiscal 1967 appropriations, only to be defeated on each occasion. Few were willing to face the fiscal facts. Yet had those amendments been accepted, we would have forestalled almost $6 billion of Federal spending in fiscal 1967.

Last year there was more company along the road. The expenditure limit was adopted on two appropriation bills and on the continuing resolution which permitted agencies to continue operation while Congress completed work on appropriations. If the amendment had been adopted on each of the 1968 appropriation bills, we would have forestalled another $6 billion in Federal spending. As the House finally approved it on House Joint Resolution 888, it would have precluded spending of an even $5 billion.

Unfortunately, the other body would not agree to the limitation. After long weeks of conference, we concluded the session last year with an amended version of House Joint Resolution 888—Public Law 90–218—which proposed to reduce obligations by 2 percent for personnel and by 10 percent for other controllable programs.

At that time it was estimated that Public Law 90–218 would reduce obligations by $6.1 billion this year. That reduction, coupled with $5.1 billion that Congress cut from the 1968 appropriation bills, made a total estimated reduction of $11.2 billion in obligations that could be incurred this year. The cutback was estimated to reduce spending this year by more than $4 billion.

Results have not been as good as we had hoped, but we did lay the ground for the measure we hope to adopt today. This year the expenditure limitation has won recognition as one of the most important means of controlling the fiscal excesses of a spendthrift administration and an overly generous Congress. It has been adopted on four of the six regular appropriation bills considered by the House this year, on two occasions by unanimous action. Even more important is the fact that it was adopted by the other body as the Smathers-Williams amendment to H.R. 15414 when the tax extension proposal was debated.

If during the last 3 years Congress could have seen the wisdom of enacting an expenditure limitation such as I pro-

posed on each appropriation bill, our fiscal house today would be in order, inflation would be under control, our dollar would be safe from attack overseas, and Congress would not be called upon to impose a temporary surtax.

Mr. Speaker, in closing I want to say that I have worked hard for this proposal for the past 5 months. I am gratified that it is being debated today as a proper and useful congressional tool for controlling expenditures. I come here from the hospital to cast my vote for it. I believe this is the most important vote of my career. I hope there will be an overwhelming vote in favor of the conference report.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 3 minutes to the gentleman from Iowa [Mr. SCHWENGEL].

(Mr. SCHWENGEL asked and was given permission to revise and extend his remarks.)

Mr. SCHWENGEL. Mr. Speaker, today I will support the conference report on H.R. 15414. I do so reluctantly. I do so with lament and regret. No one likes to raise taxes. But I have a strong feeling that my position is a responsible one. If especially in an election year is the right thing to do because it relates to resolution of serious fiscal problems.

I think that now is the time to relate the facts and factors and discuss some evident reasons for this tax hike.

There is no doubt that the tax increase part of H.R. 15414 has been made necessary by an irresponsible and reckless fiscal policy on the part of an administration that called for expenditures without asking for ways and means to pay the bill. Since 1965 the cost of living has gone up over 8.5 percent. Since 1964 the general price level is well over 10 percent. Since 1960 the Federal budget has increased over 100 percent. The 89th Congress alone boosted expenditures almost $60 billion over any previous budget without meeting its responsibilities to provide the necessary revenue for the $60 billion increase.

Could there be a worse record?

The result is clear. We have had inflation—massive inflation.

In this, the 90th Congress, I have consistently fought to reduce spending. Last year over $6 billion was cut. This year I joined with several other Members in calling for another $6.5 billion budget cut. However, the effects of the extravagant spending of the 89th Congress and the built-in budget increases that Congress enacted, have now caught up with us.

The only responsible thing to do is to act to protect the value of the dollar; to protect the fixed incomes and savings of our retired citizens; to protect our citizens against inflation which could destroy our country.

This is why I will support the conference report on H.R. 15414.

But today I would like to discuss in more detail our fiscal policy and what must be done to maintain a stable economy.

There is no doubt that the decision of the House today is of the utmost importance. This is so because it signals a dramatic change in our fiscal policy. It can bring our fiscal situation back from the edge of disaster to a position of safety and potential strength. Today we are hopefully not only reducing current expenditures, but we are also reducing past and future authorizations. We are saying, too much money has been authorized in the past. Someone has been irresponsible and now it is time to "fish or cut bait."

But our action today is not enough. There is no doubt that overall tax reform is needed. This administration, despite all of its promises, has refused to make any recommendation in this area. In fact, the 89th Congress created additional tax loopholes. The oil depletion allowance must be drastically reduced. Depletion allowances for clay and shale, increased in 1966, should be reduced. Many of the more wealthy people in this country also find the present tax code advantageous and escape with little or no tax payment.

I urge the Ways and Means Committee to promptly begin hearings on tax reform legislation. There is a desperate need to provide for a more equitable tax burden. Today it is the middle-income person, the hard-working wage earner, the farmer, the small businessman, who bear most of the tax burden in this country. The tax burden should be fairly shared. This is not true today.

Congress must now reassert its influence in the determination of future fiscal policy. The distinguished chairman of the Ways and Means Committee said recently:

> What is required is a clear cut acknowledgement by all of us who participate in Federal policy making that our objective is establishing firm control over the course of fiscal developments.
>
> To establish this kind of control requires first and foremost the active cooperation and participation of the Administration. The first step must be the Administration's formulation of recommendations for basic changes in Federal programs. Only the Administration is in a position to undertake this chore efficiently and expeditiously. The Congress' job then would be to evaluate and to act upon these recommendations.

I agree with the chairman—the Congress today is not in a position to make the kind of recommendation needed. But I firmly believe this must be changed. Congress must give itself the resources of staff and funds needed to establish this capability. The constant encroachment of the executive which we all bring is our own fault.

We have given the executive all the automatic data processing and information handling equipment it has requested. Yet the Congress uses automatic data processing equipment only for making out our payroll. We need this equipment and the necessary personnel so that we will have the needed information to act responsibly on fiscal policy. Now we consider each appropriate bill, each authorization bill on an ad hoc basis. Seldom do we have projections as to the probable economic effect of our action. Seldom do we have information on what effect advance authorization will have. Seldom do we know what effect the built-in increase will have.

It is time we wake up and get the resources we need to act intelligently and responsibly. Only then will Congress play the kind of role it should in determining economic policy.

Until we realize this goal, Congress will continue to operate under a handicap. But even with this handicap we must do what we can. That is why I believe a "yes" vote today is important.

It is a clear statement by the House that we intend to play a larger role in the determination of economic policy in the future. It is a clear statement that we are serious about restoring some sanity to fiscal policy. It is a clear statement that we mean to protect the value of the American dollar. It is a clear statement that we do not intend to allow a fiscal crisis of this proportion to develop again.

The 89th Congress was wrong. It failed to provide realistic leadership in fiscal policy. It was irresponsible. I am proud to say that I am a Member of a Congress which is acting responsibly.

(Mr. EDWARDS of Alabama asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. EDWARDS of Alabama. Mr. Speaker, the tax bill primarily proposes to raise an additional $10 billion in new taxes and reduce expenditures by $6 billion. Why is this before us? For one reason, we are facing what will amount to a deficit of approximately $30 billion. The Government, therefore, must borrow this amount of money in order to operate. What does this mean to the average citizen? It means that interest rates have gone sky high, because of the great competition for money with the Government in the money market. This, in and of itself, has a great deal to do with the spiraling cost of living in this country.

The administration says that one reason we need the tax increase is because of the galloping increase in the cost of living—better known as inflation.

But if the administration is really concerned about the deficit or inflation then why did it squeal like a stuck pig when the $6 billion reduction in expenditures was added to this bill?

But the truth of all of this is that there is not going to be any expenditure reduction. The Federal budget for this year is $10 billion more than it was last year. So even if we cut this back $6 billion, the President is still getting an increase of $4 billion over last year's budget. If he is serious about our financial problems, let him recognize and admit that the Federal Government is responsible for the mess. Let him amend his budget and put the Federal house in order, and there will not be any need for a tax increase.

It is appropriate to ask: When will the proposed $6 billion cut take effect? Remember that we are on a fiscal-year basis. That means that the Federal budget runs from July 1 to the following June 30. Will President Johnson spend to the hilt and leave it to the next President in January to absorb the spending cuts. The bill does not prorate the spending cuts equally during the fiscal year. This is a real failure in the legislation. No one knows when the cuts will be made.

Further, there is absolutely no assurance that the spending cuts will be applied to the deficit at all. I am afraid that we will simply be transferring the purchasing power of the people to the Federal Government and here, the tax increase will be spent in another wild spending spree. Inflation will go right on and the people will be the poorer for it.

So, our problem is not one of inadequate revenues but excessive Government spending. A tax increase will just give the Government that much more to spend.

At all levels of government, we are facing the problem of determining priorities. The demands on government are so great that there simply is not enough revenue available to do everything that might be desirable. We must limit ourselves to what is necessary today and defer what can be put off until a later date. This, the administration steadfastly refuses to do.

I have agonized over this problem and now the day of reckoning is here. I conclude that the administration has not done all it could do in its stewardship of the taxpayers' money. I conclude that the Federal budget can be cut by many billions of dollars. I conclude that the tax burden carried by the people of this country is already too heavy and that it should not be increased until everything possible has been done to cut out the excessive, wasteful, and unnecessary spending from the Federal budget.

Consequently, I shall vote against the President's tax increase bill.

(Mr. BARRETT asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. BARRETT. Mr. Speaker, I rise in opposition to the conference report on H.R. 15414, the Revenue and Expenditure Control Act of 1968. The conferees on H.R. 15414 would deal with the money problems facing our Nation and our economy by restraining private and public spending through imposing a 10-percent income tax surcharge coupled with a mandatory reduction in expenditures for fiscal year 1969 of $6 billion from that estimated in the President's budget. To the extent that Congress does not reduce appropriations for current expenditure the President would be required to further reduce actual spending to reach the limit.

Mr. Speaker, much has been said about the need for this income tax surcharge and expenditure limitation. It is stated that there is a need to increase Government tax receipts so as to put the brakes on inflation and help our balance-of-payments deficit. It is argued that there is a need to cut back Government spending because it too contributes to the factors which heat up the economy and tend to cause inflation.

I question this approach to putting our economic house in order. I recognize the need is strong to protect the integrity of our fiscal system and to insure the soundness of the dollar. But no one has been able to say what governmetal programs on the domestic, civilian side of our budget would be affected by this $6 billion cut. We must agree that the cut will have little if any effect on our military budget. And I am fearful that the effect of such action will be to further impair the efforts of the many programs which the Congress has approved to improve conditions for and the welfare of our people. Particularly those who are in greatest need for assistance.

Those favoring the proposal before us say that approval of this measure by the Congress would display fiscal responsibility. But, Mr. Speaker, I suggest that approval of this measure by the Congress would display social irresponsibility.

The effect of this approach to cutting expenditure is to continue the wholesale, meat ax approach in cutting appropriations measures. Such an approach is not a sign of fiscal responsibility. Further, the proposal would require and delegate to the executive branch of Government the responsibility of reaching the $6 billion figure where the Congress fails to do so. This is an improper delegation of responsibility and authority from the legislative branch to the executive branch.

I have voted against across-the-board cuts and will continue to do so until it is clearly indicated where the cuts to be made and that the cuts are justified.

Rather than the proposal before us, it would be much more appropriate for the Congress to take a good hard look at many of our Government programs. To approach them with a view of the present-day needs of our country.

I believe that the most pressing issue is the need for tax reform. Let us not ignore the facts. There have been spread across the record too many cases where our present taxing system is unfair and unjust. Far too many examples have been cited where individuals and corporations having very high incomes pay little or no taxes because of depletion, depreciation, capital gains, and other loopholes and tax-sheltered income.

The Internal Revenue Service reports that in calendar year 1964 there were 35 individual returns filed with adjusted gross incomes of $500,000 and over, on which no Federal income tax was paid. These returns represented a total adjusted gross income of $75.2 million. This surcharge will add nothing in the way of income to the Federal Government when applied to cases such as these, for a surcharge on no tax liability still amounts to nothing.

Many corporations enjoy unusual special privileges under our tax laws, while most corporations pay at the rate of 48 percent. One example of the special privileges is that extended to oil companies. In 1964 the U.S. income taxes of the 22 largest oil companies when taken together reveal that on a combined gross profit of $5,179,036,000 the Federal tax amounted to $240,529,000. This is a rate of about 4 percent of gross income before Federal tax. Income after all taxes, that is foreign and some State tax, was $3,873,836,000; about 74 percent of gross. It is shocking that the largest oil companies pay a smaller percentage of their net incomes in taxes than small businessmen, workers, and farmers. The man in the lowest tax bracket pays 14 percent of his net income in taxes.

It is astounding when one looks at the net income before tax of many of these companies and at the same time the Federal tax paid. One major oil company paid no Federal taxes for the years 1962 through 1966 while its net earnings before tax during that period was from a low of $56,747,000 to a high of $127,384,000. Another oil company for the years 1962, 1963, and 1964 had a total net income before tax of $88,544,000. Not only did this company not pay any Federal taxes but it received tax credits for those 3 years amounting to $4,358,000.

These are just a few examples of the special privileges which many of our large corporations enjoy. Similar privileges and loopholes are found in other areas of our tax laws.

I believe that it is also necessary that we take a hard look at the subsidy programs, many of which by present-day standards are no longer needed and certainly cannot be considered as evidence of fiscal responsibility. On numerous occasions the attention of the Congress has been directed to the farm subsidies which costs our taxpayers hundreds of millions of dollars each year. Earlier this year it was reported that 6,579 farming operations, each of which were paid in excess of $25,000, received a grand total of $333,127,693 in 1967. Of these, five operations were paid over $1 million each, 15 were paid between $500,000 and $1 million, and 388 farming operations were paid between $100,000 and $500,000 each. Many of these payments were made to corporate-type farming operations not to produce crops. This at a time when so many go hungry and suffer from malnutrition.

Mr. Speaker, I think it important that those of us who are in Congress recognize and realize that the bulk of the taxes in our Nation come out of the pockets of the wage earners. The bulk of the taxes come out of the pockets of those who are in the low- and middle-economic groups.

Seventy-two percent of all the income taxes paid by individuals to the Federal Government are paid by those who earn less than $15,000; 22 percent of the taxes are paid by those who have net taxable income of less than $7,000; and 50 percent of the income taxes are paid by those with incomes between $7,000 and $15,000.

The proposal before us imposes a flat, across the board surcharge on individual and corporate taxes. It has no relation to the ability to pay. The proposed expenditure cut will undoubtedly affect many of the much needed domestic programs which are so vital to our people. While I support sound fiscal policy, I do not believe that this measure is an example of sound policy and shall therefore vote against the adoption of the conference report on H.R. 15414.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 3 minutes to the gentleman from New York [Mr. REID].

(Mr. REID of New York asked and was given permission to revise and extend his remarks.)

Mr. REID of New York. Mr. Speaker, the enactment of H.R. 15414, the tax surcharge and spending reduction package, would be a faltering step forward.

It is late; perhaps 2 years late. It poses dangers. It could provoke recessionary tendencies and rising unemployment and underemployment. It represents a cut upon a cut and none can say the cities, education, and social programs will not be further cut at a time when a national crisis urges—nay demands—that these programs for the poor and the cities should be expanded dramatically. This is why I supported a $4 billion cut in spending.

Also, there is no guarantee that this bill will come in time to halt the inflation that has already hurt millions of Americans.

It is additionally clear that the Executive and the Congress have been seriously derelict in not acting long since. Both have oversold the value of the bill for somewhat different reasons. It is no panacea.

Should the bill stimulate a recession or brake the forward momentum of the economy, there is no assurance that the Federal Reserve, the administration, and the Congress will show the flexibility and the capacity to act promptly to remedy recessionary forces. It is not clear that the lesson has been learned that we need flexible fiscal and monetary policies with the capacity to act responsively and quickly.

Nonetheless—and not withstanding these risks and dangers—failure to enact this tax surcharge and spending reduction package could lead to an international monetary crisis. It could lead to devaluation here and abroad. The dollar is not just our domestic currency—as David Rockefeller has pointed out—but it is the vehicle for conducting the bulk of the world's trade and roughly a third of the official reserves of foreign countries are now held in the form of dollars.

Failure to enact this bill could lead to further significant inflation affecting middle-income families and over 20 million Americans on fixed incomes and savings; it could lead to higher interest rates; it could seriously depress housing starts.

Action today will not only reduce a deficit in fiscal year 1969—which without it could reach $25 to $30 billion; it is vital to our critical balance-of-payments problems.

Let it be remembered that our trade surplus is negative without foreign aid and about zero with foreign aid. This is critical and serious.

Prices are rising at the most rapid rate since the early stages of the Korean war. Interest rates have reached the highest levels in a century, we are risking distortions in the credit market, and we are witnessing speculation and gambling with high daily volumes on the stock and over-the-counter markets.

Above all, our decision today is pivotal as it will show to the world and the central bankers whether we can take basic fiscal steps. Its rejection, some believe, could be catastrophic. Its passage could restore some needed confidence a to the health, the integrity, and the belated capacity of our free enterprise system to act.

I hope we will not forget, with passage of the bill, the vital need for tax reform, for standby flexible fiscal powers. I hope we will recognize the need for major efforts to expand and stimulate our exports in competitive markets.

In sum, Mr. Speaker, I am voting for this bill because the integrity of our economy demands it; because a belated attack on inflation is better than none; because failure of this bill could trigger an international monetary crisis, possible devaluation of the dollar and effects none can foretell.

But the future of our Nation, the solution to our urban crisis, the uplifting of 30 million poor demand in an equally loud voice that social programs not be cut back but be expanded by changing our priorities and reallocating our nonessential spending.

I trust the administration will not turn a deaf ear.

I urge passage of this bill in the national interest.

Mr. ULLMAN. Mr. Speaker, I yield 5 minutes to the gentleman from Texas [Mr. PATMAN].

(Mr. PATMAN asked and was given permission to revise and extend his remarks and include certain tables and other extraneous matter.)

Mr. PATMAN. Mr. Speaker, our troubles stem from one thing for which neither political party is blameless, but for which each party is to be blamed—and that is the high excessive, exorbitant and usurious interest charges.

We are paying $8 billion this year of excessive interest on the national debt alone. More than we should have been required to pay and more than we would have paid if we had wanted to keep interest rates down.

Today Russia continues to charge purchasers of Russian goods only 2½ percent interest. That is placing our people at a great disadvantage when we have to charge them two and three times that much.

So that is what the interest rates are doing. That is what the excessive interest rates are doing to us from an international standpoint.

It would be difficult for the Congress to defend itself. The Congress is responsible for this. We cannot place the responsibility anywhere else. The responsibility rests entirely on the Congress.

It would be difficult for the Congress to defend itself against the charge that Congress has permitted the American people to be robbed—absolutely robbed—over a period of years through the charging of excessive interest rates—interest rates that we did not have to pay.

During the last many years we have been paying $14 billion a year more in interest rates on all of our debts than we should have been required to pay or that we would have paid under traditional methods of borrowing money in this country.

So we have paid $200 billion in the last 14 years of unnecessary interest.

Very little is ever said about it. The gentleman from Oregon mentioned it and I think he is the only one in this debate to mention anything about the excessive interest rates being such a burden.

The truth is that there is another point that we can talk about with respect to which Congress is to blame. Congress has permitted $50 billion of our Government bonds to be paid for once in U.S. Government currency, to be paid off. Who said they were paid? Mr. William McChesney Martin, in answer to my question. Yes; they have been paid for once. But in order to keep the Federal Reserve coming to Congress for appropriations they continue to charge interest on those $50 billion in bonds. That is $2 billion a year. Can we be blameless for permitting that to be done? Are we proud of it? Of course not. Why? Because the General Accounting Office has never audited the Federal Reserve books, and they refuse to permit the General Accounting Office to audit their books. Congress is to blame for all of this.

NATIONAL DEBT PADDED OVER $50 BILLION

In other words, our national debt is padded by $50 billion. No one can dispute it because it is admitted. It is there. Things like that are what have caused our condition to be as it is today.

PAYING LARGE PART OF OUR NATIONAL DEBT TWICE

Furthermore, we are paying our Government bonds twice, in many instances more than twice. That has been documented. Think about it. Here in a civilized country Congress will sit idly by and require their country that they are supposed to protect, that all of us are to pay our Federal debts, not only once, but to pay them twice and sometimes three times. You cannot conceive of that happening, but it is happening. It has been documented. It has been going on for decades. It should be stopped.

I commend the gentleman from Arkansas for standing up for what he believes is right. He stood up against the President. He is winning against the President. William McChesney Martin 2½ years ago stood up against the President, and the President pleaded with him not to increase interest rates, that we did not need to increase interest rates. He pleaded with him not to increase interest rates, and Mr. Martin defied the President of the United States contrary to law, and increased interest rates 37½ percent. There is where our problems are today—high, excessive, exorbitant, usurious interest rates.

Of course, the Chief Executive lost that fight with the Federal Reserve. The Chief Executive has now lost his fight with the chairman of the Committee on Ways and Means. But the loss is not the President's loss. It is the people's loss. They have lost in both instances. It is terrible. It is horrible that Congress will permit these things to go on and not do anything about them.

Here are two remedies I propose:

No. 1, we should consider liquidating the Federal Reserve System. We could liquidate it under existing law, as provided by existing law. If we were to do that, do you know how much money we could put into the Treasury? Between $50 and $75 billion, and we could get people to administer matters in the public interest and save considerable amounts of money every year.

In addition, if the Federal Reserve does not become more sympathetic to the public interests and not insist upon

every time working for the big banks of this country only, regardless of the public interest, the House of Representatives has a remedy. That remedy is impeachment—impeachment. We have a right to do it. And if they do not work in the public interest, if they do not show some inclination in that direction in the near future, we should consider impeachment charges against William McChesney Martin and the members of the Federal Reserve Board who are also responsible. It is getting just that desperate.

As for Members who would like to ridicule this, how many ever say anything about high interest? Absolutely nothing. They are always talking about the debt, but they never say anything about interest. The interest is paid right off the top. It comes off the top. We do not even have to go through an appropriation bill. We never cut high interest. We never cut interest of any kind. It is always paid right off the top. There is our problem and there is where consideration should be given.

Mr. Speaker, in 1966 alone, the American people paid $36.2 billion in excess interest charges because of mistaken Federal Reserve Board policies. Mr. Speaker, it takes no great imagination to see what $36 billion would have done for the slum areas—both in our cities and in our rural areas.

Considering only the Federal budget, the excess interest charges are staggering. Let me quote from the testimony of Charles L. Schultze, the former Director of the Bureau of the Budget, before the Ways and Means Committee early in 1967:

> We estimate that the increasing shortage of credit funds and rising interest rates experienced last year are adding approximately $3 billion to the Federal budget for fiscal year 1967 as a whole.

Mr. Speaker, that $3 billion represented only the increase resulting from the December 1965 Federal Reserve action. It does not take into account the tremendous increases in interest rates since President Truman left office in 1952.

We will be paying about $10 billion in excess interest on the national debt in fiscal year 1969. This proposal for new taxes will raise $10 billion. So, the tax increase does not even wipe out the increased charges that can be traced directly to the increase in interest rates under William McChesney Martin. We could do tremendous good with this sum of money. Certainly, we could do something more productive than paying interest.

Mr. Speaker, the fact is, the American people have paid about $43.2 billion in excess interest charges on the national debt alone since 1952. Again, all of us in the Congress know that this money could have done great things for the cities and the rural areas had it not been wasted on excess and unnecessary interest rates.

Mr. Speaker, many may wonder about the priorities of the U.S. Congress. Here we are willing to accept monetary policies which cost the American taxpayers $43.2 billion in excess interest charges. Yet, the House laughed last year at a proposal to spend $40 million to kill the rats in our slums.

Since the Eisenhower administration, the Federal Reserve has not effectively supported the Government bond market. As a result, today the Federal Government is paying the highest rates for money since the Civil War.

In contrast, during the years 1939 to 1952, inclusive, the Federal Reserve supported the Government bond market and kept the wholesale rate for money at 2½ percent or less on long-term borrowings.

This wholesale rate of 2½ percent—and less—provided a yardstick for all interest rates in the country. This benefited everyone—consumers, the workingman, farmers, homeowners—everyone that used credit.

Mr. Martin, Chairman of the Federal Reserve Board, began manipulating this rate in 1953 and made the break in the dike. We are now reaping the sad and tragic consequences of this ruinous policy.

Interest costs on the national debt are the second largest item in the Federal budget. When we look around for places to cut the budget, why not look at interest rates?

As it is now, every time we borrow a billion dollars for national defense, we will have to pay the bankers a billion dollars—or $2 billion in all.

Every time we build a million-dollar schoolhouse, the people will have to pay a million dollars extra for interest on the expenditure.

This situation just must be changed by the Congress. There has been much talk recently about the Congress being fearful of the reaction from the voters if it votes to raise taxes. This Congress should be more fearful of the people's reaction to the hidden tax of exorbitant, excessive and unnecessary high interest rates.

It is our duty to restore the Federal Reserve System so that it is responsive to the will of the people and their elected representatives or repeal the entire act and make for the United States $50 to $75 billion in the liquidating process according to existing law providing for such liquidation.

DISSENTING VIEWS OF REPRESENTATIVE WRIGHT PATMAN

Mr. Speaker, there was a bill, known as S. 1120, which was considered by the Banking and Currency Committee in May 1959. This bill brought up the question of Government bonds being purchased by the Federal Reserve and their disposition.

It was contemplated in this bill that the Federal Reserve would get permission from the Congress to transfer these bonds, which were only $25 billion then—they are over $50 billion now—to the commercial banks free of charge. And then, when the bonds were due, the taxpayers would have to pay for them again.

A discussion in these dissenting views indicates how these bonds were purchased with another form of Government obligation and not canceled; thereby leaving two Government obligations out for one debt.

These views also quote William McChesney Martin, Chairman of the Federal Reserve Board, to the effect that these bonds were paid for once with Government credit and also contain much other information that is relevant in the consideration of this subject.

The conference on this Senate bill made a report to the House before it was enacted into law denying the Federal Reserve the opportunity of transferring these bonds free of charge to the commercial banks. This is what stopped it. Otherwise, a policy would have been adopted that would have been very ruinous to our country.

The dissenting views follow:

DISSENTING VIEWS OF REPRESENTATIVE WRIGHT PATMAN

This legislation will take many billions of dollars out of the taxpayers' pockets and put them into profits of the private banks. It is called the "vault-cash" bill. It should be called the "bond give-away" bill. All provisions of the bill are bad, individually and collectively.

This bill should be defeated. But for those Members of the House who cannot take the time to consider the reasons for this, I will describe in a very few sentences what the main evil of the bill is and how it can be corrected. It can be corrected by a quite simple amendment which will immediately reduce Federal debt by $15 billion. After this brief statement, a more complete explanation of this legislation will then follow.

OBJECTIONS TO THE GIVEAWAY OF GOVERNMENT-OWNED ASSETS

This legislation approves a proposal to give away to the private banks about $15 billion worth of U.S. bonds and other interest-bearing obligations of the United States which are now owned by the public—owned by the Federal Government. I use the term "giveaway" in a quite literal sense. The method by which the Federal Reserve authorities propose to transfer these securities to the private banks is slightly complicated, but not very much so; a grade-school child of average brightness can readily understand it.

In brief, the Federal Reserve proposes to "sell" the private banks securities now held in its vaults, and, at the same time, give the banks the "reserves" with which to "buy" these securities. No money will change hands. No credit will be extended. No more and no less credit will be available to businesses and consumers than now. The legislation has nothing to do with providing for growth in the money and credit supply. In short, the proposal is simply to "jimmy the bookkeeping," in the process of which ownership of the securities will be transferred from the public to the private banks. Everything else will be the same as before, except that the interest payments on these securities will then go into bank profits instead of into the U.S. Treasury as now.

Does my phrase "jimmy the bookkeeping" make the matter clear? If not, let me quote the more dignified language of Alvin H. Hansen, a distinguished Harvard professor and monetary expert, writing in a scholarly journal about an earlier version of this legislation, a version which proposed a giveaway of $9.8 billion. He wrote—

"The bankers are, in effect, asking Congress to hand them on a silver platter $9.8 billion of earning assets in place of an equivalent amount of unearning cash assets which they are now required to hold as reserves." [1]

The Federal Reserve System is now holding a portfolio of about $25 billion of interest-bearing obligations of the United States. It has reported to the Committees on Banking and Currency of the Senate and House that

[1] "The Review of Economics and Statistics," February 1958, vol. XL, Alvin H. Hansen, "Bankers and Subsidies," p. 50. Note—The full test will appear at the end of these dissenting views."

this amount is a great deal more than the System needs to hold, for both income purposes and possible future purposes of monetary controls. Specifically, a report which the Board of Governors has submitted on this legislation states:

"The present System portfolio is adequate to permit a substantial reduction and still leave enough to provide sufficient earnings to cover necessary expenses, as well as for current purposes of policy." [2]

The Federal Reserve authorities are proposing by this legislation to reduce the Fed's portfolio of these securities by giving a healthy slice to the private banks. Furthermore, these authorities have given one reason for this, and one reason only which is that it will "* * * improve the earning position of banks and aid them in building up their capital positions * * *" [3] In short, the argument is that giving away bonds to the private banks will increase the profits of the private banks, and that it will certainly do.

The Treasury will lose revenue

The interest payments which the Federal Reserve System collects on these obligations provide substantially all the income the Fed receives. The Treasury makes the interest payments on these obligations, and the Fed then returns most of this money to the Treasury. First, however, the Fed takes out whatever it needs for operating expenses—most of which are incurred in providing free services to the private banks, such as clearing checks. And it also takes out whatever it cares to for some very "plush" luxuries, including banquets with paid entertainers and $1,000 "gifts" to "friends of the System." [4] These are, of course, Government funds that are being spent, and such expenditures are comparable to the postmasters in the local communities spending freely from the funds the post office takes in from the sale of stamps; and in all of these years the Federal Reserve System has never been audited by the Comptroller General of the United States, or by any other auditor except their own, internal, self-appointed auditors. Furthermore, instead of turning in to the Treasury all of what is left of its funds, it holds back some in a "surplus" fund, though no member of the Board, has ever been able to mention any need which he thinks might arise for such a surplus fund.

Even so, the Fed returns a great deal more money than it spends or holds. In 1957, the last year for which a report is available, the Fed had an income of $763 million. Of this it spent or held $221 million and returned $542 million to the Treasury. Obviously, then, if obligations from this portfolio are transferred to the private banks, the interest payments will go into bank profits instead of into the Federal Treasury. And whatever amount is so diverted will be that much more that will have to come out of the taxpayers' pockets each year.

The point is that the Government has paid for these securities once. It has bought them in the open market and has, in effect, canceled them. They should be canceled in fact. If they are given away, the Government will have to pay for them again when they become due. Or at least the Government will have to issue new interest-bearing obligations to replace them. And until the Government does pay for them again and cancels them, it will also have to pay interest charges on them. For example, let us assume that it will be 25 years before the Government pays off these obligations again and then cancels them; and let us assume that it will pay an interest rate of 4 percent—then giving away $15 billion of these obligations now will ultimately cost the Government $30 billion.

Now as to the exact amount of these interest-bearing obligations which will be transferred to the private banks, the Federal Reserve authorities have not said; and insofar as I can learn, no one has asked them. Speaking only in general terms about how much reserve requirements may be reduced, they have said:

"Any decrease in requirements, however, should leave the Federal Reserve with a portfolio adequate to cover possible future contingencies, such as a large inflow of gold or economies in the use of currency that might add reserves in excess of appropriate needs." [5]

My own estimate is $15 billion, which is based upon what is in the bill and what the Fed has said as to the amount of securities it feels it should keep. According to the description it has given of its needs, $10 billion in its portfolio will be more than adequate.[6] Furthermore, under this bill the Fed will have authority to reduce required reserves of the private banks by a total of $11.3 billion.[7] This means that the Fed could transfer to the banks $11.3 billion worth of these obligations immediately—assuming the banks cooperate—without waiting for the Government to purchase any new gold or for any further inflow of gold from abroad.

The Federal Reserve authorities have made it plain that they do not intend to permit the money supply to increase more than about 3 percent a year, which is about the rate at which the economy expands. At present levels of required reserves, a reduction in these requirements which "freed" one-half billion dollars of bank reserves would permit a 3 percent expansion of the money supply.

The inescapable fact is, then, that the Fed cannot reduce required reserves of its member banks by more than one-half billion dollars per year without (*a*) setting off a tremendous inflation or (*b*) "selling" the private banks $1 of securities from its portfolio for each $1 of reserves it gives the banks in excess of one-half billion dollars. And of this we can be certain—neither the Federal Reserve authorities nor the private banks intend any inflation of the money supply.

The Federal debt can be reduced by $15 billion immediately

From my point of view, however, the exact amount of Government-owned securities which is to be given away is not important. I am opposed to giving away even so much as $1 billion worth—and, as for that matter, even $1 worth. Therefore, I have proposed an amendment to this bill which will require the Federal Reserve System to transfer $15 billion of these obligations to the U.S. Treasury for immediate cancellation. This amendment would immediately reduce the Federal debt by $15 billion. It will also have the effect of placing a severe limitation on the amount of the Fed's portfolio which can then be given away under this legislation. Furthermore, the amendment will in no way interfere with the Fed's ability to make all the shifts in reserve requirements as between classes of banks which it is asking for authority to make. In fact, the Fed could make most of these "adjustments"—which are presented as being what this legislation is mostly about—under the present law. I must admit, however, I think the bankers' pressure for "adjusting" required reserves will quickly disappear once it is made clear that there is to be no vast giveaway of the Fed's portfolio.

Clearly, $15 billion of the obligations which the Federal Reserve is holding should be returned to the Treasury and immediately canceled. This much of the Federal debt should be canceled in any case. We have every reason to expect that as soon as this legislation has been disposed of, Congress will be asked for other legislation to raise the Federal debt ceiling and for legislation to raise the interest-rate ceiling which has been in effect since 1918 on marketable bonds issued by the Treasury.

Consequently, I hope to be able to offer and obtain serious consideration of the amendment I propose when the bill reaches the floor of the House.

Now as to the argument that bank profits should be increased, let me point out that bank profits are now at an alltime high. The Fed's report on this legislation shows that profits of all commercial banks last year, after taxes, gave a net return of 10 percent on net worth, which includes the stockholders' undivided profits. Yet the Fed's report argues that such a profit rate seems low, only because manufacturing and trade corporations enjoyed higher profit rates. (Public utilities had lower profit rates.) A profit rate of 10 percent, after taxes, in the banking business seems to me adequate, if not excessive, considering that the banking business enjoys monopoly protection from the Federal Government, enjoys having the Federal Government underwrite substantially all of its risks, and enjoys quite a variety of subsidies and special benefits generously bestowed by the Federal Reserve System. For example, last year the commercial banks made profits of $681 million just from buying and selling securities—a tenfold increase from the previous year—for which they can thank the Federal Reserve "monetary policies."

If Congress decides, however, that it should provide an additional subsidy to the private banks, then I suggest this bill is the wrong way to provide it. Whatever subsidy Congress decides upon should be provided through appropriations, so that the subsidy is subject to the President's budget control, subject to the continuing control of Congress, and subject to public examination and debate. Giving away interest-bearing obligations will provide a subsidy in perpetuity, perhaps in years when Congress would not agree that the subsidy is needed.

The Fed's portfolio of $25 billion is owned by the public

In considering my proposal to cancel $15 billion of these obligations instead of giving them to the banks, Members of the House may be sure that the propositions stated below are not in dispute. The present Chairman, as well as previous Chairmen, of the Board of Governors of the Federal Reserve System are on record as agreeing to each of them, as will be cited later. [8]

(1) The Federal Reserve's $25 billion portfolio of securities is owned by the public—owned by the Federal Government—not by the private banks; the Federal Reserve System itself is owned by the Federal Government.

(2) Not so much as a penny of the private banks' reserves deposited with the Federal Reserve banks has been used to acquire these securities, and no other funds deposited or invested by the private banks have been used to acquire these securities.

(3) These securities have been paid for with Government funds. In the last analysis, these interest-bearing obligations of the United States have been acquired in exchange for non-interest-bearing obligations of the United States. They have been acquired by reason of the fact that the general public has accepted and is holding about $27 billion

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[2] U.S. Congress, House, Subcommittee No. 2, Committee on Banking and Currency, hearings, "Member Bank Reserve Requirements," 86th Cong., 1st Sess. (1959), p. 28.

[3] Hearings, op. cit., p. 272.

[4] U.S. Congress, House of Representatives, Committee on Banking and Currency, "Hearings, Financial Institutions Act of 1957, Pt. 2," 85th Cong., 2d sess. (1958), see my testimony beginning p. 1535, and particularly p. 1562.

[5] Hearings, op. cit., p. 28.

[6] Ibid., p. 28; and (my testimony), pp. 287–289.

[7] See: Appendix table at p. 26.

[8] See pp. 28–36 and see also documentation cited in my speech in the daily Congressional Record of May 25, 1959, p. 8129.

of non-interest-bearing Government obligations known as "Federal Reserve notes."

In case the reader does not know what "Federal Reserve notes" are, these are currency—that $10 and $20 bills he has in his pocket. And if he has any bills in denominations of $50, $100, $1,000, $10,000, and so on, these are also "Federal Reserve notes." A five-dollar bill is likely to be a "Federal Reserve note," too, although some of the five-dollar bills are issued by the Treasury and are described as "silver certificates."

Federal Reserve notes are obligations of the United States, as is plainly stated on their face. They are backed by the Government's gold. You cannot exchange them for the actual gold—that is, unless you are a foreigner. Foreign holders of dollars can, under the law, demand and receive an equivalent value of the Government's gold, if they care to do so. And, to an extent, balances of payments due between nations are settled by payments in gold. The fact that the Government has declared the notes legal tender, good for payments of debts and taxes, makes it unnecessary to draw out the gold to settle debts within this country.

The Federal Reserve System obtains Federal Reserve notes from the Bureau of Engraving and Printing at its pleasure, in whatever quantities it asks for, and without cost. It then issues this currency in whatever amounts banks ask for, and this is determined in the last analysis, by the amount which business and consumers find convenient in carrying on trade and commerce.

There are now outstanding—in circulation outside the Federal Reserve banks—$27 billion of these Federal Reserve notes. Let it be said, however, that these Federal Reserve notes are not the "printing press" money which is sometimes said to cause inflation. All currency in circulation represents only a small fraction of the total money supply. Most of the money is in the form of bank deposits, or "checkbook" money, and this is created by the private banks on the basis of reserves given them by the Government.

One technical item might be considered. While Federal Reserve notes are obligations of the Federal Government, they are not subject to the legal debt limit. They are not expected to be "redeemed." And they are not included in the Treasury's reports of assets and liabilities.

LONGER STATEMENT

The Federal Reserve authorities have recommended this legislation—except for the amendments which have been added—and so have the officials of the executive departments concerned with banking matters.

Origins of the giveaway bill

For several years now the bankers have been exerting organized pressures to have their required reserves reduced. The Federal Reserve System has, under the present law, wide authority for doing this. In fact, since mid-1953, the Federal Reserve Board has made seven reductions in required reserves, making available to the banks a total of $4.3 billion of additional reserves.

One of the most striking aspects of the request for additional authority for reducing required reserves at this time, however, is that the minimums of required reserves specified in present law leave the Federal Reserve with authority to make further tremendous reductions for all classes of banks—country banks, Reserve city banks and central Reserve city banks. In the case of no class of bank has the Federal Reserve reduced required reserves to anything like the minimums permitted by present law. In fact, the Federal Reserve could not now give any single class of banks all of the additional reserves the present law permits without either (*a*) setting off a tremendous inflation, or (*b*) immediately taking back the reserves thus given by "selling" the banks' securities from its portfolio.

REQUIRED RESERVES ON NET DEMAND DEPOSITS, UNDER FEBRUARY 1953 REGULATION, PRESENT REGULATION, AND UNDER MINIMUMS OF PRESENT LAW, BY CLASS OF BANK

[Dollars in millions]

Class of bank	Net demand deposits (February 1959) [1]	Percent of reserves required by Federal Reserve regulation		Minimum reserves required by present law, February 1959 (percent)
		February 1953	February 1959	
Central Reserve city banks (New York and Chicago)	$25,958	24	18	13
Reserve city banks	40,240	20	16½	10
"Country" banks	37,494	14	11	7
All member banks	103,693	[2] 18.8	[2] 14.9	9.7

[1] Demand deposits subject to reserve requirements i.e., gross demand deposits minus cash items reported as in process of collection and demand balances due from domestic banks.
[2] Weighted averages.

Even so, the bankers began several years ago working to have the law changed to reduce these legal minimums. Late in 1956 the Economic Policy Commission of the American Bankers Association completed a 2-year "study" of bank reserves and submitted a report to the Federal Reserve Board setting out a plan by which the bankers wished to have their reserve requirements reduced, including changes in law which would be necessary to bring about these reductions in the manner the bankers wanted. The ABA report not only specifies the ultimate level of required reserves which the bankers wished to achieve, but it specifies that its legislative plan should require that these levels be reached within a 5-year "target date".

The bill as originally introduced was the Federal Reserve Board's counterproposal to the ABA's legislative plan. Substantially all of the authority for doing what the bankers wanted done was in the bill, however, and is still in the bill. After considering the ABA's plan, the Board concluded "That the far-reaching changes in law are not necessary." Further, the Board objected "in particular" to being under "a mandate to reach some particular level of requirements at any time in the future." The main difference between the bill as introduced and the ABA's plan was that the bill did not tie the Fed's hands so firmly, either as to the level to which reserves were to be reduced or as to a time schedule by which the level was to be reached. It was a bad bill. It is now a worse bill.

In their report and testimony to both this committee and the Senate Committee on Banking and Currency, the Federal Reserve authorities strongly objected to the ABA's proposal to eliminate the classification "Central Reserve City Banks," and they objected to being put under the ABA's mandatory time schedule for reducing the level of reserves of these banks to the levels of the Reserve city banks. The ABA's time schedule, proposed a little more than 2 years ago, was 5 years. The committee has amended the bill to eliminate the central Reserve city classification, and it has given the Federal Reserve Board a mandatory period of 3 years in which to reduce reserve requirements for these banks to the level of those of the Reserve city banks.

The bill will change the "structure" of required reserves as among the three classes of banks, as well as reduce the general level of required reserves. As a consequence, there has been some controversy among the banks as to how the total windfall in the bill is to be divided, but such disagreement appears to be of a minor nature. All classes of banks now seem reasonably satisfied that they will receive a munificent share of the booty, if not a share which is in exact proportion to what they would like. The report of the ABA's Economic Policy Commission put the matter quite succinctly:

"A target date has the additional important advantage that *it will give definite assurance that the two objectives of reduction in reserve requirements and reform of the reserve structure will be pursued simultaneously.* No proposal for recasting the reserve structure can hope to win wide banker support unless it is combined with overall reserve reduction in a single legislative package." [9]

In his review of the ABA's original plan, Professor Hansen observed:

"It is evident that only a very small part of the windfall would accrue to the smaller so-called country banks which hold about 38 percent of the total assets of member banks. The proposal, if enacted into law, would conspicuously favor the large banks." [10]

In asking for the authority but not the requirement for reducing requirements according to the ABA plan, however, the Reserve Board has been somewhat vague about how it intends to divide the windfall.

Reserves cannot be reduced without giving away the Fed's portfolio

There may be more than one reason why the drive for this legislation has come to a head at this particular time. Certainly it is most premature for the purpose of redistributing required reserves among the three classes of banks. The Federal Reserve Board has more than adequate discretionary authority in the present law for that. But the fact that the Federal Reserve is seeking Congress' blessing of the "giveaway" aspect of the proposal before embarking on any extensive program of reducing required reserves is reason enough. And let it be said here that these blessings are liberally provided throughout the legislative history of this bill. The legislative history is replete with explanations that the Federal Reserve will "offset excess reserves through open market operations," "take other actions to prevent undue credit expansion," and so on. These are all phrases of art, the meaning of which may not be immediately apparent to those not versed in Federal Reserve operations. The phrases mean, simply, that the Federal Reserve will "sell" securities from its portfolio in the exact amount by which required reserves are reduced.

It is important to notice, too, that while the Fed has now a vast unused authority for reducing required reserves, the practical conditions which must be met now are decidedly different from those which prevailed at the times when required reserves were reduced during the past several years. In short, these reductions of the past several years were made at times when the Fed's monetary policy permitted increases in the money supply. To state the matter another way, these reductions were made at times when the Federal Reserve authorities felt they could give the private banks additional reserves without at the same time "selling" the banks equal amounts of securities from portfolio in order

[9] "ABA Economic Policy Commission Report," previously cited, p. 25.

[10] The Review of Economics and Statistics, February 1958, Alvin H. Hansen, "Bankers and Subsidies," p. 50.

to prevent the reserves being used to inflate the money supply.

For example, in the first half of last year, the Fed reduced required reserves of the member banks several times, making available in total an amount of reserves which permitted the banks to creat about $10.4 billion of new money. The banks created this amount of new money in the process of acquiring an additional $10.4 billion of Federal securities from the open market and from the Treasury. In that period of the general business recession, however, the Fed considered it appropriate to permit such an increase in the money supply to bring about a slight reduction in interest rates, and, it was hoped, to stimulate borrowing. Economic conditions now are much different, as is the Federal Reserve's monetary position. Furthermore, the reductions in required reserves anticipated in this legislation are many times greater than those made last year.

Legislation to increase money supply not needed in this century

Let it be noted here that no one claims that this legislation is needed to provide for a growth in the Nation's money supply in the years ahead. The money supply—which the Fed defines as demand deposits plus currency in circulation—is now $140.7 billion. I would define the money supply to include time deposits also, because in practice almost all time deposits are immediately available to the depositors, but this is not essential to the point I am making. The point is that under the Fed's present authority for expanding credit, on the basis of the present $20.6 billion of gold in the Treasury's money stock, the money supply could be increased by $386 billion. On the basis of the Fed's expectation of allowing the money supply to increase by no more than 3 percent a year, the present law will provide for the country's growth needs well into the next century. So the problem is not to provide for an increase in the money supply, the problem is how to reduce required reserves without increasing money supply.

To understand why it is that the Fed cannot make any substantial reduction in required reserves without simultaneously "selling" the banks an equal amount of securities from its portfolio, it is only necessary to note the mechanics by which bank reserves and money are created.

First, when the Fed adds a dollar to the reserve account of the member banks, or lowers member banks' requirements to "free" a dollar of their reserves, the banking system will expand the money supply by several dollars for each dollar of reserves thus added or "freed". In other words, bank reserves are what are called "high-powered dollars," because the banking system makes loans and investments amounting to several dollars for each dollar of reserves. The money "multiplier" depends upon the percentage of reserves which the banks are required to keep against their deposits. To illustrate, if reserve requirements are 50 percent, then the banks may create $2 of money on $1 of reserves. If reserve requirements are 25 percent, they may create $4 of money. If required reserves are 5 percent, they may expand loans and investments up to $20 for each $1 of reserves. Thus, an added dollar of reserves in the banking system means that the banks will expand the money supply. And it matters not by which method the Federal Reserve gives the banks a dollar of new reserves—that is, whether it creates a dollar of new reserves or whether it lowers reserve requirements to make available to the banks a dollar of the reserves previously given.

To illustrate, when the Fed reduced reserve requirements last year, it reduced these requirements sufficiently to give the banks only an added $1.5 billion of reserves. At that time the money "multiplier" was about 7 to 1, which meant that on this $1.5 billion of reserves the banks could increase their loans and investments by $10.5 billion. What actually happened was that the banks did create approximately this amount of new money, which they used to acquire $10.4 billion more in U.S. Government securities.

The second point to note is that when the Fed purchases a dollar's worth of securities in the open market, it gives the banks a dollar of new reserves. To be specific, when the Fed purchases securities in the open market, it gives the security dealer a check drawn on a Federal Reserve bank. The security dealer deposits this check with his bank, and the bank sends the check to a Federal Reserve bank where it receives a credit on its reserve account.

When the Federal Reserve sells a dollar's worth of securities from its portfolio, on the other hand, it reduces or "extinguishes" bank reserves by $1.

Thus, the proposal here is for the Fed to give the banks additional reserves by reducing their reserve requirements and at the same time immediately "take back," as it were, these additional reserves by simultaneously "selling" the banks an equal amount of securities from its portfolio. In no other way could the Fed reduce required reserves by any substantial amount without permitting a runaway inflation of the money supply.

Bankers are demanding a bigger share of the Government's power of issuing money

This brings us to the nub of the issue in this regulation. The issue is how shall the Government's power to create money be divided—how much of it shall be delegated to the private banks and how much of it be used by the Government itself. This is the question, not how much money shall be created. The power, indeed the duty, to issue money and regulate the value of money is assigned to Congress by the Constitution. But the function of creating money is delegated in part to the Federal Reserve System and in part to the private commercial banks. And the function of regulating the value of money, on the other hand, is delegated solely to the Federal Reserve. Regulating the value generally means the Federal Reserve must decide what the total amount of money in the private banking system shall be. Furthermore, the Federal Reserve decides, within wide limits laid down in the law, how much of the total money supply shall be of its own creation and how much shall be the creation of the private banks.

Under the present mechanics specified in the Federal Reserve Act, when the Federal Reserve System decides that there is to be an increase in the money supply of a given amount, it may bring about the increase in either of two ways. It may create part of the money itself and allow the banks to create a part. The parts may be varied within wide limits, at the Fed's discretion. Alternately, the Fed may take steps which permit the private banks to create the whole part. In either case, the effect on the money and credit supply—or "inflation"—is precisely the same. The Federal Reserve authorities decide how much money shall be added to the private banking system, and this decision stands fixed, independent and separate from the decision as to what portion it will create and what portion it will allow the banks to create. To illustrate, let us say that the Federal Reserve decides that it wishes the total money supply in the private banks to be $500. One way it might bring this about would be to purchase and hold $100 of U.S. obligations, then set the level of required reserves for the private banks at 20 percent. This would give the banks a money-creating potential of $5 for each $1 of reserves, and the banks could make loans and investments up to $500. Or another way the Fed could bring about a $500 money supply would be to purchase and hold $50 of securities, and set required reserves for the banks at 10 percent. This would give the banks a money-creating potential of $10 for each $1 of reserves, and thus $50 in their reserve accounts would serve as a basis for loans and investments amounting to $500. This illustration is repeated as follows:

Reserves (or Fed's holdings of U.S. securities)	Private banks money-creating power	Money supply in private banks
$100	$5 to $1	$500
$50	$10 to $1	$500

This makes the point that the Federal Reserve could have itself acquired the $10.4 billion of Government securities which it allowed the banks to acquire last year with precisely the same effect on the money supply. It could have purchased this $10.4 billion of securities from the open market, and, by raising required reserves of the member banks somewhat, made precisely the same amount of money and credit available in the banking system. The banks created the money to acquire these securities, at no cost to themselves. But the interest payments will go into bank profits instead of into the Treasury. This $10.4 billion was a gift to the banks.

How the goldsmiths created money

For the reader who is not already familiar with the principles by which money is created, it is easy to illustrate them by the way the goldsmith bankers came into being. The goldsmith bankers, the historians tell us, operated in Western Europe in the 17th century, before there was any banking system as we know it today. These goldsmiths were the forerunners of the modern banking system.

The goldsmith got into the banking business because it was customary for people who had gold to leave it with the goldsmith for safekeeping. In this case the goldsmith gave the depositor a receipt, or "claim check" for his gold. Such a receipt was supposed to mean that the depositor could come back and get his gold at any time. These receipts were, however, transferable, so anyone acquiring a receipt was supposed to be able to present it to the goldsmith and obtain the gold. What happened, of course, was that people discovered they could pass these receipts from hand to hand, making commercial transactions without going back to the goldsmith to obtain the actual gold. The receipts, in short, became money.

Furthermore, the goldsmith soon learned that since people rarely brought these receipts in and demanded the gold, he could, without too much risk of embarrassment, issue more receipts than he had gold. In other words, the goldsmith began making "loans." He "lent" a loan customer another depositor's gold, issuing the customer a receipt for gold which had not been deposited. All receipts went into circulation as money, just as though the goldsmith had enough gold to redeem them. This was risky business. Each goldsmith was "playing the odds," as it were, that too many people would not come in with some of his receipts—within a short time—and demand the gold. Since there was no regulation it was up to the individual goldsmith to decide how many receipts he felt he could issue against a given amount of gold. Or, as we would say today, each goldsmith decided what his "reserves" would be. History records that experiences with this goldsmith system of money varied at different places and at different times.

There was considerable risk involved, not only that the goldsmith might be embarrassed, but that the business of the community might be disrupted—with forced liquidations, foreclosures, and perhaps paralysis—and that individuals' savings

might be wiped out. Obviously, these risks depended upon a number of factors.

First and foremost, of course, the riskiness of the venture depended upon how many receipts the goldsmith issued as claims on a given amount of gold. In other words, what percentage of "reserves" did the goldsmith have against the money he had created? The risk depended also on what his depositors' habits were as to the frequency with which they drew out the gold—in other words, what is called today the "turnover" of bank deposits. Further, how much of the goldsmith's money was concentrated in the hands of large depositors and the nature of their business were also important factors. This was especially true after the goldsmiths began paying interest on gold deposited with them. Large depositors, especially those with connections in other financial centers, were likely to draw out their gold for redeposit where higher interest rates were offered, or to conclude some large trade transaction. Furthermore, the safety of one goldsmith's banking business depended in large measure upon the practices, the ill-fortunes, and so on, of other goldsmiths.

Many goldsmiths made out quite well, and over long periods of time. On the other hand, there were a great many luckless experiences, both to goldsmiths and to the business life of their communities.

The goldsmith principle of issuing several dollars of money on each dollar of "reserves" is what we call the "fractional-reserve" system by which commercial banking is done today. And most of the banking regulations and reforms which have been imposed over the centuries have been designed as safeguards against the troubles which can arise from this fractional-reserve system. Yet all of these attempts at safeguards have not proven successful. For example, Amsterdam, Holland, was at one time an important center of goldsmith banking, and the goldsmith bankers there got a law passed which made it a hanging offense for anyone to start a "run" on the goldsmith. But there was a run on a goldsmith, and, of course, he could not pay, and the matter was resolved by hanging the goldsmith.

Eighty-one cents of deposit insurance for $100 of bank deposits

In our own country the main purpose of establishing the Federal Reserve System in 1914 was to regulate this fractional-reserve system and to provide other regulations and safeguards against the frictions and frequent breakdowns in the banking system which had previously occurred to disrupt business and commerce. Further, following the last breakdown in the early 1930's, new banking reforms were imposed which consisted principally of the establishment of the Federal Deposit Insurance System.

Let us take a moment to focus on this highly interesting subject of how the depositors' money is safeguarded. The bankers have objected to keeping as much as $15 in reserves against each $100 of deposits, at the same time saying:

"It is now universally recognized that *for the banking system as a whole,* liquidity depends, ultimately, on the ability and willingness of the Federal Reserve to supply additional funds to the banking system in periods of stress.[11]

* * * * *

"While this limited protective aspect of legal reserves was no doubt of some importance before the advent of deposit insurance, it never provided anywhere near adequate protection for depositors in closed banks. In fact, it was for this very reason that a completely different approach to the problem was adopted, namely, Federal insurance of bank deposits." [12]

Furthermore, the official reports on this legislation take the position that:

"Similarly, the assumption that required reserves would aid the depositor in time of bank distress has been changed; for it has been seen that these reserves would only cover a fraction of a depositor's claim. Hence, deposit insurance has replaced required reserves as a means of deposit protection." [13]

But what the reports neglect to say is that all the "insurance" funds in the Federal Deposit Insurance Corporation amount to only 81 cents for each $100 of deposits in the commercial banking system. So we are in the happy position of being asked to believe that a reserve of $15 against each $100 of the depositors' money is no worthwhile safeguard, but 81 cents is.

Private banks create money by goldsmith method

In order to complete the description of the goldsmith system, let me illustrate how it works in the commercial banking system. From the viewpoint of the individual bank, it seems to work this way. If I deposit $100 with my bank, and the reserve requirements imposed by the Federal Reserve are 20 percent, then the bank can make a loan to John Doe of up to $80. Where does the $80 come from? It does not come out of my deposit of $100; on the contrary, the bank simply credits John Doe's account with $80. The bank's deposits are now $180 where they were $100 before. The bank has simply created $80. Furthermore, now that it has another $80 of deposits, it may, by putting 20 percent of this in reserves, make still another loan in the amount of 80 percent of $80, which is $64. And so on, until the last loan it can make is zero. Or the bank can acquire Government obligations by the same process by simply creating deposits to the credit of the Government. Money creating is a distinctive feature of commercial banks. It is not permitted to other types of financial organizations—savings and loan associations, insurance companies, credit unions, and so on.

But the actual money-issuing process of the commercial banking system is not quite what it seems to the individual bank. By the process just described the banks would build up their reserves, just as they build up their deposits. And in truth an individual bank may build up its reserve account in this way, but additional reserves it acquires by the process must come about by a corresponding reduction in the reserves of the other banks.

To begin at the beginning of our illustration, we must ask where my $100 came from in the first place. We will find that the banking system created it. So then we must ask where the banking system got the reserves on which to create this $100 in the first place? I will explain.

Origin of bank reserves and the "burden" of required reserves

The commercial banking system in this country differs from the goldsmith banker in two main respects.

First, the private banking system uses a delegation of the Government's power to create money. This is the power assigned to Congress by the Constitution.

Second, instead of paying interest on its reserves, as the goldsmiths did, the private commercial banking system gets its reserves as a gift, or at least an interest-free loan, from the Government.

If this sounds fantastic, it is not nearly so fantastic as the phrases the bankers and some of the Federal Reserve people use to describe this matter. For example, the Vice Chairman of the Federal Reserve Board has objected to my saying the Fed has "given" the banks reserves, particularly when the gift was made by reducing required reserves. He prefers to say the Fed has made more of the banks' reserves "available" to them—which would imply the Fed has been holding on to something that really belongs to the banks. Let us see, then, where the reserves come from.

There are many factual reports on this question. One of the most lucid ones was published by the Federal Reserve Bank of New York in 1953, while Mr. Allan Sproul was president of that bank.[14] In this report it is pointed out that when the Federal Reserve System was set up in 1914, all commercial banks in the country—both member banks and nonmember banks—had reserves of less than $2 billion.[15] The member banks had reserves of $1.5 billion; yet 38 years later, at the end of 1952, they had reserves of almost $20 billion. Where did the new reserves come from?

First, from the fact the Federal Reserve purchased Government securities in the open market, "Federal Reserve credit during this same period showed a net expansion of close to $25 billion (almost entirely through purchases of Government securities)." [16] In other words, the private banks were given $25 billion of reserves, with which they could acquire interest-bearing assets, at today's rate, of almost $9 of assets for each dollar of reserves given.

Second, from a net inflow of gold from abroad amounting to $21 billion, "bringing the gross additions to member bank reserves to a total of over $47 billion." [17] In other words, when this country exports more goods than it imports, as it almost always does, and the balance of international payments are settled in gold, the banks receive the gold, pay off the business firms in dollars, deposit the gold with the Treasury, and receive, not dollars, but credit in "high powered" dollars in their reserve accounts.

Against the Government's gross contribution of $47 billion to the member banks' reserves in these 38 years, there was, however, one large partial offset:

"Over the same period, currency in circulation increased by more than $27 billion, as banks obtained currency to meet the needs of their customers and to maintain adequate supplies of vault cash. Since the banks obtain this currency by drawing on their reserve accounts in the Federal Reserve banks, a corresponding amount of reserve funds were absorbed, leaving a net increase in member bank reserve balances of slightly under $20 billion." [18]

Where bank reserves come from

To summarize how the member banks got their reserves up through 1952, but omitting the inconsequential items:

	Billions
Reserves in 1914	$1.5
Federal Reserve purchase of Government securities	24.6
Gold inflow from abroad	21.0
Total gross reserves	47.2
Less increase in currency in circulation	−27.4
Net reserves of member banks	19.8

[11] ABA Economic Policy Commission report, previously cited, pp. 8 and 9.

[12] ABA Economic Policy Commission report, previously cited, p. 9.

[13] U.S. Senate, Committee on Banking and Currency, "Report on Member Bank Reserve Requirements, Report No. 195" to accompany S. 1120, 85th Cong., 1st sess., 1959.

[14] Federal Reserve Bank of New York, "Bank Reserves, Some Major Factors Affecting Them," November 1953.

[15] ———, op. cit., p. 12.

[16] ———, op. cit., p. 14.

[17] ———, op. cit., p. 14.

[18] ———, op cit., p. 14.

This report asks two questions:

"Is it correct to suggest, that, historically, as deposits have expanded, member banks have been forced to turn over vast sums to the Federal Reserve banks to meet reserve requirements, thus depriving the commercial banks themselves of funds that might otherwise have been put to profitable use? Would it be correct to go even further, to suggest that the holding of member bank reserves by the Federal Reserve banks has enlarged their potential earning power, at the expense of the commercial banks?" [19]

And gives these answers:

"Actually, the Federal Reserve banks have been the principal source from which the commercial banks have derived reserve funds since the founding of the Federal Reserve System in 1914. Under our fractional reserve banking structure, the Federal Reserve credit created by the Reserve banks has, in effect, permitted commercial banks to effect a vast expansion in their loans and investments that otherwise would not have been possible * * *. Instead of levying a "tribute" from the commercial banks, the Federal Reserve banks have instead (mainly through their purchase of Government securities) provided the reserve base upon which a vastly enlarged balance of commercial bank loans, investments, and deposits has been erected over a period of nearly four decades." [20]

* * * * *

"Most of this increase in reserve balances was used as the basis for expansion of bank credit and was absorbed in increases in required reserves, leaving only a small residue to be added to excess reserves. The expansion in total loans and investments of member banks during this 38-year period was approximately $111 billion, and total member bank deposits increased by $139 billion." [21]

In plain words, the Federal Reserve has given the private banks $25 billion of reserves by purchasing its $25 billion portfolio of Government securities. (In fact, except for the purchase of this portfolio the bank customers' increased demands for currency would have put the banks in a minus reserve position—and out of business.) Yet we find the report of the ABA's to the Federal Reserve Board complaining of these reserves being "barren assets" and complaining of an "inequitable" distribution of the "burden" among the banks:

"For member banks, legal reserves are barren assets.

* * * * *

"The burden of carrying non-interest-bearing reserves should be distributed equitably and logically among the member banks." [22]

Nonsense! The banks have received these reserves as a free gift. They have been allowed to use them to acquire, free of charge, interest-bearing assets amounting to $9 for each dollar of reserves given. And now they are asking to be allowed to create $10, $15, perhaps $20 on each dollar of these reserves. They want more of the reserves that have been given them "made available" to them. They have been allowed to use the Government's credit, free of charge, to extend credit to the Government and charge the Government interest on it. Member banks last November held $153.9 billion of the Government's interest-bearing obligations. And on this they were charging the Government fabulous interest rates.

For a more up-to-date statement of how the banks have been "given" their reserves by the Government, it may be found in the Federal Reserve Board staff report submitted on this legislation. The report states:

"The supply of reserve balances is almost wholly derived from gold, other currency issued by the Treasury, and Federal Reserve credit, less amounts drawn out in currency. Other factors that affect the supply of reserves are generally of minor or temporary significance." [23]

And the report gives the "principal factors in the reserve equations" outstanding in November 1958 from which we may note the following:

	Billions
Sources of Government credit:	
Monetary gold stock	$20.6
Treasury currency	5.2
Federal Reserve credit	27.2
Total outstanding	53.0
Uses of Government credit:	
Member bank reserves	18.5
Currency in circulation	31.7
Other factors, net	2.8
Total uses	53.0

Let us note the division of the shares reflected in the above table. First, on the $20.6 billion of gold in Treasury gold stock, the Federal Reserve had created $27.2 billion of credit, mostly by purchase of $25.7 billion of Government obligations.

Of the $18.5 billion of credit extended to the member banks—in the form of "reserves"—the member banks had created credit, or money, with which to acquire $153.9 billion of interest-bearing assets, including $55.3 billion of Government obligations, plus $39.1 billion of cash assets. The total stockholders' money used to acquire these $196.9 billion of interest-bearing and cash assets amounted to $15.5 billion, including all surpluses, reserves, and undivided profits.

Who would like to explain why the banks should be allowed to use the Government's credit—free of interest charge—to extend credit to the Government at an interest charge? Who would like to explain why, when the Federal Reserve decides to allow more money to be created to acquire interest-bearing Government obligations, it does not itself create the money and acquire the obligations? Who would like to explain why the interest charges should not go back into the Treasury instead of into bank profits?

ADJUSTING THE "BURDEN" OF REQUIRED RESERVES

My remarks on the features of this bill which would redistribute required reserves among member banks will be brief. Many undesirable effects would flow from these features of the bill, as well as from the bill's main feature, which is the general reduction in required reserves that is to accompany the transfer of Government-owned assets over to private banks. Some of these effects would be a weakening of bank safety, increased requirements for monopoly protection to be provided by the Government, increased monopolization of banking, less loans to business firms—particularly small business—involving ordinary commercial risks, and—as the Federal Reserve admits—a weakening of its monetary control machinery. These matters are all covered in considerable detail in my testimony on this legislation before Subcommittee No. 2 of the House Committee on Banking and Currency,[24] for those who may wish to pursue these matters. As is plain, however, these proposals for "adjusting" required reserves are subsidiary to the main purpose of the legislation. The bill as reported would bring about three major "reforms" in the system of required reserves.

1. It would eliminate the classification of Central Reserve city banks (the New York and Chicago banks) and it makes it mandatory that the Federal Reserve Board reduce required reserves of these banks to the level of reserves required for the Reserve City banks within a period of 3 years.

2. It would authorize the Federal Reserve Board to reclassify any and all Central Reserve city banks, and any and all Reserve city banks, as country banks, and to do this on the basis of individual banks. It would thus reduce required reserves of these banks to the level prescribed for country banks.

3. It would authorize the Federal Reserve Board to promulgate regulations permitting any and all banks to count part or all of their so-called vault cash against required reserves.

All of these provisions are bad. As to the mandatory elimination of the central Reserve city classification, the ABA Economic Policy Commission proposed it as one of the main features of its plan. Despite that, the Federal Reserve Board vigorously opposes it, which is evidence enough that the proposal is doubly bad. The committee has adopted the proposal anyway.

As to the provision which would allow the Federal Reserve System to reclassify any and all banks as country banks, this would confer on the Federal Reserve Board enormous discretionary power, the proposed exercise of which has been only vaguely described. I am opposed to enlarging the Federal Reserve Board's discretionary powers, and particularly its powers to deal with banks on an individual basis concerning matters which are of such large importance to the bank.

As to the proposal that the banks be permitted to count part or all of their so-called "vault cash" against their required reserves, this has been made a matter of considerable absurdity.

One of the striking features of the legislative history of this bill is that substantially all of the presentations made in support of the legislation begin with an argument for the "vault cash" feature of the bill. These presentations thus begin with the one argument which seems plausible—that is, it seems plausible until we examine it.

It has been pointed out by factual reports that the country banks as a class are holding larger amounts of cash in their vaults. The country banks have relatively more cash in relation to their reserves than do the other classes of banks. Then it is argued that the reason for this is that the country banks cannot as a practical matter turn their surplus cash in in exchange for reserves, because they are frequently remote from the banking centers and must, as a practical matter, keep the cash on hand to meet some sudden requirements of their customers. The statement has been repeatedly made, moreover, that the legislation will help the country banks most, although all sponsors of the legislation have made clear that one certain effect will be to "reduce the differential" in the level of required reserves as between the three classes of banks. It seems that both the country banks and the central Reserve city banks are going to be helped most by this legislation and, interestingly enough, nothing is said about helping the Reserve city banks. Yet we may be sure that the Reserve city banks are no less influential and no less optimistic in their expectation of benefits than the other two classes of banks.

Vault cash argument is absurd

How plausible is the argument that vault cash should be counted against reserves?

In the first place, the fact the country banks normally have a larger amount of cash in relation to their reserves was taken into consideration when the present level of required reserves was established. The so-called inequity of not being able to count cash against required reserves has already been corrected.

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[19] ——— op. cit., p. 12.

[20] ——— op. cit., p. 12.

[21] ——— op cit., p. 14.

[22] ABA Economic Policy Commission Report, previously cited, p. 14.

[23] Hearings, Subcommittee No. 2, op. cit., p. 24.

[24] U.S. House of Representatives, Committee on Banking and Currency, Subcommittee No. 2, "Hearings, Member Bank Reserve Requirements," 86th Cong., 1st sess., 1959.

Second, if we turn to the reports for February 1959, on the basis of which it has been pointed out that country banks held 61 percent of all the vault cash held by the member banks, we also find that the country banks held 85 percent of all the excess reserves of the member banks. In short, the country banks had $390 million of excess reserves, which was over 7 percent of their required reserves. Central Reserve city banks, on the other hand, had 0.3 percent excess reserves, and Reserve city banks had 0.7 percent excess reserves.

REQUIRED, EXCESS, AND FREE RESERVES, AND BORROWINGS OF MEMBER BANKS, BY CLASSES, FEBRUARY 1959

[Dollar amounts in millions]

	Total all member banks	Central Reserve city banks (New York and Chicago)	Reserve city banks	Country banks
Required reserves	$18,117	$5,004	$7,723	$5,390
Excess reserves	$460	$16	$55	$390
Excess reserves as a percent of required reserves	25	0.3	0.7	7.2
Member bank borrowings from the Federal Reserve	$508	$70	$250	$188
Free reserves	−$47	−$54	−$195	$202

Source: Federal Reserve bulletins.

Furthermore, there is another factor which the Federal Reserve considers to be an even better measure of the banks' use or nonuse of their reserves. This is the factor called free reserves. It is obtained by subtracting from the banks' excess reserves the amount of reserves which they have on loan from the Federal Reserve banks. In other words, free reserves are excess reserves minus the banks' borrowings from the Federal Reserve's discount window. On this basis we find that in mid-February the country banks had $202 million of free reserves. The other two classes of banks, on the other hand, were in a minus reserve position. In other words, not only were these two classes "loaned up" to the full extent of their reserves, but they were in debt to the Federal Reserve banks for borrowed reserves. Does it make sense to argue then that the country banks were unable to turn in their surplus cash in exchange for reserves, because they have to hold this cash to meet the possible needs of their customers?

Why would the country banks bother to turn in cash to obtain more reserves when they had not used up the reserves they already had?

Finally, what the banks are asking the Government to do here is, in effect, take a mortgage on the cash in the bank, not merely in the vaults of the bank, but cash which is in the till and passing in and out of the tellers' windows by the hour and by the minute. I wonder what would happen if a merchant went into the bank and asked the banker to make him a loan which would be secured by the cash which the merchant reports that he has in his cash register, and which the merchant is to keep to transact his business? The fact is that most of the State banking laws prohibit the banks from making loans, or accepting as security for loans, a mortgage on goods which are daily exposed to sale, and no sensible banker would think of accepting such a mortgage. The only way the Federal Reserve System could police this bank-vault provision would be to maintain an inspector at each bank each day. The Comptroller of Currency has said of this provision:

"If it is assumed that a daily check at the office of each national bank and branch were required to make sure that the cash is always on hand, at the close of business each day we estimate it would require approximately 20,000 people or more." [25]

[25] "Hearings," Subcommittee No. 2, op. cit., p. 184.

If we made a reasonable assumption as to the cost of this unreasonable proposal, say $10,000 per year in salary and expenses for each of the 20,000 people the Government would have to employ, this would cost the Government $200 million a year.

The present system of classifying banks for purposes of reserve requirements has been in effect for many years and is admitted to have been a good one. The classification is not based on geography, as such, but on the basic factors which must be considered in determining reserve requirements, and these factors merely happen to be associated with the geographic characteristics.

Yet it is also admitted that a better and more scientific system of reserve requirements could be adopted. Proposals for such a system have been discussed for many years, and I for one would have no objection to a more scientific system. The so-called reform provided in this bill, however, would not provide such a system.

[APPENDIX TABLE]

REQUIRED RESERVES UNDER PRESENT LAW AND FED REGULATION AS OF FEBRUARY 1959

[In millions of dollars]

	Total all member banks	Central Reserve city banks (New York and Chicago)	Reserve city banks	Country banks
Net demand deposits	$103,693	$25,958	$40,240	$37,494
Percent required reserves	[1] 14.9	18	16½	11
Amount of reserves required	−$15,436	$4,672	$6,640	$4,124
Time deposits	$53,602	$6,626	$21,660	$25,315
Percent required reserves	5	5	5	5
Amount of required reserves	$2,680	$331	$1,083	$1,266
Total, required reserves	$18,116	$5,003	$7,723	$5,390

[1] Weighted average.

MINIMUM REQUIRED RESERVES PERMISSIBLE UNDER PRESENT LAW

	Total all member banks	Central Reserve city banks (New York and Chicago)	Reserve city banks	Country banks
Net demand deposits	$103,693	$25,958	$40,240	$37,494
Percent minimum required reserves	[1] 9.7	13	10	7
Amount of minimum required reserves	$10,024	$3,375	$4,024	$2,625
Time deposits	$53,602	$6,626	$21,660	$25,315
Percent minimum required reserves	3	3	3	3
Amount of minimum required reserves under proposed bills	$1,608	$199	$650	$759
Total, minimum required reserves	$11,632	$3,574	$4,674	$3,384

MINIMUM REQUIRED RESERVES PERMISSIBLE UNDER H.R. 5237 AND S. 1120

	Total all member banks	Central Reserve city banks (New York and Chicago)	Reserve city banks	Country banks
Net demand deposits	$103,693	$25,958	$40,240	$37,494
Percent minimum required reserves under proposed bills	7	7	7	7
Amount of minimum required reserves under proposed bills	$7,259	$1,817	$2,817	$2,625
Time deposits	$53,602	$6,626	$21,660	$25,315
Percent minimum required reserves under proposed bills	3	3	3	3
Amount of minimum required reserves under proposed bills	$1,608	$199	$650	$759
Minimum required reserves under proposed bills	$8,867	$2,016	$3,467	$3,384
Less vault cash	$2,039	$160	$645	$1,234
Total, reserves	$6,828	$1,856	$2,822	$2,150

Source: Federal Reserve Bulletin, April 1959.

Does the Federal Reserve System use member bank reserves for its own profit?

There is a misunderstanding on the part of some bankers about how the Federal Reserve acquired its holdings of Government securities—which amount to about $25 billion. They have thought that these securities really belong to the banks, rather than to

the public, or that they should belong to the banks because the Fed has used the banks' reserves to purchase these securities.

Such an assumption flows quite naturally from the bankers' experience in their own operations. When a customer makes a deposit with a private bank, the bank makes a loan or an investment with this deposit. So it is natural for the banker to assume that when he deposits required reserves with the Federal Reserve System, the System lends them or invests them, and ought at least to pay him interest for the use of these deposits. The idea is, however, entirely incorrect.

Actually, the Federal Reserve has never invested the required reserves of the member banks, nor used them for any income purpose of reserves is to assure that the banks will remain solvent—not to provide earning assets for the Federal Reserve System. And to use these reserves—that is, make them do double duty—would be to violate the purpose of reserves.

The Federal Reserve may create new money, based on the Treasury's gold reserve, up to $4 of money for each $1 of gold. And by buying securities in the open market with the money thus created, it gives the private banks additional reserves on which they can create other new money, now at the rate of about $8 for each $1 of reserves. Or the Fed may allow the private banks to create more money on the reserves which they have previously deposited with the Federal Reserve banks, by changing its regulations to reduce required reserves and thereby creating excess reserves.

The fact is, then, that the Federal Reserve has used its own money-creating powers delegated by the Congress to acquire its portfolio of Government securities. It has used its own money-creating powers when it has issued currency—Federal Reserve notes. And it has used its own money-creating powers when it has purchased Government securities in the open market. When the Fed has purchased Government securities in the open market, it has actually given the member banks $1 of new reserves for each $1 of securities purchased. So not only has the Federal Reserve System not used the member bank reserves to acquire its portfolio of Government securities, but it has actually given the member banks additional reserves in the process of acquiring these portfolios.

In the light of these facts, then, the "vault cash" bill which is now being considered in Congress has a meaning quite different from what many bankers had understood. The proposal to transfer several billion dollars of the Federal Reserve's holdings of Government securities over to the private banks is, to put it bluntly, a proposal to legalize a raid on the Federal Treasury. The interest payments which the Federal Reserve receives on these securities provide substantially all of the System's income. This income goes first to pay the expenses of operating the System, most of which expenses are for providing free services to the private banks. What is left over after expenses, however, goes back into the Federal Treasury. So if these securities are transferred to the private banks where the interest payments will go into bank profits instead of going back to the Federal Treasury, this will be taking just that much money out of the taxpayers' pockets.

The following excerpts of testimony by a former Chairman and the present Chairman of the Board of Governors of the Federal Reserve System certainly bear out the fact that the System does not use the member bank reserves for its own operations.

In 1951 Marriner S. Eccles, who was then Chairman of the Board of Governors of the Federal Reserve System, wrote an article for the Federal Reserve Bulletin in which he said:

"* * * I want to say in passing that, contrary to a persistent popular fallacy, the Reserve System does not use reserves deposited with it by member banks to buy Government securities. As a matter of fact the System creates the funds used in open-market operations. These funds are in no way dependent upon such reserves as member banks carry with the Reserve Banks (Federal Reserve Bulletin, January 1941, p. 15)."

In December 1956, William McC. Martin, Jr., the present Chairman of the Board of Governors, was before the Joint Economic Committee, along with several other Reserve officials. As chairman of this session, I questioned Mr. Martin closely on this point and got the same answer Mr. Eccles had given. I quote a portion of this record:

"The CHAIRMAN (Mr. Patman). The point I am trying to make, Mr. Martin, is, I am trying to answer a fallacious argument that is going over the country; No. 1, that these reserves that the member banks have in their Federal Reserve banks are used to buy these bonds. That is a fallacy; is it not?

"Mr. MARTIN. That is a fallacy.

"The CHAIRMAN. That is a fallacy; it is not true.

"Mr. MARTIN. That is right (hearings before the Subcommittee on Economic Stabilization of the Joint Economic Committee on Monetary Policy: 1955–56, Dec. 10–11, 1956, p. 118)."

Allow me to quote again from the 1956 testimony of Chairman Martin:

"The CHAIRMAN. (Mr. Patman). You have $24 billion worth of bonds. Now, those bonds were bought by giving of Federal Reserve notes in exchange for the bonds; were they not?

"Mr. MARTIN. Well, Federal Reserve credit.

"The CHAIRMAN. What is that?

"Mr. MARTIN. Federal Reserve credit. They were not specific——

"The CHAIRMAN. That is what I mean. But every one of them is an obligation of the U.S. Government; is it not?

"Mr. MARTIN. That is correct.

"The CHAIRMAN. And that is what makes it good.

"Mr. MARTIN. That is right (hearings, ibid., p. 118)."

Now let's see what the American Bankers Association says on the subject. Early in 1955 a spokesman for that association was before the House Committee on Banking and Currency, and, in passing, made a statement which repeated the mistaken notion that member bank reserves are used by the Federal Reserve System. I called upon the American Bankers Association to examine into this matter further and let me know what its position on the question is. I received a letter dated May 11, 1955, signed by Mr. George R. Boyles, chairman of the Committee on Federal Legislation of the American Bankers Association, which reads in part as follows:

"* * * Federal Reserve bank operations and functions are distinct in that they do not use their deposit liabilities, which are the reserves of member banks, to purchase U.S. Government securities. Individual bankers and others have had the opposite impression from time to time, and it has been necessary for us, as well as the Federal Reserve banks, to correct such misunderstanding when the occasion has arisen."

Now I think we have established this crucial point: the Federal Reserve banks do not invest the reserves which the member banks deposit with them. Let me make, then, an added point: by buying Government securities, not only is the Reserve System not using reserves which, it might be argued, would otherwise be available for use by the member banks, but the System's purchase of these securities actually increases the reserves available for use by the member banks. The Federal Reserve Bulletin for February 1941 puts this matter very simply, as follows:

"Not only do the Reserve banks not depend for their lending power on member banks, but they are themselves in a position to increase or decrease the lending power of these banks. When the Reserve banks buy U.S. Government securities or make advances, they put reserve funds at the disposal of member banks, and thereby increase their lending power. And, contrariwise, when the Reserve banks sell securities or reduce advances, they withdraw funds from member banks and thereby reduce their power to extend credit. By these means the Federal Reserve banks, as creators and extinguishers of reserve funds, are in a position to exert an influence on the cost and volume of bank credit. This is, in fact, their principal function as a monetary authority, and the policies pursued in performing this function are determined, not on the basis of the reserves available to the Reserve banks, but with reference to the economic needs of the country."

On July 15, 1957, Mr. Martin testified on the financial institutions bill (S. 1451) before the House Banking and Currency Committee at p. 55 of the hearings, as follows:

"Mr. PATMAN. * * *

"Now, these statements of the Federal Reserve Board, covering the 12 Federal Reserve banks, shows that 96 or 97 percent of all the earnings of all the Federal Reserve banks comes from interest on Government bonds.

"Now, Mr. Martin, in acquiring those bonds for the 12 Federal Reserve banks, isn't it a fact that you don't use as backing for the money which you exchange for those bonds, for instance $23 million worth for the Dallas bank, you didn't use the reserve of the member banks; did you?

"Mr. MARTIN. That is correct.

"Mr. PATMAN. You did not use the capital stock of the member banks; did you?

"Mr. MARTIN. That is correct.

"Mr. PATMAN. You did not use the reserves or the surplus funds of the member banks?

"Mr. MARTIN. That is correct.

"Mr. PATMAN. Isn't it a fact that the only thing you used was money that you created which, of course, you have a right to do under the law? You created $23 million in Federal Reserve notes. Whether you actually transferred them physically or not, the result was that you created that much in Federal Reserve notes and traded them for U.S. Government bonds. That is correct; is it not?

"Mr. MARTIN. That is one way of stating it."

In an article published by the Federal Reserve Bank of New York,[36] the question of whether the Federal Reserve banks invest the member banks' reserves is clarified.

"* * * the idea has been expressed from time to time that member banks, by depositing these reserve funds in the Federal Reserve banks, have enabled the Reserve banks to enlarge their earnings assets and hence their earnings. This has led to the conclusion in some quarters that the earnings of Reserve banks have been derived from funds provided by the member banks, and hence that the member banks should be permitted to participate more largely in the earnings of the Reserve banks. On the basis of this conclusion, some observers have even contended that the payment of a large proportion of the Reserve banks' net earnings to the Treasury indirectly involves the subjection of member banks to a disproportionately heavy tax burden * * *.

"Indeed, the view that the Federal Reserve banks invest the reserve deposits of their member banks in Government securities can now be seen to be the opposite of the actual process. What really happens is that, when the Reserve banks purchase Government securities in the open market, they create bank reserves. * * *

[36] Federal Reserve of New York, Bank Reserves, Some Major Factors Affecting Them, Sources and Uses of Member Bank Reserves, 1914 to 1952, by A. J. R. Smith, November 1953, pp. 14–17.

"Finally, since the earning power of the Federal Reserve banks arises from the note issue and credit-granting authority given them by Congress, and since actual earnings are largely related to various functions performed in the national interest, the Reserve banks either have been legally obliged (from 1914 to 1932) or have considered it appropriate (from 1947 to date) to turn over a large proportion of their earnings (after expenses and the statutory dividend of 6 percent on their paid-up stock) to the U.S. Treasury."

Who owns the Federal Reserve System?

There is a misconception among some bankers that member banks own the Federal Reserve System itself, being stockholders in the System. This idea arises from the fact that the law requires the member banks to make a small investment in the System, and the law unfortunately uses the term "stock" in this connection. The specifications in the law make it clear, however, that this is in no sense stock in the normal meaning of the term, which would have some ownership or proprietary rights. But those who overlook the specifications in the law get a notion that with a stock investment of $373 million, the member banks have acquired ownership of the Government's money-creating powers now amounting to $82.4 billion, including $20.6 billion worth of gold.

The law makes it abundantly clear that this so-called stock is not ownership stock and carries none of the rights and privileges of stock. This "stock" cannot be sold, it cannot be voted, it cannot be hypothecated, it cannot pay dividends, it does not entitle the stockholders to inspect the books, and it does not entitle the stockholders to a share in the assets. Further, the law plainly states that even if the Federal Reserve System were liquidated, the so-called stock would have no claim on the assets of the System, except to the extent of the principal actually paid in.

What this so-called stock actually amounts to, in effect, is another required reserve. It serves no purpose except as an additional safeguard to the solvency of the member banks. The Federal Reserve does not invest the funds from this stock and has itself no use for these funds, although it does pay the banks a handsome interest of 6 percent. In fact, the Federal Reserve is now continuously holding idle and unused $868 million of its own earnings in a surplus account for which it can also find no purpose. This $868 million belongs to the Federal Treasury and ought to be paid in to the Treasury at once, to be used to pay off some of the Federal debt. Holding back these funds is costing the taxpayers $100,000 a day in unnecessary interest charges. Furthermore, the so-called stock investment should also be paid back. Since these funds serve no purpose, paying interest on them is taking money out of the taxpayers' pocket for no purpose, except to pay the banks a subsidy.

In the hearing records of congressional committees over the lifespan of the Federal Reserve System, there has been accumulated abundant evidence to substantiate the facts that the Federal Reserve System is owned by the Federal Government—all the people of the United States—and not by the member banks. I shall cite from these investigations statements made by Federal Reserve officials, Members of Congress, outstanding economists, and others to support this position.

From 1935 to 1938, there was considerable agitation in Congress—particularly in the House of Representatives—about the ownership of the Federal Reserve banks. The argument at that time that the Federal Reserve banks were owned by the private commercial banks caused a large group of Members of the House of Representatives to form an unofficial steering committee for the enactment of a law providing for Governemnt purchase and ownership of these banks. This steering committee, composed of 160 Members of the House of Representatives from 39 States, caused to be introduced in my name a bill, H.R. 7230, in the 75th Congress providing for the Government ownership of the 12 Federal Reserve banks.

Public hearings on the proposal

There were public hearings on this bill, before the Banking and Currency Committee of the House commencing March 2, 1938. The hearings comprise 508 pages and contain the testimony of a number of Members of Congress, including myself; former U.S. Senator Robert L. Owen, who was the coauthor of the Federal Reserve Act in 1913, which became a law December 23, 1913, by the signature of President Woodrow Wilson; Hon. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System; Hon. Ronald Ransom, Vice Chairman of the Board of Governors of the Federal Reserve System; many outstanding economists.

By reason of these hearings many of our group were convinced that the Government already owned the Federal Reserve banks.

Chairman Henry Steagall, presiding at these hearings, who was chairman of the Banking and Currency Committee of the House when the 1935 Federal Reserve Act became a law, disputed the contention that the Federal Reserve banks were owned by the member banks. He stated, and this is recorded at page 50 of the hearings:

"* * * and while I understand that the contribution to the capital of the Federal Reserve banks under the system now obtaining is not in a true sense a subscription to capital—I do now know exactly how to characterize it; it is more in the nature of an investment, like an investment in a Government bond where your return is definite and limited, but where you do not share in the profits of the system as ordinarily is the rule in the case of investments in the capital of a banking institution, * * *"

Chairman Eccles of the Board of Governors of the Federal Reserve System testified about the ownership as follows:

"* * * It is more nearly in the nature of a compulsory capital contribution than stock ownership * * * (p. 446 of the hearings on H.R. 7230)."

All of us were convinced later on after investigating further and particularly by the hearings before the Joint Economic Committee in 1952 where this question was carefully gone into. It was shown beyond any doubt that the Federal Reserve banks are instrumentalities of the Government and are owned by the Federal Government. The so-called stock, which is 3 percent of the capital and surplus of the member banks, is more of an involuntary investment upon which these banks receive 6 percent annually This so-called stock is not needed and it is not used; it is not even invested. It has never been invested. If it were invested, it would save the Government that much between its earnings and the 6 percent that is paid each year on it.

PRIVATE BANKS HAVE NO PROPRIETARY INTEREST IN THE FEDERAL RESERVE

After the 1952 hearings, no one who has studied the question and is unbiased has contended that the private panks own the Federal Reserve System. On the other hand, they are recognized as being owned by the U.S. Government. It is possible for me to quote former Chairman Eccles and the present Chairman of the Federal Reserve Board, Mr. Martin, dozens of times in printed testimony wherein it is stated repeatedly in answer to questions that the member banks do not have a proprietary interest in the Federal Reserve banks. There is no doubt about it.

In a letter to me dated April 18, 1941, the Chairman of the Federal Reserve Board, Mr. M. S. Eccles, stated:

"This so-called stock ownership, however, is more in the nature of an enforced subscription to the capital of the Federal Reserve banks than an ownership in the usual sense. The stock cannot be sold, transferred, or hypothecated, nor can it be voted in accordance with the par value of the shares held. Thus, the smallest member bank has an equal vote with the largest. Member banks have no right to participate in earnings above the statutory dividend, and upon liquidation any funds remaining after retirement of the stock revert to the Government.

In hearings before the Subcommittee on Economic Stabilization of the Joint Economic Committee in 1956,[27] I asked Chairman Martin of the Federal Reserve Board whether this statement has any validity.

"The CHAIRMAN (Mr. Patman). No. 2 [The proposition] is that the banks own the Federal Reserve Banking System, and it is run by the banks; it is operated for their benefit.

"That is a fallacy, is it not?

"Mr. MARTIN. That is a fallacy.

* * * * *

"The CHAIRMAN. That stock, or that word 'stock,' is a misnomer, is it not?

"Mr. MARTIN. If you are talking about stock in terms of proprietorship, ownership—yes.

"The CHAIRMAN. Well, of course, that is what stock is; yes. Normally that is what stock is; when you say 'stock,' you mean a proprietary interest of some kind, do you not?

"Mr. MARTIN. In the ordinary sense, yes.

"The CHAIRMAN. That is right, in the ordinary sense.

"Mr. MARTIN. You and I are in agreement that it is not proprietary interest.

"The CHAIRMAN. Yes.

"Therefore, this does not convey any proprietary interest at all, and the word 'stock' is a misnomer. It is not a correct word at all. It is just an involuntary assessment that has been made on the banks as long as they are members.

"Now, if they go out, the money is refunded to them. But as long as they are members, they get 6 percent annually on that.

"And as evidence of the fact that they do not have any proprietary interest, which you admit, is the fact that this so-called stock cannot be sold, it cannot be hypothecated, and as a convincing and unanswerable argument that the banks have no interest in the Federal Reserve System as such, financial or proprietary interest, the law specifically provides that in the event of the liquidation of a Federal Reserve bank, that after they get their $300 million stock back, the Government gets everything else. That is right; is it not?

"Mr. MARTIN. That is right.

"The CHAIRMAN. Now, if the banks had any proprietary interest in that, they would get what was left after liquidation, would they not?

"Mr. MARTIN. Well, you and I are in agreement it is not proprietary interest.

"The CHAIRMAN. Yes.

"Therefore, the statement that the banks own the Federal Reserve System is not a correct statement, is it?

"Mr. MARTIN. The banks do not own the Federal Reserve System. (Hearings before a Joint Subcommittee on Economic Stabilization of the Joint Economic Committee, 84th Cong., 2d sess., December 1956, pp. 119–120.)"

Federal Reserve surplus of billion dollars should be used now to reduce national debt

The Federal Reserve does not need the funds invested in its so-called capital stock. It does not need any surplus. It operates on the credit of the Nation and has the power to create money and does create money. Mr. Martin, Chairman of the Board, has said the Federal Reserve does not need the capital stock.

When Chairman Martin was testifying July

[27] U.S. Congress, Joint Economic Committee, Subcommittee on Economic Stabilization, hearings, 84th Cong., 2d sess., 1956, pp. 119–120.

15, 1957, with Governor Robertson, also a member of the Board, at his side, Governor Robertson asked to be allowed to answer a question about the surplus fund of the Federal Reserve that I had propounded to Chairman Martin. So the answers are the answers of both Governors Martin and Robertson as follows:

"I wonder, however, since you have about three-quarters of a billion dollars in the surplus fund of the Federal Reserve banks, why you want 10 percent more each year. What will you do with it? It doesn't serve any purpose. It is idle, unused. What do you want to put it aside for?

"Governor ROBERTSON. May I answer that?

"Mr. PATMAN. Certainly.

"Governor ROBERTSON. There is no magic in any 90 percent or 10 percent or anything else.

"Mr. PATMAN. Why do you want any percent? Why do you want any amount, as long as you have a certain amount in the surplus fund of a bank? Why are you not satisfied with that? Why do you want to keep piling up more money, which is unused and doesn't serve any purpose?

"Governor ROBERTSON. The only thing we were trying to do here was to follow out the original concept of the statute. It did provide for a surplus. This contemplates building up the surplus, not because you needed it today but because you might need it some other time.

CANNOT IMAGINE A USE FOR IT

"Mr. PATMAN. What would you need it for?

"Governor ROBERTSON. I can't imagine. I hope there is never a situation to need it.

"Mr. PATMAN. To keep you from coming back to Congress for an appropriation; that is the only thing.

"Governor ROBERTSON. Oh, no; we would never have to come back for appropriations.

"Mr. PATMAN. Well, you would if you ran out of funds.

"Governor ROBERTSON. We are not going to.

"Mr. PATMAN. You almost did at one time.

"Governor ROBERTSON. Well, we will never have another such situation.

"Mr. PATMAN. You have too much money piled up.

"Governor ROBERTSON. Maybe that would be a good purpose to serve, so we wouldn't have to come back.

"Mr. PATMAN. Maybe we should make it possible for you to pay a hundred percent into the Treasury, as long as there is a surplus equal to a specified amount in each Federal Reserve bank. Don't you think that would be reasonable?

"Governor ROBERTSON. We suggested this in the alternative, as you know. We suggested we be authorized to turn over to the Treasury amounts, or put it in franchise tax, and that was the one selected. We don't care which way it is. We think the money must go to the Treasury."

* * * * *

Mr. Martin testified, page 396 on S. 1451 in July 1957 about the stock owned by the member banks in the Federal Reserve banks as follows:

"Mr. PATMAN. And it cannot be voted except according to the rules that you explained to him.

"For what purpose is that money used, Mr. Martin? Can you name one purpose for which that money is needed, except as you said, that it creates a good relationship with the banks and makes them feel they are part of the System. Outside of that, what purpose does that capital stock serve?

"Mr. MARTIN. I don't think it has any purpose at the moment. I think originally it was part of the organization capital of the Federal Reserve banks.

"Mr. PATMAN. To set up the Reserve banks?

"Mr. MARTIN. Certainly.

"Mr. PATMAN. But now it is not needed at all, is it?

"Mr. MARTIN. I think we could get along without it today.

"Mr. PATMAN. All right."

COMPARISON OF INTEREST RATES—14-YEAR PERIOD FROM 1939 TO 1952 COMPARED WITH 14-YEAR PERIOD FROM 1953 TO 1966

I. YIELDS ON LONG-TERM GOVERNMENT BONDS 1939 TO PRESENT

[Percent per annum]

Year:	Yield
1939	2.36
1940	2.21
1941	1.95
1942	2.46
1943	2.47
1944	2.48
1945	2.37
1946	2.19
1947	2.25
1948	2.44
1949	2.31
1950	2.32
1951	2.57
1952	2.68
Average for 14-year period (1939–52)	2.36
1953	2.94
1954	2.56
1955	2.84
1956	3.08
1957	3.47
1958	3.43
1959	4.08
1960	4.02
1961	3.90
1962	3.95
1963	4.00
1964	4.15
1965	4.12
1966	4.65
Average for 14-year period (1953–66)	3.65

II. AVERAGE ANNUAL YIELD ON 91-DAY TREASURY BILLS 1939 TO PRESENT

Year:	Yield
1939	0.023
1940	.014
1941	.103
1942	.326
1943	.373
1944	.375
1945	.375
1946	.375
1947	.594
1948	1.040
1949	1.102
1950	1.218
1951	1.552
1952	1.766
Average yield (14-year period)	.645
1953	1.931
1954	.953
1955	1.753
1956	2.658
1957	3.267
1958	1.839
1959	3.405
1960	2.928
1961	2.378
1962	2.778
1963	3.157
1964	3.549
1965	3.954
1966	4.811
Average yield (14-year period)	2.797

COMPARISON OF INTEREST COSTS

I. NET PUBLIC AND PRIVATE DEBT, TOTAL INTEREST PAID, AND AVERAGE RATE OF INTEREST IN THE UNITED STATES, 1951–66

Year	Total debt (billions)	Interest paid (billions)	Computed average interest paid (3÷2)	Interest costs figured at 1951 computed rate
(1)	(2)	(3)	(4)	(5)
1951	$524.0	$17.8	3,397	$17.8
1952	555.2	19.7	3,548	18.9
1953	586.5	21.9	3,734	19.9
1954	612.0	23.7	3,873	20.8
1955	672.3	26.0	3,867	22.8
1956	707.5	29.8	4,212	24.0
1957	738.9	34.0	4,601	25.1
1958	782.6	36.0	4,600	26.6
1959	846.2	40.8	4,821	28.7
1960	890.2	45.7	5,134	30.2
1961	947.7	48.4	5,107	32.2
1962	1,019.3	53.4	5,238	34.6
1963	1,096.9	59.8	5,452	37.3
1964	1,174.3	66.5	5,663	39.9
1965	1,270.3	74.0	5,825	43.2
1966 (estimated)	1,368.3	82.7	6,044	46.5
Total		680.2		468.5

Note.—See the following table:

	Billions
Total col. 3	$680.2
Less total col. 5	−468.5
Excess cost	211.7

Source: Economic Report of the President, 1967.

II. TOTAL FEDERAL DEBT AND INTEREST PAID, FISCAL 1951–68

Fiscal year	Total Federal debt (billions)	Total interest paid (billions)	Computed annual interest rates	Computed interest cost at 1951 rate (billions)
1951	$255.3	$5.7	2.233	$5.7
1952	259.2	5.9	2.276	5.8
1953	266.1	6.6	2.480	5.9
1954	271.3	6.5	2.396	6.1
1955	274.4	6.4	2.332	6.1
1956	272.8	6.8	2.493	6.1
1957	270.6	7.3	2.698	6.0
1958	276.4	7.7	2.786	6.2
1959	284.8	7.7	2.704	6.4
1960	286.5	9.3	3.246	6.4
1961	289.2	9.0	3.112	6.5
1962	298.6	9.2	3.081	6.7
1963	306.5	10.0	3.263	6.8
1964	312.5	10.7	3.424	7.0
1965	317.9	11.4	3.586	7.1
1966	320.4	12.1	3.777	7.2
1967 [1]	327.3	13.5	4.125	7.3
1968 [1]	335.4	14.2	4.234	7.5
Total		160.0		116.8

[1] Estimated.
Source: Economic Report of the President, 1967.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield 3 minutes to the gentleman from Kentucky [Mr. CARTER].

[Mr. CARTER addressed the House. His remarks will appear hereafter in the Extensions of Remarks.]

Mr. MILLS. Mr. Speaker, I yield 5 minutes to the distinguished gentleman from Florida [Mr. PEPPER].

Mr. PEPPER. Mr. Speaker, there is an old saying in the law that hard cases make bad law. We do have some hard problems facing us in our country, and today we are being called upon to enact some legislation which I think is going to be bad policy and bad precedent and to which I reluctantly give my support.

I realize we have got to do something about inflation. The regrettable thing is we have not done something earlier. The war has been in the process of acceleration since about 1962. During that time we have spent about $100 billion on the war in Vietnam.

Have we raised taxes? On the contrary, in 1964 and in 1965 we cut taxes, which if coming in now would yield between $24 billion and $25 billion.

I think it was a mistake for the President not to recommend a straight-out war tax. We have a war and everybody knows we have to pay for it. The President chose to call it an anti-inflation tax, and the people got to arguing about that. I regret we have waited 2 years while the President has been requesting the tax, and then when we propose it, it is only about $10 billion a year and we have coupled with that a $6 billion spending cut.

Mr. Speaker, we have these problems of the balance of payments and the value of the dollar and the curbing of inflation, but we have some other problems here at home which are similarly demanding, it seems to me, and those are the problems of the needs of the 15 percent of the people of this country who are poor.

They are not confined to any one race. I am referring to an article of May 17 in Time magazine. Two out of every three of these poor Americans are white, like most of us. In age, nearly half the poor are under 21 years of age. One-quarter are over 55 years of age. A third of all those in America above 65 years of age are poor. Not only that, Mr. Speaker, but in my beloved Southland, one-half of all of them are to be found where we have only one-third of the Nation's population.

We talk about a national unemployment rate of 3½ percent, but in the cities of America there is unemployment among the poor of 7 percent.

The Kerner report recommended that we create 1 million new private jobs in the next 3 years. We are creating few. The Kerner report recommended that we create 1 million new public jobs in the next 3 years. We are hardly doing that. We are cutting public employment in many areas. There is something being done in the housing field, but it is not nearly what was recommended in the Kerner report—600,000 low- and moderate-income units next year and 6 million units over the next 5 years.

What I am concerned about, Mr. Speaker, is that the word will go out to the people of the world, and to the poor of America that we have abandoned the needy in our affluent land. I am not talking about only those in Resurrection City; I am talking about the inarticulate children who are denied an opportunity to have a decent diet, let alone an adequate education. I am talking about the mute and miserable aged poor in America who are not here to file organized protests. I am fearful of the precedent being established by this measure, that henceforth, when we face economic and financial problems, we will cut spending, whatever harm it does, instead of raising taxes.

The SPEAKER pro tempore. The time of the gentleman from Florida has expired.

Mr. MILLS. Mr. Speaker, I yield the gentleman 1 additional minute.

Mr. PEPPER. Mr. Speaker, as the able chairman of the Appropriations Committee has just said, we must enact taxes to meet the needs of the country for which we provide by appropriations. I hope that at the end of every session we shall shape our tax laws to provide the funds we have appropriated unless the national economy demands stimulation and the deferment of certain taxes. I believe most of us will be man enough to face up to voting for necessary taxes.

Let us not take hope out of the hearts of the needy people in America, because we need the strength they can give the economy as well as the moral fiber of this land.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from Maryland [Mr. MORTON].

Mr. MORTON. Mr. Speaker, this is a sad day for the Congress of the United States and the people of this Nation. Frankly, the only reason I am willing to vote for this legislation comes from the same motives I would have to help my neighbor get his ox out of the ditch.

This bill is a banner which loudly proclaims a long and treacherous story of fiscal mismanagement by this administration and its immediate predecessor.

During the last few days, I have been deluged by telephone calls and communications from the high and the mighty—large bank presidents, heads of giant manufacturing concerns, and many senior industrialists who have cried alike and aloud, "Vote for the tax increase and save the dollar." The big question which should be debated, resolved, and fully understood is why the dollar needs saving.

We have heard flowery messages from the President in this very Chamber as to the new wonders which are in store for Americans. We have listened to the battle cry of the war on poverty. We have heard an optimistic analysis concerning our progress in Southeast Asia. We have been told over and over again that never have we been better off, and yet today we are trying to fish out of the river our fiscal raft before it goes over the falls.

Mr. Speaker, I hope and pray that following this emergency application of artificial respiration we are willing to face the real challenge which comes in focus and is illuminated by the sparks of this dilemma. The challenge to run this country on sound economic principles; the challenge to face up to the awesome trouble incurred by prolonged deficit spending and continued debt mismanagement, which includes no sinking fund in prosperous times, or no consideration by either the Executive or Congress for orderly reductions.

Yes, Mr. Speaker, I am willing to go along, today because I believe the spending cut requirements of this package are in themselves good medicine for the Government of this Nation to swallow. The ox is in the ditch; there are no alternatives to pulling it out.

Let us hope there will be no political reprisals from those who do not have the courage, or those who for some academic reason are reluctant to join the ranks of responsibility. I rise in support of the bill, but in no sense of pride, and with a heavy heart.

(Mr. MORTON asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from New York [Mr. HORTON].

(Mr. HORTON asked and was given permission to revise and extend his remarks.)

Mr. HORTON. Mr. Speaker, I rise in support of this measure.

Mr. Speaker, today we are called upon to make one of the most difficult, and perhaps the most responsible decision in the recent history of the House of Representatives. After long months of debate among economists, among international and domestic businessmen, among Goverment officials, and among American taxpayers, the Congress is finally called upon to act in the interest of financial stability and American economic strength.

I want to make clear at the outset, Mr. Speaker, that I am saddened at the necessity of our decision today. The financial crisis we face in the Western World is one which this Nation could have eased if responsible and timely planning and action had come from the Executive. But, like so many other crises America has faced in recent years, the administration, either through inaction or poor planning has led us to the brink of disaster, leaving to Congress a necessity for drastic legislative action.

This pattern has repeated itself many times. Year after year the administration has vastly underestimated its budget requirements, both for defense and domestic spending, and has had to return to Congress in short deadline situations for so-called supplemental appropriations. Many times these necessary bills pushed the Federal budget deficit beyond already unmanageable levels. What has caused this slipshod planning and budgeting?

The fact is that during the past 5 years, many serious domestic crises have required attention, and money, along with major outlays for the war in Vietnam. The Congress and the administration were not wrong to respond to these crises by establishing Federal initiatives—particularly in the areas of health, education, urban assistance, housing, and transportation. What was wrong with the repeated failure of the administration to respond to calls from the Congress to set meaningful budgeting priorities—priorities which would allow the necessary defense spending, and which would accommodate crisis needs of our Nation, but which also would cut back or postpone expenditures for non-crisis programs at home. I have joined in voicing this call for spending priorities for the past 36 months—since long before President Johnson requested a tax increase in the summer of 1967.

Not only have I urged generally that secondary programs and low-priority ef-

forts be cut back, I have taken specific steps to guide and to assist a meaningful establishment of priorities. First, I have voted against appropriations, or in favor of cutbacks in several areas, including space exploration and research and several departmental appropriations bills. Second, I have proposed reductions of more than $6 billion in nonessential military expenses, space, agriculture subsidy payments, public works, and other postponable programs. Third, I have willingly postponed during this budget-crisis year, a crucial public works project in my own district, while voting for similar sacrifices and postponements on civil works projects in other areas of the country.

But, Mr. Speaker, the administration has not followed our lead in fiscal responsibility. Instead of making room in the budget for urgent domestic programs by cutting back on less-crucial items, the administration has merely added costly and necessary new programs to the total spending, urgent or not, for programs enacted in prior years. What could not be paid for with tax-money, or with self-liquidating programs, was compensated for with higher and higher Federal deficits. The result is that massive Federal borrowing has put a vise grip on the domestic and international market for lending capital, and has forced interest rates to frightening levels. The average homebuyer will pay over $4,000 more interest in 1968 than he paid for the same mortgage on the same house only 3 years ago. Mortgages are hovering around 7 percent and threaten to go even higher in a matter of weeks. Prices have followed in the footsteps of higher mortgage rates, and although wage settlements have produced record-high percentage increases, the improvement in real incomes has been eroded by spiraling inflation.

Since the President asked the Congress for a tax surcharge last July, I have consistently opposed it. Like the chairman and ranking minority member of the tax-writing Committee on Ways and Means, I opposed the imposition of new taxes on our constituents because I felt that there was still time for prudent spending reductions and meaningful budgeting priorities to be instituted. So I, along with Mr. MILLS, Mr. BYRNES, and others in the Congress announced my opposition to this proposal, and began prodding the administration for the less-drastic but equally corrective measures I have mentioned.

Along with a majority of my colleagues, I have kept up this prodding on an almost weekly basis—reminding the President that the time for prudent planning and spending reductions to serve as adequate remedies for the fiscal crisis—without a tax increase—was fast running out. I have reported these efforts, my own proposals for priorities and reductions, and my opposition to a tax increase to my constituents. Every responsible Member of Congress would oppose exacting higher taxes from his constituents if he believes that less-drastic measures are available to solve our economic ills.

Every responsible Member of Congress would oppose up to the last possible moment, requiring more of a sacrifice than is needed to stabilize our economy. But after a year of threatening our opposition to this bill, Mr. Speaker, and after several years of pointing out the nontax measures needed to avert economic chaos, we have reached the last minute. We have reached it without the faintest grounds for hope that the prudent planning which is necessary will ever be instituted by the Executive. We have reached the point where our willingness to take the distasteful drastic step of a tax increase is all that stands between America and economic chaos.

Like many Americans a year ago, Mr. Speaker, I thought that the administration had finally become aware of the seriousness of our international and domestic financial condition, and that it would act to correct add-on spending practices and nearsighted budgeting practices. Along with countless Members of the House, I stated that a meaningful set of priorities in spending would have to come before a tax increase was resorted to. They have not come. Budget estimates for the administrative budget for 1969 were stated last fall at around $135 billion. By January they had reached over $150 billion.

Just last week, only a few days before the end of fiscal 1968, we had to enact a supplemental appropriation bill to make up for budgeting deficiencies for this fiscal year. Far from setting priorities, the administration is asking for a considerable foreign aid allotment, despite skyrocketing aid expenditures in Southeast Asia, and it even seeks a 1-year extension of the costly and wasteful farm subsidy payment program, under which countless agricultural firms receive over $10,000 yearly.

Like many Americans a year ago, Mr. Speaker, I thought the administration would responsibly institute any necessary cutbacks in the total level of Federal spending. This has not come. The bill now before us contains a mandate for $6 billion worth of cuts in Federal spending. Has the Executive scrutinized low-priority programs for the sources of these needed cuts? It has not. Instead, the President sought earlier this month to reduce this figure to $4 billion—threatening that programs designed to correct the most urgent domestic crisis would have to be slashed to accommodate $6 billion. This is simply not necessary. Over 100 Members of this body have joined in a program, which I mentioned earlier, showing where at least $6.5 billion can be cut without taking a single cent from education, health, housing, antipoverty, veterans, or other priority efforts.

The threat that the cuts we seek to impose today will hamper these vital efforts is itself an admission that priority budgeting has not yet been even attempted by the Executive. Further, the administration's support for a lower level of cuts flies in the face of the whole reason for the economic and dollar crisis we face today. The purpose of the tax increase—or fiscal restraint, as it has been called—is to reduce the aggregate level of both public and private sector demand for goods and services.

Our prices, interest rates, and imports are rising because the American consumer and his Government are buying more and buying faster than the economy can produce at an efficient or healthy rate of growth. Our gold supply, our exports, and our housing starts are down because of the same factor. Thus, if we were to enact a tax increase, with less than the essential controls on Federal spending, then the new tax revenue would only be respent by the Government. This would not reduce aggregate demand, but would only shift demand for goods from the private—or consumer—sector to the public sector. This would not only fail to strengthen the dollar and fail to provide any fiscal restraint, it would rob the taxpayer of purchasing power while still feeding the fires of inflation.

By our vote against limiting budget cuts to $4 billion the Congress persuaded the President to reluctantly accept the necessary $6 billion cuts, as a minimum, in order to achieve passage of H.R. 15414. But our responsibility will not end if we enact this measure today. In light of administration moves to exact the cuts from vital programs, the committees and Members of Congress must see that this is not done, and that priorities enforced from Capitol Hill are woven into budget adjustments.

Mr. Speaker, if this were an era of ordinary financial stress, it would be proper for the Congress to vote down this bill and lay at the feet of the Executive the consequences of its own nearsighted budgeting and farsighted optimism in Federal spending. If this were an era of ordinary financial stress, the Congress would do right to refuse to apply fiscal restraints which will mean even higher taxes for taxpayers who are already strapped by tax increases on State and local levels. We would not, in any ordinary circumstance, allow the President to pass the buck for high deficits, dwindling gold reserves, high prices, high interest rates, and low international esteem for America and the dollar. But this is not an ordinary circumstance. This is no time for a responsible Congress to play political football with an Executive which has chosen to ignore the most serious international and domestic crisis in nearly four decades.

Whatever the political effects of responsible action on this floor this afternoon, we represent the court of last resort for the American economy, for the American dollar, and for international confidence in American fiscal saneness.

The sacrifice of lavish unneeded programs, the sacrifice of a 10-percent surcharge on Federal income taxes—these are the tolls exacted from the American people for a restoration of economic health and economic confidence. Today, it is Congress which must step in and exact the toll, to pay for the fiscal abuses of the Executive.

Again, Mr. Speaker, the pattern repeats itself. We are at the brink, and perhaps over the brink, of economic disaster. We are at a point where soft spots and slowing trends in our economy are caused by, rather than alleviated by, governmental economic activity. We are at the point where our currency is the tar-

get of, rather than the mainstay of, many American trading partners.

We have reached this point slowly, but not blindly. Despite repeated warning, the Executive continued to plod along its uncharted and ill-considered course toward crisis. It is now up to us to take the first about-face from this course, so that we can begin the long walk home—toward renewed leadership of the Western World, toward renewed domestic and international confidence, toward reasonable interest rates, and, above all, toward responsible Federal economic policies.

I rise in support of H.R. 15414, Mr. Speaker. A predecessor of our President once said that the White House was "where the buck stops." Today, the buck stops here, in this Chamber. I stand willing to meet its challenge.

Mr. BYRNES of Wisconsin. Mr. Speaker, I will say to the gentleman from Arkansas that we have only one remaining speaker on this side.

Mr. MILLS. Mr. Speaker, I yield 3 minutes to the gentleman from Washington [Mr. ADAMS].

Mr. ADAMS. Mr. Speaker, I thank the chairman.

We have taken this time—some of us—although we know there are not many Members here, because we want to speak directly to the chairman. We have tried during the course of the consideration of this bill to open it up so that we could talk to you and through the RECORD to the people of America. We have wanted to talk about tax reform. We know you have tried to put together apackage, but there is no tax reform. This is therefore an unfair tax on the middle class and is inequitable.

We represent many people who are new and young as well as those of the older generation and many people want a change in the status quo. We want to talk about the changes necessary for America. This bill continues the present system. We believe the people want a change.

We voted against the traditional appropriations as they started this year to balance the budget. We have tried to cut in these areas in order to adjust America's priorities. We know for example that we have already spent, in the supplemental appropriation bill, the $6 billion saving we are talking about today. We want to talk about it like it is, otherwise all of this is a charade.

We want those who are on the committee, and the chairman, and the chairman of the Appropriations Committee, to talk with us about the new things needed in a modern America.

We agree to cuts but it is a question of priorities. Where do we go? How do we do it? We do not want to spend all the money on domestic programs but we don't want open ended spending on the military either, but if you do not talk to us about it our voices are muffled and the Congress can't develop the priorities modern America needs.

This bill is just a paliative. The gentleman mentioned the international bankers. I could take the four points he mentioned if we had time, but we do not. I would point out how the international bankers are going to view this action. They know that so long as we are in a war, spending $30 billion in Vietnam and spending $3.4 billion to keep troops in Europe, Japan, Korea, we will have a gold flow because this goes to the developed countries on through the black market to create our gold flow. This will not be corrected by this tax bill. They will be at us again next year unless we go to a war economy or are out of war.

Therefore, they are going to back at us again on the gold flow. We will have more dollars going out because even though we have surplus in trade as long as we maintain those troops and continue AID in its present form we will have the gold flow. I do not say necessarily that we should not have troops in Europe now or that we should immediately get out of Vietnam, but let us bring some of these things into perspective along with the domestic programs if we want to solve our financial problems.

We have the supplemental appropriation where we spent $6 billion last week. We will have another supplemental of several billion dollars, as the chairman of the Committee on Appropriations said, on Vietnam, which will be coming up in fiscal year 1969. We have $30 billion that we are spending there now. This is on top of our defense program which presently is over $20 billion. Therefore, when we talk about balancing the budget and cutting spending and trying to bring this into focus, let us talk about all of it, not just the new domestic programs. Let us talk about the agricultural bill, about the public works bill, about the budget of the Departmentof Defense, and all of the rest of it.

For example, we know—and I have all of these percentages, and if I had time, I would deliver them here on the floor—where the extra money has gone. I do not happen to believe in the present welfare program and we are willing to make changes. I think it should be done over. We do not get a chance, however, to talk about how we want to do it over. We do not think in West Virginia, for example, to go from $165 a month to $200 a month, which is expensive and which is just more of the same, will save the poor people there. Therefore, we are pleading with you to recognize the new thoughts we are trying to express. That is why some of us took this time and that is why we have come in at the end of this debate even though we know you are tired and it has been a long day.

We have come in to say that we have heard the debate washing back and forth today, but we are saying to you that this debate is not meeting the problem. Let us tell this story like it is instead of having a debate about finances alone. The American people are talking and demonstrating and fighting about the things that they want changed and we are not discussing these in debate. I think we should tell this as it is, and bring these issues into the political system and debate them and not leave these issues in the streets.

I thank the chairman for this time. I appreciate his yielding to me.

Mr. ULLMAN. Mr. Speaker, I yield 2 minutes to the gentleman from New Jersey [Mr. HOWARD].

(Mr. HOWARD asked and was given permission to revise and extend his remarks.)

Mr. HOWARD. Mr. Speaker, today this House is being asked to impose a 10-percent tax increase on the American people and at the same time approve a $6-billion reduction in services. Before we vote I think it is extremely important that we determine who in America is being asked to pay this tax and who will be able to avoid it because of the inadequate and inequitable tax laws in America.

I know many of us have discussed this with our constituents and I would like to report the reaction that I get. I said to my constituent: "Suppose the Federal Government told you you must dig 10 percent deeper into your pockets for Federal income taxes? Would that make you mad or, more properly, angry?" And he replied: "No, this wouldn't make me mad." So I asked: "Suppose you were told at the same time Federal services in the amount of $6 billion were to be taken from you. Would that make you mad?" To which he replied: "No, that wouldn't make me mad." So I said: "Suppose after paying this tax and losing these services, you were to find out that you pay a higher tax percentage than the average of the 20 largest oil companies in America and that the Atlantic Co., which in 1966 had a net profit of over $113 million, paid no Federal income tax at all. In fact, going back as far as 1962 with an accumulated net profit of over $340 million, the Atlantic Co. has paid no Federal taxes at all. And that the giant Standard Oil Co. of New Jersey which in 1966 showed a net profit of over $1 billion is in a 6.3-percent tax bracket. Or that the Marathon Co., which in 1962 showed a net profit of over $37 million, not only didn't pay any taxes that year but actually received a $2.2 million tax credit. Or that in 1965 there were 35 Americans with incomes exceeding $500,000 who paid no income tax at all, including five with incomes of $5 million or more. Upon paying your taxes and being made aware of these inequities, would that make you mad?" And he replied, "Yes, that makes me mad."

Mr. Speaker, the old, unnecessary, unfair oil-depletion allowance should no longer be used as a haven for the wealthy oil companies. We hear much about tax reform but see, not little, but no action.

On October 26 of last year I filed a discharge petition to bring to the floor a bill, H.R. 655, originally introduced by the gentleman from Iowa [Mr. GROSS], which would reduce the oil-depletion allowance from 27½ to 15 percent. This discharge petition called for an open rule so that amendments could be offered to further reduce the allowance, to eliminate it, or if it could be justified, leave it where it is. After all these many months this discharge petition has at the moment 28 signatures of Members of this body in its support. Now, Mr. Speaker, who is kidding whom and who is for fair taxes and who is not? Is the Atlantic Oil Co. concerned that we may add a percentage to their zero taxes? Or that Marathon may get a little less from the Government even though they continue to

have their huge profits? Mr. Speaker, middle-class America is being asked to foot this bill on an extremely unequal basis. Middle-class America has carried this Nation on its back for far too long. This House today should be talking about, thinking about, and acting upon a bill for fair taxes, not just more taxes.

My discharge petition is still at the Clerk's desk with 190 empty lines awaiting signatures.

Mr. ULLMAN. Mr. Speaker, I yield 2 minutes to the gentleman from New York [Mr. SCHEUER].

(Mr. SCHEUER asked and was given permission to revise and extend his remarks.)

Mr. SCHEUER. Mr. Speaker, I oppose the tax package.

Disturbed by the divisions in our society, concerned over the lack of national concern for the people and property in our decaying cities, and distressed by the present inadequate programs to help the poor and disadvantaged help themselves, I can think of no single action more likely to feed the already widespread disillusion in America or to exacerbate the far-spread national despair than the passage of this package.

Fires of social unrest need neither fan nor fuel. The present package provides both and adds gasoline as well.

I am totally opposed to the six billion dollar spending cut because the programs which would suffer most are not the fat agricultural subsidies or the pork-barrel public works or similar dispensible or low-priority programs but urgent and important social programs already critically underfunded and undermanned—housing programs like model cities and rent supplements, elementary and secondary education programs for disadvantaged children, manpower training programs for the unemployed and the hard-core unemployed and the whole bundle of poverty programs under the Office of Economic Opportunity designed to help the urban and rural poor.

I refuse to believe the world's wealthiest nation with one-third of the world's total industrial production, cannot afford to save its decaying cities or help its 30 million poor. On the contrary, I believe we cannot afford not to save our cities and our poor. One glance at the mounting costs of welfare, juvenile delinquency and crime will answer all doubts on this issue.

It costs $2,500 a year to keep a family of four on welfare. It costs $3,500 a year to keep a man in jail.

But for only $1,500 a year per pupil, the disadvantaged and underprivilaged children in our rundown city and rural school systems, many of whom because of their completely inadequate education are at present heading straight for the welfare rolls, could achieve a satisfactory standard of education and make a significant contribution to our economy and society.

Edmund Burke, the 18th century philosopher who has had such a great influence on our Nation, summed up the case succinctly 170 years ago in his "Letter to a Noble Lord":

> Mere parsimony is not economy. . . . Expense, and great expense, may be an essential part of true economy.

Parsimony is not economy, Mr. Speaker, and the proposed spending cuts are pure parsimony—classic waste.

In opposing the cuts, I do not close my eyes to the dangers of the present economic course of our country. I understand the need to dampen demand in an economy with an increasing budget deficit, a widening balance-of-payments gap, rising prices and decling international confidence in the dollar. I recognize the imbalance the present tight monetary controls have inflicted on the American economy, and for these reasons I supported the earlier proposal for a 10-percent tax surcharge and a $4 billion spending cut.

But the present tax package puts politics before economics. Defeated in their previous attempts to block essential domestic programs, but successful in emasculating them, conservative forces in Congress are now attempting to destroy the urban programs under the camouflage of "fiscal responsibility." Not content with the mutilation of the urban programs, the rural forces press on to accomplish total annihilation.

No Member of this Chamber has to be told of where the economic meat-ax will fall. Fixed and specially extempted expenditures protect the major part of any budget. The most unprotected and exposed part is the vital urban programs. A $4 billion cut would seriously disrupt the domestic programs, but not destroy them. $6 billion cut would cripple them and bring several of them to a grinding halt.

I do not oppose spending reductinon in principle. Indeed, in the last 12 months I have voted for cuts in 12 different appropriation and authorization bills. The bills included Agricultural appropriations, the Space Agency authorization, the Missouri River Basin, the Libby Dam in Montana, the military construction appropriation and authorization, and the public works, Atomic Energy Commission appropriation bills.

But though these programs may suffer some further reductions in the proposed $6 billion spending cut, the programs which will be hardest hit will be the vital urban and social programs. Thus, I refuse to support the spending reductions.

The cuts in the second supplemental appropriation bill passed on June 11 in this House provide a useful guide to the types of cuts which will be made and the types of programs which will be delayed. The cuts included:

First. A 22-percent cut out of the already inadequate $5 billion appropriation for the Bureau of Indian Affairs.

Second. A $4 million cut from the Department of Housing and Urban Development, but not, of course, from any of the projects assisting the suburbs or new housing projects, but rather from the fund for annual contribution payments on low-rent housing.

Third. A 75-percent cut in one of the most imaginative welfare administration programs—the work incentive program to encourage and assist people to get off welfare and into jobs. The $40 million program has been reduced to a mere $10 million.

Fourth. Perhaps the most outrageous item was the postponement of the $20 million rat-control program. Having disgraced itself by originally refusing to pass the legislation, the Congress was shamed by the national outcry and reversed itself. But now it has compounded its original sin by postponing the program and attempting to hide the postponement in a cleverly camouflaged committee report on the cuts.

A new argument which has gained momentum in the last 3 weeks and is now quite prevalent, is that the tax package can be supported because the cuts are "fictional." They will never be made but are merely a fictitious sop to appease congressional conservatives. It is suggested the President will make a few token cuts in the next few weeks and months but after the November election will refund the reductions through maintaining the present level of expenditures and asking for a supplementary appropriation.

I cannot accept this argument. The President is very unlikely to win congressional approval for a supplementary appropriation after the November election, and a new President may well wish to continue the cuts.

In any event, whether the cuts turned out to be fictional or real, 10 million hungry and 30 million poor people in America who are still waiting for a congressional commitment to implement the Kerner report, will be told of the spending cuts and will believe them to be cruelly real.

The social and political fabric of our society is already stretched so taut that a tear could rend it in two. The tax package at worst could produce just a tear; and at best will further deepen the disillusionment, despair, and division in our country. It could well be the catalytic agent that could trigger tragedy and disaster in the summer months ahead.

The inflation which has hit the American economy is extremely serious.

Between 1958 and 1965, the value of the dollar declined at an average of 1.35 percent per year. In 1966, inflation rocketed and may still not have reached its ceiling. The 1966 inflation spiral almost tripled the rate of the previous 7 years to reach 3.28 percent. Last year it reached 4 percent, a rate which has been maintained in the first quarter of this year. Of the $20 billion increase in the gross national product in the first quarter of this year, increased prices accounted for $8 billion—a serious erosion of the value of the dollar.

My colleagues are well aware of the people who suffer the most under such a phenomenal rate of inflation—the middle- and low-income people, particulary the aged and retired on fixed incomes.

With a 4 percent annual price rise, people on fixed incomes lose $4 out of every $100 they receive.

Because of persistent and increasing inflation and lack of adequate fiscal restraints, the Federal Reserve has had to impose excessively tight monetary policies. The result of such policies has been a freeze on many urgently needed housing projects and a drying up of funds for State and local governments for such vital social projects as schools, sewers, public housing, and other community facilities.

The American economy is now seriously out of balance with the monetary rein much too tight and the fiscal rein much too loose. No one could be expected to have much confidence in a horse and four with one rein too tight and the other too loose. Similarly, no one can be expected to have much confidence in the stability of the U.S. economy with its uncoordinated fiscal and monetary controls.

Fortunately, the problem of international confidence in the tax dollar is no longer as acute as it was in the period immediately before the May disturbances in France. Most economists agree that France is no longer in a position to attack the dollar very energetically, but instead will have to use her $6 billion of gold and foreign exchange reserves to defend the Franc instead.

But though there is no longer such a pressing international reason for an increase in fiscal restraint, the high inflation and the monetary-fiscal imbalance in the American economy does call for a tax increase.

It was for these reasons I supported the $14 billion fiscal restraint package. Painfully aware of the unpopularity of tax increases, and fully conscious of the forthcoming election, I supported the tax increase in the belief that the issues involved were too important to be either ignored or obscured.

I share the concern of many of my constituents with the present inequitable and inquitous tax system. I shall continue to press for reforms to the present structure to close the tax loopholes and end the escape clauses which allow, for example, 35 Americans earning more than $500,000 a year to escape from paying a penny in taxes.

But, I supported the 10-percent surcharge because painful though a 10-percent surcharge might be, it still amounted to less than half the cuts which have been made to the tax base in 1964 and 1965.

If the 1964 tax base were in question today, American taxpayers would be paying an additional $28 billion in taxes this year. As it is, even with this tax increase, they will be reaping an $18 billion relief from the 1964 tax base.

President Johnson did not ask for a $16 billion fiscal restraint package.

He did not ask for a $14 billion fiscal restraint package.

The Council of Economic Advisors do not want a $16 billion fiscal restraint package.

They do not want a $14 billion package.

The majority of economists do not advocate a $16 billion package nor a $14 billion package.

President Johnson, the Council of Economic Advisers and the majority of economists wanted a $10 billion tax increase. The conservatives and rural forces within Congress forced the President to accept $4 billion cuts, to make a $14 billion fiscal restraint package. I was willing to vote for a $14 billion package because of the need for fiscal restraint. I am not prepared to support a $16 billion package, which would involve a 50-percent increase in spending cuts.

A $16 billion fiscal restraint package could create serious unemployment, as many economists representing all shades of economic thought have pointed out.

George Hagedorn, the economist and vice president of the National Association of Manufacturers, reflected the wide cross-section of economists who are now opposed to the tax package with his recent criticism of the bill for its excessive fiscal restraint. Mr. Hagedorn expressed grave concern over the unemployment the fiscal package would create.

His argument, advanced earlier this month and reported in the Wall Street Journal of June 3, noted:

> Everyone would like to see inflation subside to the more moderate pace characteristic of the early 1960s. But would everyone like to see unemployment rise to the higher rates typical of that period? The difference between 3.5 per cent unemployment and 4.5 per cent unemployment involves almost a million jobs.

I, too, cannot accept the argument that an unemployment rate of 3.5 percent is too low a figure and that if inflation is to be controlled, the unemployment rate must be increased to 4 percent.

One-half of 1 percent amounts to almost half a million jobs. And for every man put out of work in the suburbs, two or three men will be put out of work in the ghettos of the city where the unemployment rate is already twice that of the suburbs.

Back at the beginning of the decade, the Council of Economic Advisers concerned with the high unemployment rate, set an interim goal of a 4-percent unemployment rate. It was stated at the time that with the introduction of manpower programs, a lower unemployment rate should be achieved. We now have manpower programs. It is time we accepted 3.5 percent as a viable rate.

If we pass a fiscal restraint package of $16 billion, there will almost certainly be a steep rise in the unemployment rate. The only thing that could stop it, would be an increase in expenditures, and the easiest way a President could get away with an increase in expenditures, would be in Defense expenditures.

This indeed would be irony worthy of a Shakespearean tragedy—to have our vital urban programs cut for the benefit of a Defense Department which already accounts for almost 60 percent of the total appropriation request for fiscal 1969, and which already, according to reports in the Washington Post of May 19, is considering requesting a further $25 billion increase in its appropriation.

I am reminded of a quote from that great Secretary of Defense, Robert McNamara, who in 1966 with the Vietnam war in full swing, said quite openly and unequivocally:

> A nation can reach the point at which it does not buy more security for itself simply by buying more military hardware. We are at that point. . . . Security is not military hardware, though it may include it. . . . Security is development. Without development there can be no security. . . . Development means economic, social, and political progress.

The economic, social, and political problems of our Nation have been spelled out in the most definitive manner possible. What the Kerner report missed, the report by the Citizens' Board of Inquiry Into Hunger and Malnutrition in the United States provided.

The solution to the problems have been set out in an equally explicit form. But neither Congress nor the administration have even begun to make the necessary national commitment.

Not one of the minimal targets set out by the Kerner report for fiscal 1969 was adopted by the administration—few have been met even halfway. The reports call for 300,000 new private sector jobs—was met with an administration proposal for 100,000; a massive expansion in school construction—with a cut in construction; $1 billion model cities program—with a half-billion dollar program; a massive increase in Headstart program funds—with a 1-percent increase.

These proposals, proposals already way below the minimal target figures, will suffer even bigger reductions in the proposed tax package turning the inadequate programs into almost nonexistent programs.

Rocked by riots for four consecutive summers, shaken to its foundations by the brutal assassinations within 2 months of each other of the leading nonviolent Negro leader and one of the leading presidential candidates, America still waits for Congress to make a nation commitment to begin healing the divisions within our society, and diluting some of the disillusion.

Lady MacBeth would have no need to wonder why this prosperous land harbored so much discontent.

The same Congress which appropriated a $5 billion agricultural program which included 20 individual subsidies of over half a million dollars and over 6,000 subsidies of over $25,000 in fiscal 1968, cut back the poverty program to less than $2 billion.

The same Congress which appropriated more than five billion dollars for the space program appropriated less than $2.3 billion in Federal aid to the poor for education.

The same Congress which appropriated almost $1 billion for a supersonic transport plane to cut down a 6½-hour Atlantic journey to 2½ hours, could only afford $1 billion for work training programs for the unemployed—the teenage unemployment rate having reached 25 percent and the underemployment rate 50 percent in our urban ghettos.

The same Congress which authorized three billion dollars in water resources projects, many of them pork barrel projects, appropriated only two billion dollars for urban community development and low- and moderate-income housing.

If the faith of the disadvantaged and dispossessed of America is to be restored, if the fragile social fabric of our society is to be strengthened, if the fundamental purposes and principles upon which was founded are to be upheld, this Congress must be prepared to make two commitments. The first is an unequivocal commitment to redirect the vast sums of money we are pouring into Vietnam, into a new massive program to rebuild America, once the hostilities have ended. The second commitment, which must be implemented immediately, is a radical reassessment of our present priorities to allow us to begin the reconstruction now.

We cannot wait for the end of the Vietnam war because the task is too urgent. There is no need to wait until the end of the war because we have the resources—all we need is the will.

Let us put the war in its proper perspective. This year the war will cost between $25 and $30 billion. Our total military spending will be almost $80 billion—about 9 percent of our gross national product. We have spent a higher percentage of our GNP on national defense even in a time of peace. Between 1955 and 1960, we spent 10 percent of our GNP on our national defense. Vietnam absorbs olny 3 percent of our GNP. It is not a Korea—13.5 percent—or a Second World War—42 percent.

A radical reordering of our priorities will allow us to begin the rebuilding of the new America today. It would release the resources we need to fight urban decay, the degradation of the ghetto, and the pollution of our land, air, and water—programs, which Walter Heller, the former Chairman of the President's Council of Economic Advisers, has noted, "have traditionally had the least political muscle, yet just the programs where the real battle for American democracy will be won or lost."

Let me list some of the least cost-effective and justifiable programs which should be drastically cut or ended completely.

The farmers this year will receive well over $5 billion in various forms of aid. More than $3 billion has been proposed for keeping land out of production and price supports. Five individual farm operators will be receiving more than $1 million each under this program. Another 15 farm operations more than half-a-million dollars, and another 380 operations over $100,000.

If this Congress was prepared to limit Government payments to $10,000 per farm, which it has already refused to do this year, the Federal Government would save almost half a billion dollars.

The Rural Electrification Administration will receive more than $400 million for low-interest loans to assist farmers in the installation of electric power. When the aid was limited to assisting the distribution of electric power, this was a valid expenditure, but now that much of the money is being used to assist rural co-ops produce electric power, the appropriation should be cut by at least 50 percent.

There are something like 300 laboratories spread across our country carrying out agricultural research. Waste and duplication is rampant. A saving of at least $150 million could be made without having any serious effect on agricultural programs.

Closely associated with the Agriculture Department, but appropriated under the camouflage of the Bureau of Reclamation and the Corps of Engineers are the numerous irrigation, reservoir, and flood-control programs. The programs range from the selling of water at artificially low prices and encouraging the growth of already surplus crops—cotton in southern California for example—to providing dams and dikes which individual farmers should have paid for themselves.

Artificially low interest rates and the cheap water have turned many of our land development programs into Alice in Wonderland scenarios—one of the most popular crops in Arizona today, of all things, is watermelon.

The Federal Aviation Administration will spend $600 million this year. The operation of traffic control will take up $250 million, the maintenance of the 24-hour system with its 27 monitor centers and 319 control towers will cost a further $140,000, and the installation of new services and improvement of the present services will cost a further $70,000. To provide all these services without charge to the commercial air carriers is bad enough, but even worse is that the Government provides the same services free of charge to the rich fortunate few who have their own private planes. Both commercial carriers and private planes should be charged for the services that are provided by the FAA. This would save another half a billion.

Still in the field of transportation, the Maritime Administration will spend more than $350 million in fiscal 1969. More than $100 million will be taken up in construction-differential subsidies for 10 new ships; and another $200 million to subsidize 14 American operators. This direct subsidy is even less justifiable than the hidden air carriers subsidy. It should be cut completely. The subsidy covers 289 American ships making more than 1,700 voyages. Why should this land of free enterprise featherbed its merchant marine. It is time it modernized itself and paid for itself, or got out of the business. At the present, all it is doing is indirectly raising the price of commodity goods through the extra tax that consumers have to pay to subsidize the operations.

I would like to see a $1 billion cutback in the $4 billion a year highway programs. The immediate benefit would not be large because of the long-term contracts, but over the long run, not only would there be considerable financial savings but, equally important, it might help save America from smothering under a concrete carpet stretching from coast to coast, border to border.

Much has been said about the space appropriation. There are few better examples of our warped sense of national priorities than the $5 billion we spent on the space project this year and the $4.3 billion we plan to spend next year. At the present rate we will not only have an American Express office on the moon, but the first Howard Johnson's on Venus, before we begin to attend to the problems of the 10 million hungry Americans and the 30 million poor. The program must be cut, and cut drastically.

I believe the provision of jobs, education, and housing for the disadvantaged people in our urban and rural ghettos is more important than providing the inhabitants of Venus with 35 different flavors of ice cream.

Other wasteful programs connected with space are the rocket research programs of the Atomic Energy Commission. The agency will spend more than $2.5 billion this year, $132 million of which is involved in space. The rocket research program could be cut by at least $75 million.

Another $1½ billion within the Atomic Energy Commission's budget is involved with nuclear weapons development—another means by which the already overinflated Defense budget is made to look smaller. This weapons development money should be shown to be a part of the Defense Department appropriations.

About $300 million within the Atomic Energy Commission's weapons development appropriation and another $600 million within the Defense Department's research and development appropriation, has been set aside for a "thin" anti-ballistic-missile system to be deployed against China's anticipated nuclear capability of the 1960's. Experts have suggested that the system will be about as effective as a sieve to carry water. The project should be scrapped and the almost $1 billion saving next year, and the $4 billion saving in future years, should be reinvested into reconstructing our country.

There are many other items within the $77 billion budget of the Defense Department which I would like to see cut or scrapped.

I have supported in the past, and will continue to support in the future, any measure which will provide greater security to the 500,000 Americans we have sent Southeast Asia to fight this futile war. Having transported them 10,000 miles across the world to fight in a war which can have neither a political nor military victory, we have a responsibility to provide them with every possible protection. This is the least we can do for them, and for their families.

But, I have opposed in the past and will continue to oppose in the future, any and all attempts to use the Vietnam war as a cover for obtaining funds for every pet scheme of military chiefs quite unrelated to the Vietnam war effort.

I should like to see the $1.2 billion appropriation for military astronautics and related equipment eliminated. Included in this appropriation is $600 million for the manned orbital laboratory—MOL—which not only threatens to abrogate the space treaty and duplicate the work of the Space Agency, but is also, according to many military experts completely unnecessary.

Another dubious item is the half billion dollar appropriation for the C–5A jet transport—the world's largest aircraft. There can be few projects more likely to encourage the United States in its role of policeman of the world than this aircraft with its capability for rapid deployment of forces and equipment around the world.

A second project built to encourage U.S. intervation is the fleet of large supply ships, the FDL's, capable of fast loading on the beach or in port which will receive $183.6 million this year. The proposal was striken from the bill last year. It should be stricken from the bill this year.

Another means by which unilateral American intervention could be damp-

ened and multilateral peacekeeping promoted, would be a reduction in the number of U.S. bases overseas. The Department of Defense with more than 130 foreign military bases, controls over 2.7 million acres overseas. It is time we ended these anachronistic policies and cut back our bases. Militarily, most of them are of little importance; economically, they drain away U.S. dollars and contribute towards our serious balance-of-payments problems. The House has already authorized more than $300 million for overseas construction—an authorization which I voted against earlier in the year.

More than $2½ billion could be saved by bringing American servicemen back from Europe. The men are neither needed nor wanted. Only West Germany would complain if they were withdrawn and West Germany is more than rich enough today, to provide its own army for a holding action on its Eastern borders, should the fantasies of the right-wing fanatics in Germany become a reality, and the Russians be foolish enough to invade.

One of the most invidious and insidious sections of the budget is the $1 billion strategic assistance program. Much of this is now part of the foreign aid bill, but some of the assistance is still contained in the Defense Department appropriation.

The entire program should be abolished. It undermines democracy in the developing world by encouraging military supremacy over civilians; it exacerbates tensions between states—Greece and Turkey, for example, are among the five major recipients of military aid; and it encouraged misuse of limited resources, by priming the military pump in nations which might otherwise put much less emphasis on defense. The Arms Control and Disarmament Agency recently reported that the "trend of defense expenditures among the poor nations is "rising at a faster rate than the world average." Already some of these countries are spending more on military arms than on public health and education combined. Such a criminal waste of resources must be discouraged, not encouraged.

There are a score of smaller programs with smaller savings I would like to mention, but I will limit myself to one within the Housing and Urban Development Department. It is a special program designed to provide grants for sewer and water installations on new housing projects in the suburbs. Its purpose was to promote better planning but because the guidelines for the program have been so loosely drawn, two-thirds of the sewer and water projects now being built are eligible for grants. The suburbs is the last area we should be pumping in Federal funds. The program should be scrapped and the $150 million which is saved should be rechanneled into the decaying cities.

These then are some of the areas where we could make deep cuts to provide the resources for the new America.

Another major means of raising the resources is tax reform. There are at least 10 major leaks in our tax system which run away with more than $5 million a year.

One of the biggest loopholes is the failure to tax capital gains passed on from one generation to another. Through this loophole, wealthy Americans manage to escape paying an estimated $2.5 billion a year in taxes. It must be closed.

The notorious mineral depletion allowances allow the oil millionaires to escape from almost $3 billion in taxes. In 1964, with corporate taxes at 48 percent, not one of the five biggest American oil companies, paid as much as 10 percent of their income in Federal income tax. One paid less than 1 percent. The figures were: Standard Oil of New Jersey, 1.7 percent; Texaco, 0.8 percent; Socony Mobile, 5.9 percent; Standard of California, 2.1 percent. The oil depletion loophole must be closed.

Other escape clauses which must be closed include the 1954 $100 dividend exclusion loophole, which allows taxpayers—in practice high-bracketed taxpayers—a tax-free bonus on their first $100 of dividends—which would provide an extra $200 million for the Federal Government; and the multiple corporation legal tax device, in which a single business enterprise separates into several fictional parts to be taxed at a 22-percent rate rather than a 48-percent rate. The plugging of this loophole would provide an estimated $150 million.

The other major source for the funds we need for our social and urban problems is our bourgeoning gross national product.

No matter what years one takes in this decade, the growth of the American GNP has been phenomenal. Between 1960–67, it increased at an average annual rate of 4.6 percent. Between 1961 and 1967, at a rate of 5.1 percent. Between 1961 and the end of the first quarter of 1968, at 5.2 percent.

Even should our annual rate of growth drop to 4 percent, our GNP will grow at the rate of $32 billion in goods and services and $6 billion in Federal revenues a year. Compounded over a period of 10 years, the increase in the GNP would be almost $50 billion a year and the Federal tax yield $9 billion. Even were half this increase preempted by the demands of a growing population, capital investment and the need to provide for people moving from rural to urban areas, America would still have more than sufficient resources at hand to meet her urban reconstruction and human services needs.

There are then, three ways we can meet the reconstruction needs of our country. One, by reordering our spending priorities; two, tax reforms; and three, our ever-expanding gross national product.

We can make a start today by refusing to vote for this bill. By rejecting the tax package with its spending cuts, we would not only maintain the integrity of the present domestic programs, but also assert our faith in their fundamental purpose—the creation of a new America.

Congress has listened for too long to the calls of spending cuts. In 1964 and 1965, the gentleman from Arkansas [Mr. MILLS], called for a spending cut as a condition for approving the President's tax reduction. I would be interested to learn under what circumstances the chairman of the Ways and Means Committee would accept a change in the tax rate, either up or down, without calling for a cut in our domestic program expenditures. It seems spending reductions must be made as a price for any change in our tax structure.

To add insult to injury, we are not only being asked to cut essential domestic programs, but also to make an inresponsible and unconstitutional abdication of congressional control over expenditure programs. It is the prerogative and duty of Congress to decide on what cuts should be made to Government spending programs. To ask the President to make the cuts for us undermines both our constitutional responsibility and our long-defended history and tradition of independence from the executive branch under the separation of powers doctrine.

If Congress wishes to make cuts, then let Congress "bite the bullet," face its constitutional responsibility and work its will on expenditure proposals, program by program, item by item.

I would not support such cuts but I would support their constitutionality.

I oppose the cuts in the present tax package both on economic and constitutional grounds.

Mr. Speaker, within a few thousand yards of this Chamber, we witnessed yesterday a profounding moving demonstration of the despair and disillusion within our society. But it was also a demonstration of hope. Black people joined with white people, Mexican-Indians joined with Puerto Ricans, in a day of solidarity—a day in which all groups of Americans walked side by side between our two most famous national monuments to express their commitment to the fundamental purposes and principles of our Nation.

Today, we have a splendid opportunity to respond to yesterday's 50,000 marchers, and to justify and reward their faith in our society. We can do this by demonstrating our concern for our urban and social programs and our willingness to meet the urgent needs which the marchers set out, by rejecting this tax proposal.

Some people have said that America is on trial; that unless the Congress responds to yesterday's march, there will be no more nonviolent demonstrations and protests. No one can say what the result will be if we do not respond, but at the best we will have diluted even further the already tenuous faith of the disadvantaged in our society, and probably ensured Summer of even worst riots and disorder than the previous 4 years.

In closing let me remind my colleagues, of the words of the President around whose monument, yesterday's marchers met:

> If you once forfeit the confidence of your fellow citizens, you can never regain their respect and esteem.

Mr. ULLMAN. Mr. Speaker, I yield 2 minutes to the gentleman from New York [Mr. DOW].

(Mr. DOW asked and was given permission to revise and extend his remarks.)

Mr. DOW. Mr. Speaker, the legislation for an income surtax and a reduction of Government expenses in the amount of $6 billion in the next fiscal

year will, if passed, place something like $21 billion, annual basis, at the disposal of the Government that is not there now.

This could be expected to fuel the evil conflict in Vietnam, estimated to cost about $30 billion a year. It would do this by reducing the $30 billion deficit, which is the annual cost of the war.

This surtax and this expense reduction are advocated by some as financial and economic devices necessary to cope with the financial and economic problems as they exist today.

However, there is more to the whole problem of American governmental policy than the purely financial and economic. Our national policies such as those pursued in Vietnam and the great urban and racial problems and other difficulties in our midst, are not subject to solution by financial and economic techniques alone.

Signs of the times all point to the fact that American society and American institutions have too long been governed by yardsticks of a financial or economic sort. Pragmatism in America has served us long and so well. But it does not seem to be serving us now. The problems are different today and other considerations are at work upon the scene.

Strangely enough, the fault seems to be, not in the economic sector, but in the moral sector. Our racial minorities insist that hypocrisy and deception have been at work rather than morality. The Negro tells us that the promise of employment; the promise of freedom; the promise of education; the promise that happiness may be pursued, have not been accorded to his race, or only partly accorded.

The American Indian tells us he is in a desperate case at the lowest end of the scale, notwithstanding that treaty after treaty throughout our history was supposed to provide him with security on land reserved to his use. Other minorities, too, are living a degraded existence in America. This is particularly true of the Spanish-speaking.

Out of it all we hear voices saying they are concerned not with what is, but with what ought to be. These voices are asserting a moral imperative.

Likewise, students in our colleges are rebelling against our academic institutions and the powers which control the academic institutions. While these students have resorted to disorderly acts and breaches of the peace; while they are impulsive and angry, nevertheless the charges that they level at our institutions are often based on moral considerations, that is, on what is the right thing to do.

Nowhere is this moral question of what ought to be so sharply uttered as it is by those who deplore American involvement in Vietnam. Here the morality of American conduct is challenged by thousands of our religious leaders, our educational leaders, even by businessmen, and certainly by our youth. The right of this country to be in Vietnam is called into question. The deadweight tonnage of Americanization upon Vietnamese society is shown for the shame it is. The devastation wrought by our arms in Vietnam is called into question. The entire wisdom of long-range American foreign policy, in relation to what it ought to be, is called into question.

A time has now come when we are asked to make economic adjustments in our American system by these tax and financial measures. We are asked to reset the mechanism by opening the tax valves, the accounting valves, the financial valves, and the economic valves that will make the economic situation better. However, Mr. Speaker, the ailment in that system is so extensive, and the whole morality of the things we are doing as a single national institution and as a society of separate institutions is so questionable, that we must take new stock of the situation. We cannot any longer keep the wrong things going by stopgap measures.

It seems to me that the moral standard is the major one, and this is the standard to which we should adhere. Accordingly, the policies we are following in Vietnam need to be changed. The provisions that we are making for our underprivileged minorities need to be expanded. The hypocrisy of our educational and economic institutions needs to be eliminated. In short, our basic philosophies need reappraisal, and changes ought to be made.

Any great society of institutions must be able to change. If it is not able to change, then the criticism, the dissent, the dissatisfaction, and the degeneration will mount until more violent and more enormous changes become inevitable. It is time that we adjust the system to meet the better standards that so many of our people are pleading for us to adopt. It is wonderful that so many Americans are speaking out for a better way of doing.

New taxes and expense reductions would be all right in some situations. But they are not the chief need in this hour, Mr. Speaker. The requirement today is a basic rethinking of our national priorities on which to spend our resources.

Accordingly, Mr. Speaker, the proposed surtax and reduction of Government outlays should be opposed because they attempt to palliate and accommodate to the underlying moral failures in our society.

Mr. CONYERS. Mr. Speaker, will the gentleman yield?

Mr. DOW. I am glad to yield to my distinguished colleague, the gentleman from Michigan [Mr. CONYERS].

(Mr. CONYERS asked and was given permission to revise and extend his remarks.)

Mr. CONYERS. Mr. Speaker, I would like to very proudly associate myself with the remarks which have been made by the distinguished gentleman from New York [Mr. Dow].

Mr. DOW. I thank the gentleman from Michigan.

Mr. ULLMAN. Mr. Speaker, I yield 1 minute to the gentleman from New York [Mr. RYAN].

(Mr. RYAN asked and was given permission to revise and extend his remarks.)

Mr. RYAN. Mr. Speaker, the distinguished chairman of the Committee on Ways and Means [Mr. MILLS] has said that we are in a serious fiscal situation. We are all concerned about the strength of the dollar at home and abroad. However, the conference report on H.R. 15414 represents an unacceptable approach to such a problem and ignores the basic cause which is the imbalance in our priorities—$80 billion for the military budget—$30 billion per year for the war in Vietnam. It fails utterly to deal with the question of tax reform.

On May 29, when the question of an absolute ceiling on budgetary expenditures was before the House, I pointed out the fallacy of the tax package approach and mentioned the following reasons for opposing it:

First, the tax is a war tax; it is necessitated by the Vietnam war.

Second, the $6 billion expenditure reduction will cripple existing social programs and foreclose an adequate response to the domestic crisis.

Third, the effect of the tax, coupled with the spending cuts, may reduce employment—especially among minorities—and precipitate a recession.

And, fourth, the surtax is not equitable.

Recently it has been argued that, regardless of the merits of the specific proposal before us today, it must be approved or there will be a crisis of inflation at home and a runaway dollar drain abroad. This is what has sometimes been termed a "self-fulfilling prophecy." The administration has so convinced itself and the international financial community that failure to adopt this ill-advised package will spell disaster that it is now generally believed that the security of the dollar depends upon this tax. The administration itself will have created the crisis of confidence which it is predicting.

The fallacy of this argument is the assumption that the measure before us is the sole way to deal with inflation and dollar outflow. There are other and better ways.

The administration originally did not request spending cuts and is accepting them only because they have been put forward as a quid pro quo. If a surtax that pulls some $10 billion from the economy is an adequate response to inflation, then a measure which further reduces purchasing power by another $6 billion through spending cuts is excessive and will incur the risk of recession.

Conservative Members of Congress have insisted that there be no tax unless certain conditions, including a $6 billion spending cut, are met. Liberal Members should interpose certain conditions of their own. If the conference report is defeated today, perhaps some liberal conditions would be met if the tax is genuinely so urgently required.

For example:

The budget can be reduced by specifying reductions instead of evading that responsibility. Some 70 Members from the other side of the aisle recently proposed the so-called "Human Renewal Fund," involving cuts totaling approximately $6 billion, many of which are appropriate: farm subsidies, the SST, and other items. Yet where are the votes

when the time comes to reduce military appropriations? Where were the fiscal conservatives when it was proposed to limit farm subsidies to $10,000 per farm? It seems that "economy in government" is limited to programs designed to meet human needs.

The American Enterprise Institute this week released a study identifying areas of the budget where cuts might be made. Although it covered $102 billion, only $34 billion is identified as "easier to cut." Of this, nearly 60 percent is in social programs.

The conference report specifically exempts Vietnam operations, yet it is precisely Vietnam which has created the budgetary squeeze, and directly and indirectly contributed to the increase in the gold outflow. By voting for $6.1 billion for Vietnam in the supplemental appropriation last week, and by reducing domestic expenditures by $6 billion this week, the illusory nature of the savings is clear. So, as a condition for supporting a tax package, we should require that priorities be put in better order.

Second, it is difficult to justify imposing new taxes upon wage earners, while loopholes permit many of the wealthy to avoid taxes, and while corporate profits are at an all-time high. First quarter corporate profits for 1968 were $88.8 billion. According to figures from Moody's Industrials, profits for the five largest defense contractors have risen on an average of more than 30 percent since the Gulf of Tonkin incident. I do not want to argue that arms manufacturers cause wars, but defense contractors clearly benefit from them, and should be called upon to pay for them in taxes.

Instead of raising revenue through tax reforms and an excess profits tax, the cost of this war is being wrung out of those sectors of the economy which are in the weakest political position to protest—the wage earning citizen, whose tax burden will be increased, the poor of America, who will find programs designed for their benefit reduced below their present minimum levels.

There are other points which should be considered. The Senate, in amending the House excise tax extension, placed sweeping restrictions on Government personnel. Section 201 will have a serious effect on the operation of domestic Government programs, especially in newer agencies which have just begun operation and contemplated a fairly rapid increase in personnel as they reach the status of ongoing programs. Significantly, although domestic program personnel are to be frozen at 1966 levels, during the same period military personnel have increased by more than 25 percent.

Mr. Speaker, just as conservative Members of this House have succeeded in demanding spending reductions and personnel restrictions as conditions for their approval of the 10 percent surtax, liberals should demand that priorities be established, that military expenditures be reduced, and that tax reform be provided. To adopt the conference report on H.R. 15414 is to perpetuate disordered national priorities and vast expenditures for war at the exepnse of domestic needs.

I am greatly concerned about the threat of inflation. I have consistently opposed the greatest single cause of present inflationary difficulties—the escalated Vietnam war. However, in the name of fighting inflation, I will not lend my support to this ill-advised measure which couples a tax increase with a ceiling on expenditures for urgent social programs.

If the crisis confronting our Nation is to be met, then our priorities must be reordered; unmet human needs must come first; a Marshall plan for the cities must be started; and the necessary revenue can be provided through a reallocation of our resources and meaningful and equitable tax reform.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield such time as he may consume to the gentleman from Iowa [Mr. KYL].

(Mr. KYL asked and was given permission to revise and extend his remarks.)

Mr. KYL. Mr. Speaker, the people of the United States are not undertaxed. Our Treasury has been overspent. I oppose this legislation.

(Mr. GERALD R. FORD asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. GERALD R. FORD. Mr. Speaker, I rise in support of H.R. 15414, a bill to impose spending restraints on the Federal Goverment and to increase Federal revenues through a 10-percent surcharge on the incomes of individuals and corporations.

Mr. Speaker, I support H.R. 15414 for just one reason: Our Nation is in deep trouble, financially; our fiscal situation demands that we act to slow down inflation, handcuff the robber who is picking the pockets of the American people.

Mr. Speaker, until recently I opposed the Johnson-Humphrey administration's 10-percent income tax surcharge. I hoped with all my heart we could avoid a tax increase. I have always felt that if the Johnson-Humphrey administration had scaled back its spending plans beginning in 1965–66 as an offset to the swift rise in Vietnam war expenditures we could have avoided a tax increase and could have preserved relative price stability.

But the Johnson-Humphrey administration spurned all Republican pleas for a reordering of priorities, and the majority in the Congress repeatedly defeated Republican economy moves on record votes. This brings us to the position in which the American people find themselves today.

Where do we stand?

We have nearly 5 percent a year price inflation.

We have 10 percent a year wage inflation.

We have only a 4 percent a year increase in productivity.

We have a 6 percent a year upward push in unit labor costs.

Some of our interest rates are the highest in a hundred years; the interest on home mortgages is the highest in 50 years and so we recently had to lift the ceiling on FHA and GI interest rates.

We have $20 to $25 billion Federal budget deficits.

Every rise in prices stimulates an increase in wages, and every increase in wages sets the stage for further increases in prices.

People at home and abroad are losing confidence in the dollar as inflation becomes a way of life in America and the purchasing power of the dollar steadily drops.

The dollar is a mainstay of the international monetary system. Loss of confidence in the dollar has weakened that system. A collapse of world trade threatens unless the dollar is shored up. Because the dollar no longer is as good as gold there has been a run on the U.S. gold supply. Our gold has been dangerously reduced and is vulnerable to still greater losses.

Finally, we face the danger of a major recession if not a depression. The flowering of inflation carries with it the seeds of economic destruction. This is the bloom that dooms the boom. The inflation that is now in a trot threatens to gallop, and galloping inflation will be followed by recession from natural causes.

In short, the Nation is suffering the consequences of Federal fiscal irresponsibility.

Mr. Speaker, I, for one, am unwilling to accept the consequences of continued Federal fiscal irresponsibility. I am unwilling to accept $20 to $25 billion Federal deficits back to back—just as I was unwilling to participate in the reckless spending which has brought us to our present pass.

Mr. Speaker, we are all aware of the perilous fiscal situation in which the Nation finds itself today, and we all know we must do something about it.

Mr. Speaker, H.R. 15414 gives us the opportunity to do something about it.

Mr. Speaker, I believe H.R. 15414 is a most vital piece of legislation. I cannot conceive of its being rejected by the Congress because I believe what is at stake here is the economic health of every American, and primarily the poor.

To continue on our present course is to follow the road to disaster.

Tax increases are painful. Nobody likes a tax increase. But the alternative to the package before us is far worse. Galloping inflation and a major recession—that is the alternative.

Let the American people consider the consequences of the trotting inflation we now are plagued with—and then ask themselves if the Congress is not acting properly in approving the package before us today.

Consider the fact that the real income of the average American worker has not improved in the slightest in the last 2 or 3 years. The weekly earnings of the average worker in nonfarm employment actually were a little lower in 1966 than in 1965, and again somewhat lower in 1967 than in 1966—when his wages are adjusted for consumer price increases and the rise in social security and income taxes.

As for the millions of poor in America, most of the benefits provided for them in the antipoverty and related programs have been wiped out by the effects of inflation.

How destructive is the inflation we now are experiencing?

The past year's increase in the cost of living is the sharpest year-to-year rise in more than 16 years.

The cost of living has gone up 20 percent since the 1957–59 period.

The Eisenhower dollar now is worth 83 cents.

Interest rates on home mortgages have climbed to 7 or 8 percent—and the President recently warned of a rise to 10 percent unless we act here today.

If we fail to act affirmatively today, this Nation is certain to suffer another credit crunch as bad as that of 1966, or worse.

There is no need to go back 7 or 8 years to show that inflation is badly hurting the American people, the little people who do not know about hedges against inflation and just sit tight while their savings are washed away.

The cost of living has gone up 10 percent just since January 1965 and is reaching new all-time highs each month.

What the average housewife paid $10.89 for in January 1965 she now pays $12 for.

The January 1965 dollar now is worth less than 91 cents.

A $10 bill acquired in January 1965 now is worth $9.08.

A savings account with $500 in it as of January 1965 now is worth $454.13 in principal, nearly $46 less.

A $10,000 insurance policy of 3 years ago now is worth $9,083, a depreciation of $917.

A retired American with an income of $2,500 3 years ago finds that his income has shrunk to $2,295.50, a loss of $204.50.

This is what is happening among the 224 million citizens of this country because the Johnson-Humphrey administration triggered an inflationary spiral in 1965–66 with mistakes in fiscal strategy, excessive spending and downright deception.

The hour is late—very late. The argument can be made that we are trying to lock the barn door after the horse has been stolen. But I think it still is possible to catch the horse and put a halter on him. We cannot abruptly stop inflation because if we did we would stall the economy. But we can slow it down by bringing Federal spending under control and increasing Federal revenue.

If we place sharp restraints on Federal spending now, tax relief will be possible in the future.

I personally find the tax increase portion of the bill before us extremely distasteful. In my view, a tax increase following upon consumer price increases punishes the American people for an offense properly chargeable not to them but to the party in power.

I think the spending restraints H.R. 15414 will impose on the Johnson-Humphrey administration and future administrations are more meaningful than the tax increase in terms of restoring the economic health of this Nation.

Basically, I take the tax increase to get the spending restraints.

There are those who argue that the tax increase will aggravate the inflation problem by adding to production costs and leading to further price increases, and that these price increases in turn will trigger demands for greater wage increases.

Whether this will be the immediate consequence of the tax increase can only be the subject of speculation. But we can feel certain that a tax increase will dampen consumer demand. It also can be expected that the combination of a spending holddown and a rise in Federal revenue will help to bring down interest rates over the long term.

The President has called for an austerity program. Let us give it to him. Certainly it is needed.

Let us be completely honest about the legislation we deal with today. A tax increase is politically hazardous. It makes a politician gag if not choke.

We, in my party feel we are not to blame for the mess in which the Nation finds itself. For that reason I demanded earlier this year that the majority party come up with a majority for the tax and spending cut package in order to get Republican support for it. The majority party appears to have done so. I therefore urge as many of my colleagues as find it possible to do so to vote for H.R. 15414. It is a step toward a sound dollar, an economically healthy America, and genuine progress for all our citizens.

(Mr. HALL asked and was given permission to extend his remarks at this point in the RECORD and to include extraneous matter.)

Mr. HALL. Mr. Speaker, as Shakespeare might have said, "To raise taxes, or not to raise taxes; to cut spending, or not to cut spending, aye, that is the question." But on second glance, the issue is not all that simple and the questions are not what they seem to be.

The only sure thing to come from this bill today, should it be approved, will be an immediate retroactive increase in taxes on every taxpaying American.

The spending cuts are at best a matter of conjecture, and at worst an illusion. I had hoped that the President, recognizing the fallacy of his Great Society spending programs in the face of a melting dollar, would spell out where, and even more important, when, he would cut Federal expenditures. He has not done so, thus leading to the very real possibility that he will make no effort to affect any spending cuts during the remainder of his self determined lame-duck term. Because of the nature of Federal spending, the expenditure and budgetary procedures, and laws; the President could continue spending in the month of July, which is the first month of fiscal 1969, and at the same level or even at an increased level, even with a 6-billion-dollar expenditure cut in the law.

He could continue to do that for August, for September, for October. In fact, he could continue to do it through the end of his term in office, and still not violate the technical requirements of the possibly unconstitutional and nongermane conference report we are considering today. The effect of such a policy, would be to throw the entire $6 billion cut into the last half of the new fiscal year 1969 when a different administration will be in office. Would President Johnson follow such a tack? Having not said he would not, we must assume from what has happened and his unrefuted statements that he well might. The Chief of the executive branch at no time and of no party deserves the right of veto by item. Thus far the Johnson administration has avoided doing anything in fiscal year 1968 to show a desire to follow fiscal responsibility. Here it is June 20. We have 10 days left before fiscal 1968 terminates. So obviously, the President is not going to cut back anything in fiscal 1968. In fact, we know that far from cutting by $4 billion, as he said he would last August, he increased expenditures over the figure he gave us in his January budget by $7 billion. Last week this body rescinded $2.97 billion from the so-called Economy Act of 1967, and reappropriated it across the board in the publicly esoteric "Supplemental Appropriation Act No. 2" of fiscal year 1968. I could cite other examples of spending as usual.

So I fear that if the conference report is adopted we will have a 10-percent tax increase without assurances of any cuts in Federal spending. Would a tax increase by itself reduce inflationary pressures? Most knowledgable economists tell us what we are suffering is a cost-push inflation, not demand-pull. The rising overhead costs of business including labor, material, and taxes are contributing to inflation, and raising taxes further will tend to influence still higher prices for goods and services. A tax increase would lessen the deficit and help stabilize the dollar, but considering the magnitude of the present deficit, the tax increase would make little impact, and the spending cut might not occur for 6 months.

Congress can, of course, make substantial spending cuts, and my colleague from Missouri, TOM CURTIS, has spelled out in detail areas where $15 billion can be cut. So, in the absence of any assurance of the President about where and when cuts would be imposed, I do not believe Congress can take refuge behind this bill. Instead, we can and should apply our own spending cuts on every appropriation bill.

Finally, Mr. Speaker, in deciding to cast my vote in opposition to the conference report, I must confess an uncomfortable feeling about the knowledge that some of my more liberal colleagues will vote the same way, though for diametrically opposite reasons. Frankly, I do not know how any liberal could oppose this measure today. Those who have supported every spending program of the Great Society, and in some cases voted for even more than the President wanted, imply by their opposition to a tax increase that they love honey, but they cannot stand the bees. They like to give away goodies, but they do not wish to pay the piper.

Having fought at virtually every crossroads for sharp reductions in Federal spending, I do not feel obligated to join in prescribing the bitter medicine, especially when the medicine may be "snake oil" in disguise. But it seems to me that those who have supported the spending extravaganza over the past 7 years have a moral obligation to identify themselves with the I.O.U. which may now become due from the American taxpayer. The problem of our country is not one of overspending and undertaxing; it is the reverse. It is up to the en-

trenched majority party to solve the problem, but not in this way and manner. I urge my colleagues to vote for the consumer and taxpayer, not those who are "harbingers of doom," and customarily pass along taxes to the people.

Mr. BYRNES of Wisconsin. Mr. Speaker, I yield myself 10 minutes.

(Mr. BYRNES of Wisconsin asked and was given permission to revise and extend his remarks.)

Mr. BYRNES of Wisconsin. Mr. Speaker, I rise to urge the approval of the report of your conferees. Probably at no time, at least in recent years, has there been a greater need or a greater urgency for responsibility and discipline in our fiscal affairs than today, and in my judgment, this conference report is a step in that direction.

Mr. Speaker, we are in a fiscal mess, and we might just as well recognize it. That is not just a statement that comes from a Member of the minority, a Republican, to chastise the current administration or the current majority in the House. We hear the same statement concerning the fiscal crisis voiced on all sides by many, many in nonpartisan quarters.

Let me say that if we do not meet this crisis, if we do not make a start to hold the line on expenditures, all of our hopes for helping the unfortunate are going to be shattered because, in how we manage our fiscal affairs depends our ability—and let us get this straight right from the beginning—depends our ability to meet the urgent needs that our country faces, be they in the city or be they supporting our boys who are now engaged in war. We make it more difficult to respond to those urgent needs unless we take some real steps to get our fiscal house in order. We must fight inflation.

And who does inflation hit at the hardest? The rich? Oh, no. They can hedge. They have the resources as far as their basic living needs are concerned. It is the poor that suffer in terms of higher living costs in the necessities and the essentials. Inflation has to be stopped. Unless we do something we cannot keep pace with inflation in the appropriations for welfare.

So let me caution those who express the great concern today for the plight of the poor and the unfortunate—and let me say to you that I am just as concerned about them as anyone else—but we are not, as a government, going to be in any position to help any of those people very much unless we first get our house in order and have a currency that the people will respect, both here at home and abroad.

Our deficits are creating increases in interest costs. Interest rates are going through the ceiling. Who is hurt the most by this? It is the poor person who has to go out and borrow to get a stove or a refrigerator, or a car to get him to work; not the rich. The rich are lending the money most of the time—it is the poor that suffer.

We are trying to put a stop to—and we must—put a stop to this skyrocketing of interest rates, if we are going to protect our economy and protect our poor and protect the less fortunate.

We have also a most serious balance-of-payments problem. We have a situation where people are having difficulty even cashing a traveler's check abroad because they are questioning the value of the dollar. When that happens, our trade balance suffers. As inflation takes place, the imports are attracted in greater volume. That means fewer jobs—and you say jobs have to be created—and I agree that they have to be created—for our citizens.

But let me express this note of caution, Mr. Speaker, before I say one word more. This bill is not the solution to all of our problems. Because we today pass this bill, does not mean that we can now sit back and relax either as a Congress or that the people of the country can relax and say, "Well, this bill is passed and so we have corrected everything."

All we can—and we have to do it—is to soften the impact of these deficits and hold down to some degree the inflation and hold down the interest rates and restore to some degree at least confidence that there is some discipline left in this country and in this Congress and in the Government of the United States.

I think we need more discipline than has been exerted here. But at least I plead with each and everyone of you—be you those who are so worried that this means a retreat from doing anything for the unfortunate—or, be it any Member of this House—we have to make a step in the direction of fiscal discipline and fiscal responsibility. We have to defend this dollar—the currency on which all of the free world's commerce and trade depends—it is the dollar, is it not? Is that not what they are worried about? We have to make sure that the dollar has a stable value and that people will know from one day to the next what it is worth?

Let me tell you; unless we start making a start, that is going to be the real problem. What is that dollar going to be worth tomorrow? When people begin questioning that—the workers, the poor and everybody—then you get a stalemate and soon you will have chaos on your hands.

But after the passage of this bill, we are going to have to maintain and to continue a restraint and a discipline and establish priorities to determine what is to be done—yes—and then do it.

We must recognize also that there is a limitation to our capacity and to our resources. We cannot go on with the philosophy that has pervaded this Congress and this Government, frankly, and this country, for all too long, that we are so rich and powerful that there is nothing we cannot afford, because we are finding out right now that there are a lot of things that we cannot afford and because we are doing it, we are in trouble and in deep trouble.

I urged that we take this action a long time ago.

It was about 9 months ago that I made a speech in which I said, and it appears in the RECORD of September 26, 1967:

> Congress should pass a tax increase in the absence of credible action by the President to cut spending and establish new priorities. The tax increase should be coupled with enactment of an expenditure ceiling on non-defense spending to which the President must conform.
>
> The tax increase and the legislation on spending should be of size which would assure that the deficit would be cut in half. What I am suggesting is, of course, a crude device. Its virtue rests in the fact that, however, it can break the stalemate. It can give us a response to the fiscal mess in which we find ourselves.

I believe, as I did then, that that is one of the steps which is essential. That, Mr. Speaker, is what I believe this conference report attempts to do. To bring in new revenues which are needed, and to put a restraint on the expenditure explosion. I have maintained from the beginning that a tax increase that was not coupled with a restraint in expenditure solved nothing. It gave us more money, but it did not solve the problem of a deficit, because there was just more money to spend, and with that much more money we could be misled in believing that we were that much better off and we could spend more lavishly. If we were going to attack the basic problem, which is the deficit, we had to couple the increase in revenue with expenditure control.

Mr. Speaker, this bill has taken a long road. Frankly, we could have had a tax increase, in my judgment, and should have had one earlier than this. The only reason we did not was the resistance—and that is what has been the stumbling block—the resistance of the administration to accept any kind of reasonable control on the expenditure explosion.

We have in this bill legislative restraint. You can say that it is a crude tool, and I will admit that it is a crude tool. But it is the only tool that we have at this moment that anyone has come up with to do the job of putting the lid on, providing some restraint, and making some cutbacks. If someone has a better tool, let us see it, and let us add that tomorrow or the next day. But today this is all we have and, by Jove, when my house is burning and I call for the fire department and it comes, and its hoses are leaky, I am not going to complain to the fire department, but I am still going to have them turn the water on and get as much water as they can deliver through those leaky hoses to put out the fire. That is what we are doing now.

I am not contending that the expenditure control that we have here is perfect. Of course it is not. But we have the assurance that it will be put into effect, that it will be implemented. We have the assurance that the implementation will be in accord with the anti-deficiency act, which means spreading it out so that it will not be ballooned at the end of the year. We also have the assurance that unless the administration buckles down and implements the ceiling, we are going to have another chance to do something under the debt ceiling. But we will have. This is not the last chance.

So I think in this measure we have some real assurances. But the point I would make to many of my colleagues is that if you turn down this bill, if you vote against it because, as some say, "We

do not like increasing taxes," I say, "Who does?" This Congress, as a Congress, has appropriated the money. We are engaged in a war. We have had an expenditure explosion across the board. We have got to do something to cut it down. We have got to do something to get a little more money into the till to meet the current emergency. This bill does both.

It is our only chance, let me say to some of my friends, to really put some kind of restraint—defective as it might be—on this expenditure explosion. If we turn it down, we turn down the opportunity to put any restraint on spending.

Mr. Speaker, we face now the principal decision, the most crucial decision that will face this Congress, in my judgment. We must decide now whether we take a course of fiscal responsibility, whether we take a course of fiscal discipline, or whether we continue down the rampant road of inflation, high interest, and jeopardy to the dollar. To me, there is only one road any of us can take, and that is to adopt this conference report and at least to start to get back on the road toward some kind of discipline and integrity.

Mr. MILLS. Mr. Speaker, I have no further requests for time.

Mr. BYRNES of Wisconsin. Mr. Speaker, I have no further requests for time.

The SPEAKER. Under the rule, the previous question is ordered.

MOTION TO RECOMMIT OFFERED BY MR. CURTIS

Mr. CURTIS. Mr. Speaker, I offer a motion to recommit.

The SPEAKER. Is the gentleman opposed to the conference report?

Mr. CURTIS. I am, Mr. Speaker.

The SPEAKER. The Clerk will report the motion to recommit.

The Clerk read as follows:

Mr. CURTIS moves to recommit the conference report on H.R. 15414 to the committee of conference

Mr. MILLS. Mr. Speaker, I move the previous question on the motion to recommit.

The previous question was ordered.

The SPEAKER. The question is on the motion to recommit.

The motion to recommit was rejected.

The SPEAKER. The question is on the conference report.

Mr. MILLS. Mr. Speaker, on that I demand the yeas and nays.

The yeas and nays were ordered.

The question was taken; and there were—yeas 268, nays 150, answered "present" 3, not voting 12, as follows:

[Roll No. 201]

YEAS—268

Abernethy	Biester	Burton, Utah
Albert	Bingham	Bush
Anderson, Ill.	Blackburn	Button
Anderson, Tenn.	Blanton	Byrne, Pa.
Annunzio	Blatnik	Byrnes, Wis.
Arends	Boggs	Cabell
Ashley	Boland	Cahill
Ashmore	Bolling	Carter
Aspinall	Bow	Casey
Ayres	Brock	Cederberg
Bates	Brooks	Celler
Battin	Brotzman	Chamberlain
Belcher	Brown, Mich.	Clark
Bell	Brown, Ohio	Cleveland
Bennett	Broyhill, N.C.	Collier
Berry	Broyhill, Va.	Colmer
Betts	Burke, Mass.	Conable
	Burleson	Conte
Corbett	Jones, Mo.	Pucinski
Corman	Karsten	Purcell
Culver	Karth	Quie
Daddario	Kazen	Railsback
Daniels	Kee	Rees
Davis, Ga.	Keith	Reid, Ill.
Davis, Wis.	King, Calif.	Reid, N.Y.
Dawson	Kirwan	Reifel
de la Garza	Kluczynski	Reinecke
Dellenback	Kornegay	Resnick
Denney	Kupferman	Reuss
Dent	Laird	Rhodes, Ariz.
Derwinski	Landrum	Rhodes, Pa.
Dole	Langen	Rivers
Donohue	Latta	Roberts
Dorn	Lipscomb	Robison
Downing	Lloyd	Rogers, Colo.
Dulski	Long, Md.	Rogers, Fla.
Dwyer	McCarthy	Ronan
Eilberg	McClory	Rooney, N.Y.
Erlenborn	McCloskey	Rooney, Pa.
Esch	McCulloch	Rostenkowski
Eshleman	McDade	Roth
Evans, Colo.	McDonald, Mich.	Roush
Everett	McEwen	Rumsfeld
Fallon	McFall	Ruppe
Fascell	MacGregor	St Germain
Feighan	Mahon	St. Onge
Findley	Mailliard	Satterfield
Fisher	Marsh	Schneebeli
Flood	Martin	Schweiker
Foley	Mathias, Calif.	Schwengel
Ford, Gerald R.	Mathias, Md.	Shriver
Fountain	Matsunaga	Sikes
Fraser	May	Sisk
Frelinghuysen	Mayne	Skubitz
Friedel	Meeds	Smith, N.Y.
Fulton, Pa.	Miller, Calif.	Stafford
Fulton, Tenn.	Mills	Staggers
Fuqua	Mize	Stanton
Galifianakis	Monagan	Steed
Gallagher	Montgomery	Steiger, Wis.
Gathings	Moorhead	Stephens
Gettys	Morgan	Stratton
Giaimo	Morris, N. Mex.	Stubblefield
Gonzalez	Morse, Mass.	Sullivan
Goodell	Morton	Talcott
Gray	Mosher	Taylor
Green, Oreg.	Murphy, Ill.	Teague, Calif.
Green, Pa.	Murphy, N.Y.	Tiernan
Griffin	Natcher	Tunney
Gubser	Nelsen	Udall
Gude	Nix	Ullman
Hamilton	O'Hara, Ill.	Van Deerlin
Hammer-schmidt	O'Hara, Mich.	Vander Jagt
Hanley	O'Konski	Vigorito
Hanna	Olsen	Waldie
Hansen, Wash.	O'Neill, Mass.	Watson
Harrison	Patman	Watts
Harvey	Patten	Whalley
Herlong	Pelly	White
Hicks	Pepper	Whitener
Holifield	Perkins	Widnall
Horton	Pettis	Wiggins
Hosmer	Philbin	Willis
Hungate	Pickle	Wilson, Bob
Ichord	Pike	Wilson, Charles H.
Irwin	Pirnie	Wright
Joelson	Poage	Wyatt
Johnson, Calif.	Pollock	Young
Johnson, Pa.	Price, Ill.	Zwach
Jonas	Pryor	

NAYS—150

Abbitt	Cunningham	Haley
Adair	Curtis	Hall
Adams	Delaney	Halleck
Addabbo	Devine	Halpern
Andrews, Ala.	Dickinson	Hansen, Idaho
Andrews, N. Dak.	Diggs	Harsha
	Dingell	Hathaway
Ashbrook	Dow	Hébert
Baring	Dowdy	Hechler, W. Va.
Barrett	Duncan	Heckler, Mass.
Bevill	Eckhardt	Henderson
Bolton	Edmondson	Howard
Brademas	Edwards, Ala.	Hull
Brasco	Edwards, Calif.	Hunt
Bray	Edwards, La.	Hutchinson
Brinkley	Farbstein	Jacobs
Broomfield	Fino	Jarman
Brown, Calif.	Flynt	Jones, Ala.
Buchanan	Ford, William D.	Jones, N.C.
Burke, Fla.	Gardner	Kastenmeier
Burton, Calif.	Garmatz	Kelly
Carey	Gibbons	King, N.Y.
Clancy	Gilbert	Kleppe
Clausen, Don H.	Goodling	Kuykendall
Clawson, Del	Gross	Kyl
Conyers	Grover	Kyros
Cowger	Gurney	Leggett
Cramer	Hagan	Lennon
		Long, La.
Lukens	Randall	Taft
McClure	Rarick	Tenzer
Macdonald, Mass.	Riegle	Thompson, Ga.
	Rodino	Thomson, Wis.
Machen	Rosenthal	Tuck
Meskill	Roudebush	Utt
Michel	Roybal	Vanik
Miller, Ohio	Ryan	Waggonner
Minish	Sandman	Walker
Mink	Saylor	Wampler
Minshall	Schadeberg	Watkins
Moore	Scherle	Whalen
Moss	Scheuer	Whitten
Myers	Scott	Williams, Pa.
Nichols	Shipley	Winn
O'Neal, Ga.	Slack	Wolff
Ottinger	Smith, Calif.	Wydler
Passman	Smith, Iowa	Wylie
Podell	Smith, Okla.	Wyman
Poff	Snyder	Yates
Pool	Springer	Zion
Price, Tex.	Steiger, Ariz.	
Quillen	Stuckey	

ANSWERED "PRESENT"—3

Hawkins	Helstoski	Zablocki

NOT VOTING—12

Cohelan	Hays	Nedzi
Evins, Tenn.	Holland	Selden
Griffiths	McMillan	Teague, Tex.
Hardy	Madden	Thompson, N.J.

So the conference report was agreed to.

The Clerk announced the following pairs:

On this vote:

Mr. Thompson of New Jersey for, with Mr. Helstoski against.

Mr. Teague of Texas for, with Mrs. Griffiths against.

Mr. Evins of Tennessee for, with Mr. Madden against.

Mr. McMillan for, with Mr. Selden against.

Mr. Cohelan for, with Mr. Hawkins against.

Mr. Nedzi for, with Mr. Zablocki against.

Mr. Hays for, with Mr. Holland against.

Mr. HELSTOSKI. Mr. Speaker, I have a live pair with the gentleman from New Jersey [Mr. THOMPSON]. Had he been present, he would have voted "yea." I voted "nay." I, therefore, withdraw my vote and vote "present."

Mr. HAWKINS. Mr. Speaker, I have a live pair with the gentleman from California [Mr. COHELAN]. Had he been present, he would have voted "yea." I voted "nay." I, therefore, withdraw my vote and vote "present."

Mr. ZABLOCKI. Mr. Speaker, I have a live pair with the gentleman from Michigan [Mr. NEDZI]. Had he been present, he would have voted "yea." I voted "nay." I, therefore, withdraw my vote and vote "present."

The result of the vote was announced as above recorded.

A motion to reconsider was laid on the table.

LEGISLATIVE PROGRAM FOR THE WEEK OF JUNE 24, 1968

(Mr. GERALD R. FORD asked and was given permission to address the House for 1 minute.)

Mr. GERALD R. FORD. Mr. Speaker, I take this time for the purpose of asking the distinguished majority leader the program for the remainder of this week and the schedule for next.

Mr. ALBERT. Mr. Speaker, will the gentleman yield?

Mr. GERALD R. FORD. I yield to the gentleman from Oklahoma.

Mr. ALBERT. Mr. Speaker, in response to the inquiry of the distinguished

DIGEST of Congressional Proceedings

OF INTEREST TO THE DEPARTMENT OF AGRICULTURE

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C. 20250
OFFICIAL BUSINESS

POSTAGE AND FEES PAID
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OFFICE OF BUDGET AND FINANCE
(FOR INFORMATION ONLY; NOT TO BE QUOTED OR CITED)

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For actions of June 21, 1968
90th-2nd; No. 107

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HIGHLIGHTS: Senate committee reported second supplemental appropriation and Interior appropriation bills. Senate agreed to conference report on revenue-expenditure control bill. Senate committee reported foot-and-mouth disease bill and bill to lease tobacco allotments without clearance. Senate committee reported International Coffee Agreement and bill to prohibit certain cotton imports. Senate committee reported supergrades bill. Senate disagreed to House amendments to Public Law 480 and appointed conferees.

SENATE

1. TAXATION. Agreed to, 64-16, the conference report on H. R. 15414, the proposed Revenue and Expenditure Control Act of 1968 (pp. S7562-4, S7480-508). For provisions see Digest 106.

During the debate on the conference report Sen. Morse said that tax reform is what the American farmer needs and said that one of the reasons for migration of farmers to urban areas is the effect of what the vertical monopoly development

is doing to American agriculture (pp. S7485-6); and Sen. McGovern said that as much as $400 million in tax revenues are now escaping because people and corporations are making income on nonfarm operations and are using agriculture as a means of reducing taxable income (pp. S7487-8). Sen. Javits listed ways to accommodate a $6 billion expenditure cut mentioning "the $7 billion agricultural program" (p. S7500).

2. BUILDINGS. Conferees were appointed on S. 222, to insure that public buildings financed with Federal funds are so designed and constructed as to be accessible to the physically handicapped (p. S7522). House conferees have not been appointed.

3. COUNTY COMMITTEES. Concurred in House amendments to S. 1028, to extend certain benefits to former employees of county committees (p. S7522). For provisions see Digest 83. This bill will now be sent to the President.

4. FOOD FOR FREEDOM. Conferees were appointed on S. 2986, to extend Public Law 480 for 3 years. House conferees have not been appointed. pp. S7522-3

5. MILITARY CONSTRUCTION. Continued debate on H. R. 16703, the military construction bill, which includes funds for payment of the debt to the Commodity Credit Corp. for foreign currencies used in prior years to construct military family housing overseas. pp. S7509, S7529-55

6. COFFEE. The Foreign Relations Committee reported without reservation the International Coffee Agreement, 1968. p. S7556

7. TRANSPORTATION. Received from the Transportation Department a proposed bill to unify and consolidate the rules for navigation of the waters of the United States; to the Commerce Committee. p. S7555

8. APPROPRIATIONS. The Appropriations Committee reported with amendments H. R. 17754, the Department of the Interior and related agencies appropriation bill (S. Rept. 1275) (p. S7756). A table reflecting the items for the Forest Service is attached to this Digest.

The Appropriations Committee reported with amendments on June 19 during recess H. R. 17734, the second supplemental appropriation bill, 1968 which includes $32 million for the school lunch program for fiscal year 1969. The bill also includes items for defense, increased pay costs for Federal employees, and grants to states for public assistance (S. Rept. 1269) (p. S7480). For a table reflecting committee action on the bill see Digest 106.

9. TOBACCO; LANDS, FOOT-AND-MOUTH DISEASE; WORLD FARM CENTER. The Agriculture and Forestry Committee reported the following bills: H. R. 17002, without amendment, to amend the Agricultural Adjustment Act of 1938 to permit the transfer of tobacco allotments by lease without clearance from lienholders (S. Rept. 1270). H. R. 16065, without amendment, to direct the Secretary of Agriculture to release on behalf of the United States conditions in deeds conveying certain lands to Iowa (S. Rept. 1272). H. R. 16451, without amendment, to authorize cooperation with the several governments of Central America in the prevention

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House of Representatives

The House was not in session today. Its next meeting will be held on Monday, June 24, 1968, at 12 o'clock noon.

Senate

FRIDAY, JUNE 21, 1968

(Legislative day of Wednesday, June 19, 1968)

The Senate met at 9 a.m., on the expiration of the recess, and was called to order by the President pro tempore.

Rev. Patrick J. Hunter, S.J., New Orleans Province of the Society of Jesus, Loyola University, New Orleans, La., offered the following prayer:

God of humanity, we come before You this Friday in June of 1968 with a familiar plea—that You listen, and understand, and help.

You have heard us all—Senators or clergymen or just human persons—give this plea so often. And it always comes with an unspoken hope:

The hope that "God" means a person who always listens, even when our words are confused or boring or even threatening;

The hope that "God" means a person who always understands our real meaning, even when that meaning may be clouded by the tensions, anxieties, and complex actions in the midst of which we ask for understanding;

The hope that "God" means a person who always helps, even when that help may interfere with a kind of divine luxury or expose God to human ingratitude or cost the very life of God's Son.

And on this day above all, we ask You to give us more—to give us Your very ability to listen, to understand, to help. And as we are poor when we pray before God, we ask You to give us Your ability to listen to the poor, to understand the poor, to help the poor.

Let us never say we have listened enough to the poor. Let us listen to Resurrection City, even when the words offend us. Let us never say we have understood enough, even when tensions hide an inner plea for peace. Let us never say we have helped or given enough, even when we must sacrifice our wealth in higher taxation and must focus our limited expenditures on human welfare and not on luxury, convenience, security, or war.

As we ask You, our God, to listen and respond to us poor humans, let us as humans listen and respond to our fellow humans who are poor. Amen.

THE JOURNAL

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Journal of the proceedings of Wednesday, June 19, 1968, be approved.

The PRESIDENT pro tempore. Without objection, it is so ordered.

MESSAGE FROM THE HOUSE

A message from the House of Representatives by Mr. Hackney, one of its reading clerks, announced that the House had passed, without amendment, the joint resolution (S.J. Res 180) to provide franked mail privileges for surviving spouses of Members of Congress.

The message also announced that the House had disagreed to the amendments of the Senate to the bill (H.R. 15189) to authorize appropriations for certain maritime programs of the Department of Commerce; asked a conference with the Senate on the disagreeing votes of the two Houses thereon, and that Mr. GARMATZ, Mr. DOWNING, Mr. LENNON, Mr. MAILLIARD, and Mr. PELLY were appointed managers of the conference on the part of the House.

The message further announced that the House had agreed to the report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations.

The message also announced that the House had passed a bill (H.R. 17903) making appropriations for public works for water and power resources development, including civil functions administered by the Department of Defense, the Panama Canal, certain agencies of the Department of the Interior, the Atlantic-Pacific Interoceanic Canal Study Commission, the Delaware River Basin Commission, Interstate Commission on the Potomac River Basin, the Tennessee Valley Authority, and the Water Resources Council, and the Atomic Energy Commission, for the fiscal year ending June 30, 1969, and for other purposes, in which it requested the concurrence of the Senate.

The message further announced that the House had passed a joint resolution (H.J. Res. 1302) to authorize the President to issue a proclamation designating the week of October 13, 1968, as "Salute to Eisenhower Week," in which it requested the concurrence of the Senate.

ENROLLED BILLS SIGNED

The message also announced that the Speaker had affixed his signature to the following enrolled bills, and they were signed by the Vice President:

H.R. 1655. An act for the relief of Clara B. Hyssong;

H.R. 2270. An act for the relief of Capt. David Campbell;

H.R. 2455. An act for the relief of Dean P. Bartelt;

H.R. 2688. An act for the relief of the estate of Charles C. Beaury;

H.R. 4566. An act for the relief of Mary F. Thomas;

H.R. 4961. An act for the relief of Donald E. Crichton;

H.R. 5199. An act for the relief of James E. Denman;

H.R. 5854. An act for the relief of Mrs. E. Juanita Collinson;

H.R. 6305. An act for the relief of Claud Ferguson;

H.R. 6880. An act for the relief of Lester W. Hein and Sadie Hein;

H.R. 8088. An act for the relief of Willard Herndon Rush;

H.R. 9568. An act for the relief of Lucien A. Murzyn;

H.R. 10050. An act for the relief of Capt. Russell T. Randall;

H.R. 10058. An act for the relief of Mrs. Esther D. Borda;

H.R. 10199. An act for the relief of Lloyd W. Corbisier;

H.R. 11166. An act for the relief of Earl S. Haldeman, Jr.

H.R. 12073. An act for the relief of John Allunario;

H.R. 15856. An act to authorize appropriations to the National Aeronautics and Space Administration for research and developments, construction of facilities, and administrative operations, and for other purposes; and

H.R. 10655. An act for the relief of Arthur Anderson.

HOUSE BILL AND JOINT RESOLUTION REFERRED

The following bill and joint resolution were each read twice by their titles and referred, as indicated:

H.R. 17903. An act making appropriations for public works for water and power resources development, including civil functions administered by the Department of Defense, the Panama Canal, certain agencies of the Department of the Interior, the Atlantic-Pacific Interoceanic Canal Study Commission, the Delaware River Basin Commission, Interstate Commission on the Potomac River Basin, the Tennessee Valley Authority, and the Water Resources Council, and the Atomic Energy Commission, for the fiscal year ending June 30, 1969, and for other purposes; to the Committee on Appropriations.

H.J. Res. 1302. Joint resolution to authorize the President to issue a proclamation designating the week of October 13, 1968, as "Salute to Eisenhower Week"; to the Committee on the Judiciary.

REPORT OF A COMMITTEE SUBMITTED DURING RECESS

Pursuant to the order of the Senate of March 16, 1967,

Mr. PASTORE, from the Committee on Appropriations, reported favorably, with amendment, on June 19, 1968, the bill (H.R. 17734) making supplemental appropriations for the fiscal year ending June 30, 1968, and for other purposes, and submitted a report (No. 1269) thereon, which was printed.

ORDER OF BUSINESS

The PRESIDENT pro tempore. The time now is under the control of the Senator from Florida.

Mr. SMATHERS. Mr. President, I yield to the distinguished majority leader such time as he may desire.

EXECUTIVE SESSION

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Senate go into executive session to consider three nominations on the Executive Calendar.

The PRESIDENT pro tempore. Without objection, it is so ordered.

DISTRICT OF COLUMBIA COURT OF APPEALS

The assistant legislative clerk read the nomination of John W. Kern III, of Maryland, to be associate judge of the District of Columbia Court of Appeals.

The PRESIDENT pro tempore. Without objection, the nomination is considered and confirmed.

PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA

The assistant legislative clerk read the nomination of George A. Avery, of the District of Columbia, to be a member of the Public Service Commission of the District of Columbia.

The PRESIDENT pro tempore. Without objection, the nomination is considered and confirmed.

DISTRICT OF COLUMBIA REDEVELOPMENT LAND AGENCY

The assistant legislative clerk read the nomination of Stephen S. Davis to be a member of the District of Columbia Redevelopment Land Agency.

The PRESIDENT pro tempore. Without objection, the nomination is considered and confirmed.

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the President be immediately notified of the confirmation of these nominations.

The PRESIDENT pro tempore. Without objection, it is so ordered.

LEGISLATIVE SESSION

Mr. MANSFIELD. Mr. President, I move that the Senate resume the consideration of legislative business.

The motion was agreed to, and the Senate resumed the consideration of legislative business.

COMMITTEE MEETINGS DURING SENATE SESSION

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Permanent Subcommittee on Investigations of the Committee on Government Operations and the Committee on Public Works be authorized to meet during the session of the Senate today.

The PRESIDENT pro tempore. Without objection, it is so ordered.

OBJECTION TO COMMITTEE MEETING

Mr. MANSFIELD. Mr. President, I ask unanimous consent that the Subcommittee on Employment, Manpower, and Poverty of the Committee on Labor and Public Welfare be authorized to meet during the session of the Senate today.

Mr. KUCHEL. Objection, Mr. President.

The PRESIDENT pro tempore. Objection is heard.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

Mr. SMATHERS. Mr. President, I submit a report of the committee of conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H.R. 15414) to continue the existing excise tax rates on communication services and on automobiles, and to apply more generally the provisions relating to payments of estimated tax by corporations. I ask unanimous consent for the present consideration of the report.

The PRESIDENT pro tempore. The report will be read for the information of the Senate.

The assistant legislative clerk read the report.

(For conference report, see House proceedings of June 10, 1968, pp. H4677-H4685, CONGRESSIONAL RECORD.)

The PRESIDENT pro tempore. Is there objection to the present consideration of the report?

There being no objection, the Senate proceeded to consider the report.

Mr. SMATHERS. Mr. President, I suggest the absence of a quorum, and I ask unanimous consent that the time for the quorum call be charged equally to both sides.

The PRESIDING OFFICER (Mr. GORE in the chair). Without objection, it is so ordered.

The clerk will call the roll:

The assistant legislative clerk proceeded to call the roll.

Mr. SMATHERS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. SMATHERS. Mr. President, this conference report may well prove to be the most important legislation to come before the Senate in this session of Congress. Approval of the conference report is necessary, as I said on Wednesday past, to dampen the fires of domestic inflation, prevent a repetition of the credit crunch of 1966 in domestic financial markets, and preserve the status of the dollar here and abroad and the fabric of international trade.

The principal provisions of the report agreed to by the conferees will reduce expenditures and impose a 10-percent income tax surcharge. These provisions form a package which represents the single most important step we as a nation can take to put our financial house in order.

These provisions were not a part of the bill when it originally passed the House, nor were they included in the bill that was reported by the Committee on Finance. They were proposed and adopted on the floor of the Senate on April 2.

These provisions form the package which was put together by the distinguished Senator from Delaware [Mr. WILLIAMS] and myself in an effort to arrive at a compromise solution to the Nation's fiscal problems. The compromise involved pairing the 10-percent income tax surcharge which the President had recommended, and some of us had sup-

ported as early as last year and some Senators even prior to 1967, with a $6 billion cut in Federal expenditures.

The need for this program arose out of continued and progressively larger budget deficits, which have now reached the point where deficits in excess of $20 billion are in prospect for this fiscal year and the next. The economic impact of these deficits is more than we can withstand without suffering severe inflation. The only alternatives available are increased taxes or sharp cutbacks in Federal expenditures, or a combination of the two.

For a time in 1966 we hoped that temporary measures would be sufficient to meet the need. By mid-1967, however, it became obvious that the pressures exerted by the excess of expenditures over receipts in the Federal budget would disrupt the economy so seriously that remedial action was vital. The administration proposed a 10-percent income tax surcharge.

Many Members of Congress were reluctant to support this surcharge. Some felt that we should meet the crisis by reducing one category or another of Federal expenditures. Disputes of this nature were inevitable, but they have gone on long enough. We have reached a point where further delay to debate the details of the package will cause more damage to the economy than any adjustment in the provisions warrants.

THE CRISIS WE FACE

I discussed the current state of the economy on Wednesday, urging that Congress act on this tax increase and expenditure cut. Therefore, I shall not go into detail on the economy now. We all know how serious is the current situation. I need not tell Senators that inflation is loose in the land. Prices are rising rapidly and generally. In April, the Consumer Price Index rose at an annual rate of 4.1 percent. The Nation has not experienced price rises of this magnitude since the early days of the Korean war. Wage demands are escalating as labor seeks wage increases to catch up with the cost of living. These wage increases will set off another round of price increases unless we take some firm action to restore price stability.

I read an article in the Wall Street Journal this morning which stated that some economists predict we will have price increases at the rate of 5 percent in the month of June.

I cannot claim that this report will cause prices to fall to their former levels nor that it will even put an end to all further price increases. Prices will still go up to some extent as the economy adjusts to the inflation that has already taken place. But if we agree to this conference report, I believe that the rate of price increase will gradually taper off and the situation will improve. If we do not agree to the report, on the other hand, surely the inflationary pace will accelerate and the situation will deteriorate further.

The adoption of the report is also required because of the difficult situation in our domestic credit markets. Interest rates have risen to levels thought to be fantastic a few years ago. The interest rate on home mortgages exceeds 7 percent in most parts of the country today. The Treasury is now paying almost 6 percent in order to find borrowers who will accept its 5-year notes. In some cases interest rates are higher than they have been in over 100 years. If we do not adopt the report, they will go even higher.

Together with most Members of the Senate, certainly I support the conference report, not only because I deplore high interest rates but also because I fear a repetition of the painful experience of 1966.

That year, the demands of borrowers rose sharply at a time when the Federal Reserve felt it was necessary to follow a restrictive policy to keep inflation in check. Interest rates rose sharply, and savings and loan associations and other institutions whose earnings are tied to past loans were unable to retain deposits by offering competitive interest rates. Large amounts were withdrawn from these institutions—in many cases to purchase Federal securities. It became impossible to obtain mortgage loans in some areas of the country because the traditional mortgage lenders were without funds to loan. The housing industry suffered severely, and many needed housing units were not constructed.

Thus far this year the Federal Reserve has not adopted so restrictive a policy as it did in 1966. Perhaps they fear that a more restrictive policy combined with heavy Federal borrowing to finance a $25 billion deficit will provoke a repetition of the 1966 experience. As a result, inflation has proceeded at a rapid rate. Interest rates have not fallen, however, and if the interest rates on Government securities rise a little more, the outflow of funds from savings and loan institutions may once again reach serious proportions. We stand on the brink of another credit crunch. The fate of this report may well determine whether we withdraw from that brink and bring interest rates down or whether we step over the brink into financial chaos.

Domestic inflation and the conditions of domestic financial markets give us reason enough to support the report. But there is another compelling reason. It is the need to strengthen the position of the dollar and to preserve the international monetary system.

Led by efforts of the United States, the trade and commerce of the world has expanded tremendously since the end of the Second World War. This expansion has contributed to rising incomes, higher standards of living, and stable political conditions in Europe, Japan, and many other areas of the world. In this system, the dollar has functioned as a reserve currency. When the overseas earnings of any country fall short of payments to foreigners, the difference must be made up through payments of gold or of a reserve currency. There has simply not been enough gold available to finance the balancing payments generated by the very heavy flow of trade which now exists. The dollar, therefore, has been widely used as an alternative means of payment.

The system would be severely disrupted if the dollar were to lose its status as a reserve currency. I cannot say precisely what results would follow. The risk is great, however, that the resulting disruption in established financial arrangements could lead to a serious decline in world trade and commerce. In turn, this would weaken the economies of the United States and the other nations of the free world and provide fertile ground for domestic political unrest.

Unless we adopt the conference report, there will be a real threat to the status of the dollar. Our balance of payments has been in deficit almost continuously since 1950. At first, foreigners were eager for more dollars to add to their reserves. Now they are beginning to feel that they have enough. They are becoming uneasy about holding onto more dollars. They want proof that the United States is willing to take the steps necessary to restore equilibrium to its balance of payments. If we reject the conference report, it will be a symbol in their minds of our unwillingness to assume the responsibilities of a reserve currency nation.

Foreigners who decide they no longer care to hold dollars might try to exchange them for gold. Since there are more dollars in foreign hands than can be redeemed at the present $35 an ounce price, a run on the dollar would be a serious matter, and it would be inevitable. In March, a sudden increase in speculation led to a large loss of gold by this country and the other nations in the so-called gold pool and eventually forced a new arrangement in which central banks have agreed to buy and sell gold at $35 an ounce in transactions with other central banks. They have also agreed not to buy gold on the private market. The gold in private hands now exchanges in a free market. This so-called two-tier system will continue to work only if the difference between the two prices remains slight. If it widens significantly, some countries will be tempted to obtain gold from us at the $35 an ounce rate and sell it at the higher price prevailing in the private market. When enough other central banks refuse to follow the rules of the two-tier system, it will collapse. The result will probably be a general loss of confidence, particularly in the dollar.

While it may be true that the existing system is not ideal, it is far better to preserve it until a better one can be devised and installed, than to permit a crisis to develop which will bring it crashing down around our heads. We certainly need time to develop a better system and we have no assurance that a transition to such system can be made once chaos develops.

The conference report is the single most important step we can take to restore price stability in the economy and protect the integrity of the dollar. Reducing the budget deficit to manageable proportions will remove the source of much of the inflationary pressure now evident and will remove heavy demands for Federal borrowing from the domestic credit picture. This, in turn, will permit an early reduction in interest rates. A reduction in inflationary pressures

will strengthen our balance of payments while the adoption of the conference report will directly bolster the confidence of foreigners who today hold dollars.

THE CONFERENCE REPORT

The Senate was aware of the problems the country faced when it voted to accept this bill originally. The bill as modified by the conferees is very close to the version approved by the Senate. I think we will agree that the Senate conferees were unusually successful in persuading the House conferees to accept Senate amendments to the original House bill, which was a bill for excise tax extensions and speed-up of corporate payments. Rarely has the House agreed to the substance of so many important Senate amendmnets on a revenue bill.

The details of the conference report are contained in a special conference committee general explanation of the report, which was placed in the RECORD on June 10 and is available as a separate document. I shall not attempt at this time to cover all that is discussed there.

I might add that a copy of that report is on every Senator's desk. I do want to point out that the major provisions of the bill approved by the Senate are retained. The provisions of the 10-percent surcharge are the same as the provisions originally approved by the Senate. The same $6 billion expenditure reduction for the fiscal year 1969 is included in both the conference report and the bill that was originally proposed on the floor and passed by the Senate. The conference report also calls for a $10 billion reduction in new obligational authority—and, of course, both the conference and Senate versions of the bill extend the existing excise tax rates on automobiles and telephone service until June 30, 1969. That provision has remained unchanged.

The Senate conferees were forced to recede on only five provisions of the Senate bill. Perhaps the most important of these was the provision for import quotas on textiles. The Senate conferees were well aware of the importance attached to this particular provision sponsored by the distinguished Senator from South Carolina [Mr. HOLLINGS] and other Senators. As I recall the original proposal of the Senator from South Carolina was cosponsored by 63 Senators.

But our efforts failed. The House conferees refused to accept this provision. They insisted they must have an opportunity to review the Nation's entire trade picture and suggestions for its improvement, including the provisions which related to textiles and other related proposals. The Senate conferees finally receded on the issue when we were assured that the House Ways and Means Committee would promptly begin hearings in which the subject of import quotas would be discussed. Such hearings have been underway since June 4. I am sure that the issues raised by the Senator from South Carolina will receive a thorough, careful hearing by the House Ways and Means Committee.

The House conferees also refused to accept the provision offered in the Senate by the Senator from Colorado [Mr. DOMINICK] regarding the collection of debts owed this country by foreign nations. Eventually a compromise was reached, however, in which the Senate conferees agreed to recede on condition that the Secretary of State and the Secretary of the Treasury be required to submit a report to Congress on the appropriate terms and conditions for payment of indebtedness of foreign countries to the United States.

One of the other provisions upon which the House conferees insisted that the Senate conferees recede was the amendment offered on the Senate floor by the Senator from California [Mr. MURPHY], which concerns the tax status of the advertising revenues of periodicals published by tax-exempt organizations. A recent Treasury ruling would make these revenues taxable. While this is an issue that deserves congressional study, it can be considered carefully in the proper committees of Congress.

Finally, the House conferees adamantly refused to accept the committee amendment which would have eliminated the prior work requirement as a condition for eligibility for AFDC payments for dependent children of unemployed men.

The amendments agreed to by the conferees in the Senate-passed provisions can, I believe, be considered relatively minor. Many are perfecting amendments fully within the intent of the Senate provisions.

Perhaps the most significant compromise was the one that was reached with respect to industrial development bonds. It will be remembered that the Senate adopted two separate amendments concerning these bonds, one a committee amendment, the other a floor amendment offered by the Senator from Connecticut [Mr. RIBICOFF]. These amendments had the effect of continuing the tax exemption for the interest on such bonds until January 1, 1969, and then terminating the exemption for certain classes of these bonds. The conferees agreed to continue the exemption for certain classes of these bonds. The conferees agreed to continue the exemption for all such bonds when the issues are $1 million or less. This will insure that small communities can continue to issue exempt bonds to encourage industry to locate in their jurisdictions. The conferees also agreed to continue the tax-exempt status of certain limited categories of industrial development bonds even where the issues exceed $1 million. That is explained in detail in the booklet to which I earlier referred.

Additionally, May 1, 1968, was selected as the date the new provision was to be effective. The date was selected to forestall any last minute surge in bond issues of this type on the part of those trying to get in ahead of the deadline. Such a surge would be particularly disruptive at this time. The conditions under which bonds issued after the May 1 date would remain tax exempt are similar to those contained in the amendment sponsored by the Senator from Connecticut [Mr. RIBICOFF]. Additional exemptions are added for industrial parks, exclusive of specific facilities, and for residential real property under certain conditions.

I may add that the distinguished Senator from Oklahoma [Mr. MONRONEY], the distinguished Senator from Mississippi [Mr. STENNIS], and the distinguished Senator from Missouri [Mr. SYMINGTON] were likewise greatly interested in this provision, and I think the conference agreement on this point meets with their approval.

Unlike the Ribicoff amendment, the conference report applies to purchases of land as well as to purchases of depreciable property.

A compromise was also reached with respect to the corporate speedup provisions of the House and Senate bills. Under that compromise the current $100,000 exemption for corporate estimated tax payments is to be reduced in five stages to $5,500, as the Senate bill provided. Then the $5,500 exemption is to be eliminated over a 5-year period so that by 1977 corporations and individuals will be on the same current payment basis.

The conferees agreed to the Senate provision offered by the Senator from Kansas [Mr. CARLSON] extending tax-exempt status for certain hospital service organizations, but limited the exemption to a joint enterprise which is organized and operated solely to perform data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, or personnel functions for hospitals. Purchasing for this purpose includes the purchasing and dispensing of drugs and pharmaceuticals to member hospitals.

The conferees amplified the expenditure control provisions of the Senate bill. In addition to the $6 billion expenditure reduction, the conference report also required a $10 billion reduction in new obligational authority for fiscal year 1969. In addition, the President is to submit recommendations for $8 billion of rescissions in outstanding authority in his budget for fiscal year 1970. These latter two provisions were reviewed with the Senate Appropriations Committee before they were adopted by the conferees. The same exemptions from the expenditure provisions are included in the conference report that were adopted by the Senate with one exception. The conferees agreed to delete the exception provided by the Senate for the TVA. The expenditures of the TVA are not as uncontrollable as those in the other exempt categories—Vietnam expenditures, Social Security Act payments, interest on the debt, and veterans benefits. Any saving made by TVA will contribute to the overall reduction goal regardless of how TVA is financed.

Modifications were agreed to in the Senate provision imposing a limit on the number of Federal employees. Separate limitations were provided for full-time permanent employees and for part-time employees. In the former case, the limit was set as the number of employees on the Federal payroll on June 30, 1966. The number of such employees on that date is known, whereas there is some question as to the number that were on the rolls on September 20, 1966, the date selected by the Senate. No exceptions were provided under this provision for full-time permanent employees, but the

Budget Director is given the authority to allocate positions as necessary to achieve the more efficient operation of the government. The method for reaching the new limit is the same as that adopted in the Senate bill, but the rate at which that limit will be approached is slower. Three out of four positions vacated by normal resignations can be filled until the limit is reached, under the conference report, whereas the Senate bill would have allowed only two out of four vacancies to be filled.

In the case of part-time employees, the limitation is to be the number employed in the corresponding month of 1967, with the exception that up to 70,000 temporary employees may be hired under the program to provide summer employment for disadvantaged youth. In addition, the conferees expressed the intent that the Director of the Bureau of the Budget not reduce the number of employees in the Veterans' Administration below the June 30, 1966, level.

With regard to the public welfare amendments approved by the Senate, I think the Senate can take satisfaction in the conference agreements. While the final bill does not contain all that some of the Senators would have liked, it makes a major step in achieving the aims of the Senate bill.

The limitation on aid to families with dependent children, known as the "AFDC freeze," is postponed for 1 year to allow time for effective implementation of the work incentive program designed to guarantee training and jobs for appropriate AFDC recipients.

Equally important, the conference agreement makes special provision for adjusting the AFDC limitation in those States whose eligibility requirements are affected by court decisions. This is particularly appropriate in view of the recent Supreme Court decision striking down the so-called man-in-the-house rule.

We were also able to get the House conferees to agree to two other important welfare amendments. The first will permit States to pay AFDC to unemployed fathers during any week they do not receive unemployment compensation. Present law prohibits payment of AFDC anytime during a month in which unemployment compensation is paid—even though it may only be for the first week of the month. The conference agreement preserves the main purpose of the Senate bill.

A second Senate welfare amendment was accepted by the House conferees without change. It postpones for 2 years a cutoff of Federal funds for Medicaid services which would have been provided under part B of medicare if the State had bought in for eligible persons.

CONCLUSION

I have outlined what I believe are the more important modifications in the Senate bill made by the conferees. These modifications do not dilute the basic impact of the Senate bill. They do not change the fact that the deficit in the Federal budget will be reduced to manageable proportions through a balanced program of expenditure reductions and a tax increase.

This report, then, is essentially the same as the one the Senate approved by a vote of 57 to 31 on April 2. The factors which persuaded us that it was necessary to pass the bill then have become even more compelling since that time. I urge the Senate to adopt this conference report promptly to put the world on notice that the United States has begun to move in the direction of putting its financial house in order.

Let me add just a few words more on the programs. Related to the financial health of this Nation is the physical health of its citizens. Illness and the consequences of illness are extremely costly. The billions of dollars we now spend for medicare and medicaid are ample proof of that. The billions of dollars in wages and taxes lost because of sickness also testify to the need to make good medical care more generally available in order to prevent that social and financial loss through timely treatment and prevention.

The heart of the solution to this problem is to increase the supply of physicians and to generally improve our medical schools. The Congress has already recognized this in enacting the Health Professions Assistance Act and related legislation.

The bill we are now considering could cause some reduction in financial aid to medical schools—probably in the areas involving construction grants and to some extent research project grants. But we would expect that the administration would not make expenditure reductions below the amounts appropriated for "educational improvement grants" and "general research support grants." In the case of medical schools, the amounts involved for these grant programs total approximately $67 million for fiscal 1969.

Just yesterday, the Committee on Appropriations of the House approved the full amounts requested for the educational improvement and general research support grants. In their report they expressed their serious concern, which we share, "about the financial difficulties that beset a number of medical and dental schools." They stated:

> At a time when the country is faced with the prospect of a growing shortage of medical and dental personnel and when serious efforts are being made to expand educational facilities, it would be highly imprudent to weaken existing institutions by the withdrawal of support on which they are, directly or indirectly, partially dependent.

The House Appropriations Committee then reported:

> The committee believes, therefore, that it is not desirable to reduce programs, such as the general research support grants, and the educational improvement grants under the health manpower appropriation, that provides some measure of flexible support for these schools.

Some medical schools have indicated that they might simply have to stop teaching doctors if Federal assistance is curtailed. These schools which are painstakingly building up their faculties will be able, at least, to hold the line—if there is no cut by the administration in the amounts appropriated for the general research support and educational improvement grants.

The distinguished senior Senator from Alabama has fought for many years to get the assistance needed by our medical schools in order for them to turn out more and better doctors. We would not want to reduce these grant programs and, in effect, lose overnight what took so long to win.

Mr. HILL. Mr. President, let me take this opportunity to commend the Senator from Florida for calling attention to the critical financial situation that prevails among our schools of medicine and dentistry. The University of St. Louis, solely for financial reasons, has felt compelled to discontinue its dental school. The dental school of Loyola University of New Orleans has been closed, but its facilities and faculty will be absorbed by the new dental school of Louisiana State University. Other medical and dental schools are considering closure and many are in danger of losing accreditation.

The shortage of physicians and dentists are already severe. It is essential and urgent, therefore, that a high priority be given in 1969 to the funding of basic improvement grants, special improvement grants, and general research support grants for medical and dental schools.

It is equally urgent that there be no cutbacks in the appropriations for construction assistance for medical and dental schools. The facilities of many existing schools are so obsolete as to pose a threat to accreditation. We need many more new schools as well as expansions of our existing schools if we are to meet the medical and dental needs of our country.

Furthermore, I strongly oppose any reduction in the appropriations for the health programs of the Department of Health, Education, and Welfare. These programs are an investment in the health, the strength and well-being of our country. To curtail the investment would weaken our Nation and so I oppose adoption of the conference report.

COMMITTEE MEETING DURING SENATE SESSION TODAY

Mr. SMATHERS. Mr. President, I ask unanimous consent that the Committee on Interior and Insular Affairs be authorized to meet during the session of the Senate today.

The PRESIDING OFFICER. Without objection, it is so ordered.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

The Senate resumed the consideration of the conference report on the Revenue and Expenditure Control Act of 1968.

Mr. WILLIAMS of Delaware. Mr. President, will the Senator yield me 12 minutes?

Mr. SMATHERS. Mr. President, I am glad to yield to the distinguished Senator from Delaware such time as he may desire.

The PRESIDING OFFICER (Mr. YOUNG of Ohio in the chair). The Senator from Delaware is recognized.

Mr. WILLIAMS of Delaware. Mr. President, I strongly urge the Senate to adopt the conference report. I do not think we have any choice.

In the past few months we have seen the American dollar challenged as never before. Our supply of gold in January 1960 was $19.4 billion. In January 1964 it had dropped to $15.5 billion. The most recent report, dated June 12, shows it had dropped to $10.3 billion.

During that same period our inventory of silver dropped from $2.2 billion to $303 million in June 1968.

A further examination of the Treasury Department's report for fiscal 1968, the most recent report, shows that up to June 12 we spent $27.5 billion more than our income. This amount will be reduced somewhat by the larger collections on June 15, but that will also be offset by the heavy expenditures at the end of the fiscal year.

THE BUDGET DEFICITS

In the fiscal year 1968, which closes at the end of this month, there will be a deficit in the Federal budget of roughly $25 billion. This follows a period of 7 consecutive years in which we have had deficits, albeit smaller deficits. While we can do little to alter the disturbing outcome of the fiscal year 1968, we must act now to prevent a repetition of this dreary record next year. But the harsh fact is that if we do not approve this bill the deficit in the fiscal year 1969 will exceed 1968's record-breaking level.

The estimated deficit in the budget for 1969 in the absence of tax increases or expenditure reductions or the continuation of those excise taxes in the conference report is slightly over $28 billion. Vietnam costs have already raised this $2.6 billion, bringing the total to over $30 billion, and who knows how much more expenditures will rise in the absence of stern fiscal action—and this bill admittedly is stern fiscal action. But let those who will not take this action be prepared to bear the responsibility for the havoc which will be wrought upon our land if they should represent the majority. Failure to act now to prevent the Government from incurring another large deficit would be an act of fiscal irresponsibility and nothing else. In a period like this we must all tighten our belts to preserve the fiscal welfare of our country—and it is the fiscal welfare upon which in the last analysis all other welfares must depend. Let me also say that this belt tightening must be shared—not only must the taxpayer tighten his belt, but the Government must tighten its expenditure belt as well.

DOMESTIC INFLATION

I turn now to the danger of domestic inflation.

Our prosperity in recent years has been coupled with what we all must recognize, whether we like it or not, is a wartime, forced-draft economy and excessive budget deficits. Given this situation, it is no wonder that we have begun to feel real pains of inflation, and we will feel them still more in the months ahead.

Last year when the tax surcharge was initially considered the evidence available indicated that the upward push of costs was then the primary source of price increases. The situation has changed since then, however. Now it is clear that the pull of excessive demand is the prime source of inflationary pressures.

Nearly half of the record $19 billion increase in gross national product in the first 3 months of this year was attributable to price increases. Unlike 1966, increases were not concentrated in selected sectors but occurred throughout the economy.

Consumers, who had been saving at historically high rates, increased their outlays at an annual rate of $17 billion in the first quarter. This record increase was only made possible by an appreciable reduction in their previous rate of savings. The savings rate fell, for example, from 7.5 percent in the fourth quarter of 1967 to 6.6 percent in the first quarter of 1968. As might be expected in a period such as this, the demand for automobiles has shown substantial increases in this period. Automobile production in the first quarter of 1968 is 13 percent over the seasonally adjusted level of November of last year.

Demand in the other segments of the economy also has increased. This is true not only of Government purchases at the State and local as well as Federal levels but also in the case of fixed investment by business. Plant and equipment spending, for example, was up to an annual rate of nearly $65 billion in the first quarter of 1968 from a level of slightly under $62 billion in 1967. Other evidence of demand increases which we can anticipate for the future is suggested by an increase of nearly 5 percent in corporate profits in the first quarter of the year over the fourth quarter. Inventory increases also have started to occur in recent months, and once these begin to accumulate their impact can be substantial.

What does this prospect of inflationary pressure mean? It means that the real income of the poor—yes, of the middle income class too—and the elderly and others forced to live on fixed incomes will be down sharply. In effect, if we should not impose a tax here there will be an inflation tax which will likely be far more severe and discriminatory in its application. It is important for those advocating expanded programs for the poor to remember that the poor suffer most from this inflation tax and that a more realistic treatment of the budget in fact means more in terms of real incomes for the less fortunate. Inflation also distorts investment choices and sows the seeds of a future recession.

HIGH INTEREST RATES

The third problem is high interest rates.

Certainly fiscal restraint is called for in our financial markets today. Although the Federal Reserve has not pursued a monetary policy even approaching the tightness of the "credit crunch" of 1966, nonetheless interest rates have moved up to the highest levels in over a hundred years. From May 1967 to May 1968, for example, interest rates on corporate triple-A bonds have gone up a full percentage point from 5¼ to 6¼ percent.

Until recently these high interest rates have not been accompanied by a loss of funds on the part of mortgage lenders. In April and May, however, such losses, reminiscent of the experience of 1966, began to occur. Interest rates on Federal securities, now at a level of 5.90 percent for 3- to 5-year issues, are so high that savers are tempted to shift funds from accounts with savings and loan associations to Government bonds. In some areas of the country mortgage money is available only at rates of 7½ percent or higher.

Banker after banker has warned us that we face a monetary crisis. In fact, the banking community is all but unanimous in favoring this bill. This also is almost true of the business community—despite their natural distaste for tax increases. I have seldom if ever seen a bill providing for tax increases which commands the wide business support that this bill does.

I might also call attention to the fact that the stock market, since the prospect of the enactment of the bill, has definitely turned upward. The analyses are in wide agreement that it is the improved credit position that this bill will provide for the country that accounts for this improvement in the market.

Unless Federal credit demands can be reduced the country must face a choice between a repetition of the credit crunch of 1966 or a further acceleration in the rate of inflation—neither of which is a tolerable prospect.

The effects of these high-interest rates are severe distortions in the economy which will last for many years to come. We must not allow these distortions to be further accelerated. By distortions I refer to the high cost of making investments—whether the investments are in homes for our younger people just getting married or whether they be in the form of capital goods required for increased productivity by industry.

THE OUTFLOW OF INTERNATIONAL PAYMENTS

The fourth problem is worstened international payments.

The damage, resulting from the failure to approve this bill, to the international standing of the dollar might be irreparable. I never thought I would see the day when foreigners refused to accept our dollars. Yet that day arrived last winter. Fortunately the episode lasted only briefly. Decisive action is necessary, however, to prevent it from occurring again.

The position of the dollar has declined from the peak reached in the early post-World War II years, eroded by persistent balance-of-payments deficits. The record of the last 6 months demonstrates the way large budget deficits at a time of full employment, by contributing to inflation, cause a deterioration in the balance of payments. Rising prices have made imports more attractive and have made our exports less attractive. When domestic demand exceeded domestic supplies many disappointed buyers turned to imports. The result has been a steady deterioration in our traditional surplus of exports over imports. In March imports actually exceeded exports. In April, although there was an improvement, on a

census basis we have only about one-half our traditional balance-of-trade surplus, a surplus which is needed to carry other less favorable factors in our balance of payments. If we do not improve our trade balance a worsened balance of payments may be in prospect for the future.

Confidence in the dollar has also been weakened, of course, by events in other countries. The devaluation of the British pound last November was followed by a general loss of confidence and a sharp increase in the demand for gold. The resulting crisis led to the adoption of a two-tier system under which gold is exchanged between central banks at the fixed price of $35 an ounce while the price of gold is allowed to find its own level in the private market—recent price for this free gold seems to range between $42 and $45 an ounce.

The announcement of this new two-tier system restored calm to the gold markets of Europe, at least for a while. The establishment of the system owes much to the hard work and dedication of Secretary of the Treasury, Henry Fowler, and to Mr. Martin, Chairman of the Federal Reserve Board. Both these men have worked hard to sustain the value of the dollar and preserve the fabric of international finance. Yet they would be the first to affirm that the new system will continue to work only if we can avoid a further serious loss of confidence and only if we improve our balance of payments.

I cannot say what the precise results would be if confidence in the dollar were to be destroyed. The tremendous expansion in free world trade in the postwar period was based upon a financial structure in which the dollar was accepted as a reserve currency. The destruction of this system would surely have grave consequences for world trade. Even if a worldwide recession were avoided, all would lose through a general reduction in trade and commerce between nations.

The present crisis in France may weaken confidence in the dollar, not strengthen it. The chaos in France now may shake confidence in all currencies. It is more imperative than ever, therefore, that we take a decisive step to convince the world that the United States is able and willing to preserve the value of the dollar.

IMPACT OF THE BILL

A return to fiscal responsibility is necessary through curbs on expenditures and an increase in receipts sufficient to reduce the budget deficit to manageable proportions. A sharp reduction in the budget deficit accomplished in the manner set out in this bill will reduce excess domestic demand for goods and services, both directly through cuts in Federal spending and indirectly through a reduction in disposable incomes, and restore a proper balance between spending and production in the economy. It will also relieve pressures in the financial markets and promote the early reduction of interest rates. Moreover, the action provided in this bill will strengthen the position of the dollar. It will convince foreign bankers and other foreigners who hold dollars that the United States stands ready to adopt the measures which are necessary to keep our financial House in order.

A combination of expenditure reductions and the tax surcharge will reduce the prospective budget deficit in the coming fiscal year by an estimated $20 billion. In 1 year the deficit will decline from just under $25 billion to well under $10 billion—probably closer to $5 billion—provided expenditures for Vietnam do not increase substantially beyond present expectations. This step will be sufficient to restrain inflationary pressures without the risk of recession. Certainly, we stand a far better chance of avoiding a recession if we take positive action to restore balance to the economy than if we do nothing to prevent the present inflationary boom from proceeding to a bust. I should make it clear, however, that it may take some time before the bill has the effect I have suggested. Therefore, unfortunately there may be further price increases before the impact of this bill is felt.

The long delay in the enactment of this tax increase—expenditure reduction package has already planted the seeds for a recession—a recession which could have been either avoided or at least minimized had the proper fiscal restraint been displayed.

It is unfortunate that we have waited as long as we have before taking action on this bill. The burdens required by a return to fiscal responsibility are distributed fairly under this bill. It requires the Government whose increased expenditures are largely responsible for the present situation to share equally with taxpayers. The $6 billion reduction in proposed expenditures for fiscal year 1969 provided in this conference report is in addition to the $4. billion reduction carried out in fiscal year 1968 as the result of congressional action last fall. Together, the two expenditure reductions are approximately equal to the amount of additional tax that will be collected under the surcharge.

EXPENDITURE CONTROL

It is also appropriate for Congress to impose a ceiling on Federal expenditures. This feature of the bill is not an innovation. It is an attempt to meet the obligations imposed by the Legislative Reorganization Act of 1946—legislation which remains in force although it has been largely ignored. That leglislation, in turn, attempted to reestablish congressional control over the budget. When the Nation was smaller and expenditure programs were not as numerous or as complex. Congress was able to control the overall level of expenditures and to relate it closely to tax receipts. This ability has been lost. We no longer focus on the broad dimensions of the budget but only on individual programs. As a result, the total of expenditures is generally not known until all the individual appropriations bills can be added up. Taxes then have to be adjusted or additional borrowing authority granted to meet these expenditures. We must return to the practice of first deciding how much we can afford to spend and then determine how to spend it. This was the intent behind the 1946 legislation. This bill is a further attempt to move in that direction. I hope it will encourage us to find more efficient ways to achieve this objective in the future. If we do not Congress will surrender control over the broad outlines of the Federal budget.

Mr. President, I urge the adoption of the conference report.

Mr. President, as the acting minority leader, I yield 10 minutes to the Senator from Oregon on the opposite side of the conference report.

Mr. MORSE. Mr. President, I thank the Senator. I may ask for an additional 5 minutes.

I oppose the bill, because what the country needs is a tax reform bill, not a tax increase bill.

It is a sad thing that Congress, having the great opportunity that it has had to revise and reform the tax structure of this country, is proceeding now to entrench the injustices that already exist in the very bad tax structure of our country.

It is very difficult to understand, but the American people are beginning to understand. The American people in large numbers know the injustices of the bill, and the American people are well aware of the fact that Congress is walking out on its responsibility to bring proper tax relief to the American people.

The bill increases taxes on those who are already paying taxes and on those who are entitled to some relief from the taxes they are already paying. What they need is a tax reform bill that will bring into taxation the minimum of $21 billion that is involved in tax escapism in this country.

The bill contains nothing that would tax those who are able now, because of their vested influence to continue to escape the payment of taxes they ought to be paying.

We have been pleading here for the last 18 months to increase Federal revenues through a tax reform bill. However, the pressure from the lobbies has been able finally to impose this pending injustice upon the taxpayers instead. They are already paying taxes that are too high—and they are too high because approximately $21 billion of tax escapism is going on.

The charitable trust is one. The charitable trust has become a tax racket. A church or some group qualifying as a nonprofit religious group may operate a farm implement business, a hotel, a department store—you name it. It pays no tax on that business, although a competitor down the street or in the next town, in competition with them, who operates the same type of business, pays taxes on it. Give me a reason for it. You cannot.

I am for charity and I am for churches. But I am also for the separation of church and state. This is one field in which we have not separated church and state, because when those charitable trusts are given this type of tax exemption, the American taxpayer generally is paying for that church and its program in large measure.

We ought to do something to require the payment of millions and millions of dollars in taxes which is being avoided by the oil industry of the country—one

of the most powerful lobbies in the Republic. We ought at least to reduce the 27.5 percent depletion allowance. It ought to be entirely eliminated. There is not the slightest justification for this kind of favoritism being given the oil industry of the country—and that includes the Texas oil wells as well as oil wells in other parts of the country. They all ought to be brought under a tax structure in which they would pay their fair burden. That also includes the issue of vertical monopoly development in this country and the need for reform in the capital gains tax.

Why did this Senate not come to grips with the tax-escapism that is involved now under the system of capital gains and vertical monopoly development in this country?

That is why the farmers of the country are greatly concerned with what is happening in America agriculture. Listen to the American farmers. We will listen to them this fall, I say to my Democratic colleagues, because once again we are walking into a reactionary Republican trap in regard to this bill.

The great Republican financial lobby houses of this country are strong for this bill. The stock market is waiting, mouth watering, for this bill to be passed. The banking houses are waiting, their mouths watering for the economic killing they are going to make as the result of this unfair tax bill.

What we ought to give the American farmers and the American taxpayers generally is a tax reform bill. The American farmers know what the vertical monopoly development is doing today to American agriculture.

That is one of the reasons—only one—for the great migration of farmers to the urban centers. That is why the evidence before us shows that within 10 years there will be more teachers in this country—although there will not be enough—than family farmers.

The vertical monopoly approach has already taken over the poultry industry, has almost taken over the production of hogs, and within 10 years or less will take over the production of beef. Of course, many tax gimmicks in regard to the vertical monopoly approach are working to the advantage of these increasing, powerful monopolies in this country and to the disadvantage of those who really believe in a free enterprise system.

I would be less than honest if I did not let the RECORD show my great disappointment as to what has happened to many liberals in Congress in regard to this tax bill. They have been sucked in again because of the great wave of propaganda that has engulfed the country that the bill is necessary for inflation control.

A bill of this type will not do much to check inflation. We will not check inflation in this country until we return to producing goods that create wealth, and we are not doing so at the present time. We are producing goods that destroy wealth as well as destroy lives. We cannot escape this wrong economic policy in this country by this unsound bill. It will prove in fact not to be an inflation control bill at all.

We have already slaughtered more than 25,000 American boys in a war in which we should not be involved at all. As a result of this war, we are seeing the military-industrial complex take over more and more the economy of the country. But millions of American people are beginning to get wise, and they are already beginning to register their wisdom at the ballot boxes of the country. And millions more will do so come November, Mr. President, because the American people are not going to tolerate any longer—and should not—the taking over of the economy of this country by the military-industrial complex that has come to determine so many of the policies of the Republic.

WILL TAX BOOST HELP HOMEBUILDINGS?

Mr. President, I doubt the bill will have much effect on inflation. I know the propaganda. I am getting the wires and the letters in my office, to, from some of the organizations interested in housing, from the bankers, and from the building and loan associations: "Vote for the bill, because it will help us with housing."

What do they mean? They mean they hope it will curb interest rates and price increases. But it is equally likely that prices will continue to go up. At best interest rates may level off. But nothing in the bill will lower interest rates.

We also need a reform bill that will do something about lowering the interest rates, not letting them continue to go sky high.

Mr. President, the savings institutions, the home construction industry, and building materials industry, chiefly lumber, have written me often and at length in support of this conference report. They favor it in a belief, which I think is a mistaken belief, that it will reduce interest rates and enable the home construction industry to revive.

So long as the war in Vietnam continues, with its budget of $30 billion plus, I see no real prospect that interest rates will come down. In fact, I have heard little evidence that they will come down. What is hoped for is that they will not go higher.

But what of the buyer's end of the situation? The whole purpose of the tax increase is to sop up consumer spending to curb inflation. The theory is to take the money in taxes so it will not be spent in the marketplace and bid up prices.

If the tax increase succeeds in having this result, I do not see how it can help but reduce the disposable income that the average family will have to put into buying a new home.

The best I can see coming from the program is a leveling off of interest rates and a reduction in disposable income. That does not spell a spurt in home building to me. And both of these results may well be pure wishful thinking.

Let me say to the lumber industry of my State, which this morning thinks it wants this bill, that this legislation may just as likely have a detrimental effect on the lumber industry.

IMPACT ON DOMESTIC BUDGET

What of the other part of this package—the $6 billion budget cut? It will sacrifice general welfare programs. Some noises are being made by the administration that some of the money will come out of military expenditures. Let them particularize it. We do not have the slightest justification for passing the bill today until we, Congress—for we raise the funds, appropriate the money, authorize the expenditures, and have the responsibility of passing the tax legislation—tell the American people in advance where every dollar of that $6 billion cut will come from.

We should stop passing the buck to the President. That is all the two committees have done thus far. They have not earmarked anything. It is not good politics to earmark it. The election is too close. I do not know whom they think they are kidding, but they are not kidding the senior Senator from Oregon and millions of American taxpayers. Millions of American taxpayers are entitled to have Congress tell them exactly where the money will come from for the $6 billion cut.

I speak as chairman of the Subcommittee on Education. I know where a lot of the money will come from. It will come by way of budget cuts that will injure the kids of America, as they are denied the opportunity to which they are entitled—to develop to the maximum extent their intellectual potential, which is the greatest security weapon this country has.

The PRESIDING OFFICER (Mr. LAUSCHE in the chair). The time of the Senator has expired.

Mr. MORSE. I ask unanimous consent that I may proceed for 5 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MORSE. A great deal of the money will come from general welfare needs; and for much of the money that it is believed will be saved out of the $6 billion, much more will be paid, because there will be great internal trouble throughout the country. Millions of people are not going to stand by and let Congress invoke this type of injustice upon them. They are not going to stand by and let Congress slash these domestic programs so the country can send more and more boys to be slaughtered in South Vietnam, in a completely unjustified, immoral, and illegal war. That is why the Republic is split; and the Republic will not be united by this type of injustice.

I do not intend to pull in my flag 1 inch just because I am a candidate for office. I just came through a tough primary, as everyone knows. My foreign policy did not make it tough. What made it tough was that I lost many labor votes because I do not yield to labor when it is wrong. I stood up for what I knew the facts were in regard to the two great cases—the railroad case and the airline case—and won the disapproval of certain segments of American labor. I do not intend to pull in my flag on foreign policy, on labor policy, or on any other policy that I know is supported by the facts.

The American people are making clear to Congress—and Congress should read their handwriting before it is too late, and it is large on the blackboard of American public opinion—that if Congress continues this type of injustice and

goes forward with the cuts that will be made from general welfare, from education, from poverty, from the model cities program, from public works, and from all the things that are necessary to give economic protection to the masses of the people, the people will hold Members of Congress to an accounting—and they should.

Mr. President, I say to the lobbyists who are urging me this morning—with the large pack of wires I have—that the bill has something to do with housing: You will build fewer houses when this budget cut is passed. I say to the building and loan associations, I say to the housing groups: You will build fewer houses after this bill is passed than you are building now.

Mr. McGOVERN. Mr. President, will the Senator yield?

Mr. MORSE. I shall be happy to yield to the Senator from South Dakota in just a moment.

TAX INCREASE A BOON ONLY TO MILITARY ESTABLISHMENT

The last thing I wish to say is that the place to check a growing monster in this Republic that threatens our whole economic and political system is the American military, and I am speaking of its policymakers at the Pentagon Building and its counterparts in the State Department. It is most dangerous for us in the Republic.

This tax increase will perpetuate the unreal and artificial military and political policy we are pursuing in Europe. Twenty years after the end of a war in which we affirmed that we had no ambition to hold conquered territory, the U.S. military still sits atop Western Europe. We say we are there to protect our friends. We say our friends want us there. If they do, it is only because we are spending our money and using our manpower in place of their own. I am not impressed by arguments that if the United States did not dominate Europe militarily, Germany would become its principal defender with some insidious implication that this means a revival of German imperialism.

I say that we cannot anticipate history. We cannot figure all the angles years in the future and try to prevent the hypothetical from happening without a tremendous, wasteful expenditure of money and people.

Germany is a big, wealthy, modern nation. It has a lot to defend and a lot to use in its own defense. Why should the United States provide its defense? It is a ridiculous policy.

But it will be perpetuated just as long as we continue to furnish the money to continue it. We will continue to have men not only in Germany, but in Belgium, Great Britain, Italy, Spain, Turkey, and Scandinavia, as part of this great military complex. We will continue to spend over $2½ billion on it, we will continue to lose out on our balance of payments with Europe. Remember that there are no offset arrangements that reimburse the American taxpayer for keeping those men there. Some of the dollars spent in Germany are frozen through German purchase into U.S. bonds, but that only means they cannot be exchanged for gold. The talk about "offset arrangements" has misled too many Americans into thinking Germany repays us for the cost of those U.S. soldiers, and this is not the case at all. In fact, we will pay Germany interest on the bonds she has purchased, so it will cost the United States more than just the cost of the soldiers.

The burden of the Military Establishment on the backs of the American people has to be lightened. The 10 percent surtax will increase it, and it will assure the perpetuation of the antiquated but ingrained policies of the Pentagon that are costing us so dearly.

What we must do is to serve notice that we are going to stop the present spending of $77 billion in a military defense budget. In a few weeks it will be $83 billion.

One year from today, remember the prediction of the senior Senator from Oregon as I give it to the Senate now: If we do not change our present foreign policy, we will be spending over $100 billion for a defense budget. We could take the $6 billion budget cut out of the military budget without missing it, instead of taking it out of the general welfare of the American people in relation to their economic interests at home.

We have to serve notice that we are going to draw back. We have to serve notice that more and more people are getting wise to the unsoundness of the American position in Paris, for what is our position in Paris when all the semantics are eliminated from it?

We say to the North Vietnamese: "We will stop bombing if you will stop infiltrating." What does that add up to? It adds up to: "You leave to our tender mercy the Vietcong and we will stop our bombing." Of course they are not going to do it. Why should they? Why should they withdraw forces unless we do?

We talk about infiltration by them. We have more than one-half million men in Vietnam and we do not have the slightest justification under international law, including the Geneva convention, to have a single soldier over there. General Shoup is quite right when he says that the whole area is not worth the life of a single American. It never has been, yet we have sacrificed, according to this morning's newspapers, 25,000 precious American lives in a war in which the slaughtering of not a single one can be justified.

We have to serve notice on the world that we are falling back.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. MORSE. Mr. President, I ask unanimous consent that I may proceed for 2 additional minutes.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. MORSE. We have to serve notice on the world that we are falling back to the lines of defense that General Gavin, General Ridgway, and others have told us we can hold, and not escalate. It is our escalation that is killing the boys.

I say to the Senate, because it is pertinent to the bill, that the American people are crying out to Congress to stop the killing of our boys. The killing in South Vietnam cannot be justified. It cannot be justified until there is a declaration of war, and even then it could not be justified because a declaration of war would not be justified. There is not the slightest justification for killing a single man unless it is justified by a declaration of war. Then, at least, we would be back inside the framework of both our Constitution and international law. However, the facts never have justified our becoming involved in the civil war in Vietnam. I think one of the reasons a war message has never been sent to the Congress is because it has always been recognized that we have had no justification for making war in Southeast Asia.

I close by saying that this measure should be a tax reform bill, but it is not. Until I am given a tax reform bill, I shall vote against this bill.

I now yield to the Senator from South Dakota.

Mr. McGOVERN. Mr. President, I had asked the Senator to yield to me for the purpose of commending him for the remarks he made on the floor of the Senate this morning. I did not hear the Senator's entire speech, but what I did hear meets with my strong approval. It does not surprise me at all that the voters of Oregon have again renominated him.

This is as good a time as any to remind the Senate that the Senator from Oregon more than any other Member of this body first stood up clearly and courageously on the issue of Vietnam.

I have a high regard for the senior Senator from Minnesota [Mr. McCARTHY], who has been widely hailed as the Member of the Senate who pioneered on the issue of Vietnam, but it really was the senior Senator from Oregon, as every Senator knows, who walked alone on this issue when it was much harder to do so than it is today.

He has been right on that issue as he is right on the tax and budget issue today. I commend the Senator on both positions and expect to stand with him.

As I came into the Chamber, I heard the Senator discussing problems of American agriculture as it relates to the tax proposal before us. I am sure he is aware that perhaps as much as $400 million in tax revenues are now escaping us and going into the pockets of people and corporations in agriculture, not for the purpose of producing food, not even for the purpose of farming primarily, but for the purpose of using that industry as a tax dodge. They are making income on nonfarm operations and are using agriculture as a means of reducing taxable income.

Out of all of the 17,578 farm corporation tax returns in the 1964–65 fiscal year, for example, only 9,244 had taxable income. They wound up with only $199 million of income subject to tax out of $4.3 billion gross receipts. They owed $74 million of income tax for the year but they took about $5 million investment and foreign tax credits. So they finally paid Uncle Sam as corporation income tax about 1½ percent of the $4.3 billion they grossed.

Out of 3 million farm income tax returns in 1965, there were 680,000 or 22

percent filed by people who deducted farm losses from nonfarm income and still had some income tax to pay on their nonfarm income. That included 86 percent of all persons who paid on $1 million income or more, 84 percent of those who had $500,000 to $1,500,000 income, and 73 percent of those with $100,000 to $500,000 income.

We have obtained some other new data on the extent to which individual income taxpayers—individuals as contrasted with corporations—avoid high income tax rates by establishing farm losses which are later recaptured as capital gains. Senator METCALF late last year called attention to the fact that 381,000 residents of our 85 biggest cities filed farm returns in 1965. Those figures showed that "farmers" in Los Angeles, claimed $42 million more in losses than profits from farming, while the "farmers" in nearby Anaheim said they lost $6 million on farms.

The "farmers" in Dallas, Tex., claimed $10 million net farm loss, Houston "farmers" lost another $20 million, Fort Worth $5 million, and San Antonio $5 million.

The "farmers" who dwell here in Minneapolis and St. Paul, possibly because they own fewer oil wells, only claimed $0.5 million more in farm losses than profits.

In 35 of those 85 biggest cities, and in the entire States of California, Louisiana and Nevada, the farm loss claims exceeded farm income reported. The Department of Agriculture says that net farm income in California was $896 million in 1965, but taxpayers in the State reported to the Internal Revenue Service that they lost $6 million more than they made.

This can only mean that a lot of high income urban residents were in the business of farming to convert ordinary income, taxable up to 70 percent into capital gains, taxable at a maximum of 25 percent. Well-to-do urban residents who make a good deal more on tax avoidance than a farmer can make from production amount to subsidized, unfair competitors for bona fide farmers. They are little concerned about the price depressing effect of their production. They can pay much higher prices for land, "double-cropping" it as they do, than the farmer who must make his living only from his produce.

The Internal Revenue Service recently supplied me with a new table which is intended to indicate the total amount of farm losses before claimed by nonfarmers to offset nonfarm income. It shows that 661,000 taxpayers in 1964 deducted $1,016,000,000 from nonfarm incomes, and that 680,000 in 1966 deducted $1,036,000,000, and still had nonfarm income left over on which taxes were due. We do not know how many nonfarmers hid all their nonfarm income with farm losses, paying no taxes at all. Available statistics on such returns include both farmers and nonfarmers, if a return was filed at all. We do know that persons in the higher income brackets were claiming the largest farm losses. In 1964 there were 76 individuals with incomes over $1 million who claimed $4½ million in farm losses, or nearly $60,000 each on an average. They would have had a tax savings of about $40,000 each, which would be a mighty good living by itself for any of us at this convention.

I hope we can make progress in that area before we approve another unjust tax increase, and will close that loophole and other loopholes which the Senator has referred to this morning.

I did not rise for the purpose of making a speech of my own, but to commend the Senator from Oregon, who has been so right on these issues and other issues.

Mr. MORSE. Mr. President, I wish to thank the Senator from South Dakota very much. He is generous and kind. He has been one of my teachers in the Senate in regard to foreign policy. He deserves a great deal of credit for his courage in standing up and speaking with regard to our foreign policy for as long a time as he has. I appreciate being associated with him again this morning in opposition to this bill. He has already expressed his reasons for opposition to the bill, and I share his views. I thank him for his contribution.

With respect to the cutting of the military budget, I wish to add that I am one of the cosponsors of the majority leader's proposal to bring four of the six American divisions home from Germany. We cannot possibly justify maintaining six divisions there. We cannot justify having more than two divisions there. The Senate has heard me say many times that we are the only country which has ever fulfilled its manpower commitments under NATO. Most other countries have not gotten above 50 percent of their manpower commitments under NATO. We have been taken for an economic ride under NATO. I am for NATO. I was one of the floor leaders who helped to bring it through the Senate in 1949, but times do change.

England has not met her commitment. France has practically stepped out entirely. Italy comes nowhere near filling her commitment; and not even Canada, to the north of us, fulfills its commitment.

Here is a chance to save hundreds and hundreds of millions of dollars. That is where some of this $6 billion should be saved. Tell me why I should vote for hundreds of millions of dollars of American taxpayers' money for American military aid in Africa, where the per capita income of most of the people is less than $100 a year. We are sending them bullets when we should be sending them bread and literacy. Bread and literacy will not only make them free in a course of time but also will get us out of supporting dictatorships, military juntas, and tyrants, for which our money is being used around the world in the form of military aid. And we call ourselves a democracy. What hypocrisy. So much of our action in foreign policy is anything but supporting freedom. We support tyranny when we support the group in South Vietnam that we are maintaining and for whom we are sacrificing the lives of American boys. Most of them are former officers in the French military establishment. We can make some savings there. Also, we could save hundreds of millions of dollars in Africa. As chairman of the Subcommittee on American Republics Affairs, I have been more successful in that area because my subcommittee has been with me in an overwhelming majority, and we have cut back on military aid to Latin America—not enough, let me say, but cutbacks were adopted by the Senate, only to be rejected by the House.

What we are doing in many Latin American countries is trampling freedom underfoot because of U.S. military aid.

Tell me why I should vote millions of dollars of military aid to a South American dictatorship.

We should send to South America, instead, bread and literacy, not bullets. The principal purpose of the Alliance for Progress is to do something to help South America economically. That is what will make them free. Until we do that, I shall continue to vote against the foreign aid bill.

We again have an administration proposal for approximately $3 billion of foreign aid. I shall vote against the whole package because it is so wrong in regard to its objective. But we cannot possibly justify more than $1 billion at this time of crisis.

We should tell the rest of the world that we are going to suspend foreign aid and let some other countries come in and help for a change. That would be quite novel, of course. But until we get out of our fiscal crisis and our foreign policy crisis which confront us today, we should do just that.

Now let me talk about the permanent military bases we are building. I know that this is "hush-hush" stuff. Do not forget that the administration keeps telling the American people, from coast to coast, and on one television network after another, that America seeks no permanent military installations. We have all heard it. Some people are kind enough to call it softly a "credibility gap." The representation that we seek no permanent military bases has no relation to the facts, because we are building permanent American military bases. We have plans to spend billions of dollars more, as the military-industrial complex makes more progress in building an American military lifeline around the world. We are seeking to set ourselves up on a unilateral basis as the military policeman of the world. We are not going to be allowed to do that by the nations of the world.

Mr. President, the politicians do not seem to think in terms of the next century, but about what is going to happen at the next election. That is what most of them are thinking about now, so they think this bill is a good political policy. But wait until the taxpayers catch up with them. Let me say to my friends on this side of the aisle—and I never advise the other side of the aisle—I would be the last one to do that—this bill is a great political mistake as well as a great tax mistake. Wait until the taxpayers catch up, when they realize what we will be doing to them. The taxpayers want cuts made in foreign expenditures and cuts in military spending. They want us to get out of the war. If we did not need these cuts, we would not need a tax bill

at all; we would be talking about a tax reduction bill.

No, Mr. President, what we have to do is to produce more goods which create wealth. We have to stop wasting the largess of the Republic in an unconstitutional and immoral war in Vietnam. It is a war which endangers us to greater escalation until we finally get into the total holocaust itself, beginning with a war with China.

For these reasons, I shall oppose the bill.

I thank the distinguished Senator from Delaware [Mr. WILLIAMS] for allowing me to make this summary of my objections to the conference report.

Mr. WILLIAMS of Delaware. Mr. President, I yield 10 minutes to the distinguished Senator from Ohio [Mr. YOUNG].

The PRESIDING OFFICER. The Senator from Ohio is recognized for 10 minutes.

Mr. YOUNG of Ohio. Mr. President, at the outset, I congratulate and commend the distinguished senior Senator from Oregon [Mr. MORSE] on the magnificent statement he has just made on the great need for tax reform in this country. That is what we should be dealing with today instead of the conference report which has come over to us.

I associate myself with his views and say, regretfully, I am sorry more Senators were not in the Chamber to be privileged to hear them. I was much impressed by everything the Senator said.

Mr. President, in 1949, just about 19 years ago, it was my honor to be elected by my colleagues in the House of Representatives as a member of the Ways and Means Committee. I served as a member during the time following that, when the citizens of Ohio were good enough to afford me the opportunity and the privilege to be a Member of the House of Representatives as Congressman at Large from Ohio.

I dealt constantly with tax problems during that period of time. It was then that I learned in depth of the tax loopholes which should have been eradicated at that time, but now, almost 20 years later, are still in existence. Unfortunately, some of the wealthiest people in America are paying no income taxes whatever because they take advantage of these tax loopholes, including the notorious 27½ percent depletion allowance for oil and gas production. In 1965 there were 624 taxpayers with incomes of $1 million a year or more who through tax loopholes reduced their effective income tax rate from 70 percent to 44 percent. Even more outrageous, there were 35 Americans with incomes exceeding $500,000 who paid no income taxes at all. At the same time the ordinary men and women of America are being heavily overburdened.

We should abolish the atrocious oil and gas depletion allowance of 27½ percent for oil-producing companies of this Nation. We should close all tax loopholes which favor the few at the expense of the many. Of course, we should have real tax reform before we proceed to add a 10-percent income tax surcharge on already heavily taxed Americans.

It is most unfortunate that taxpayers, already heavily overburdened, must now have this additional 10-percent surtax added to that burden carried by individuals and corporations, if the conference report is adopted by the Senate today. Our corporations and individual men and women taxpayers of America, those particularly who are not in the extreme top brackets and who have not availed themselves over the years of the tax loopholes, are truly heavily overburdened. Now, this added demand is made on them entirely due to the fact that this administration has unwisely involved the United States in a civil war in Vietnam.

With respect to the tremendous cost in money resulting from an all-out American air and ground war in Vietnam, from the time President Johnson took office in November 1963 to the present time, it has cost our taxpayers approximately $110 billion.

Mr. President, last year nearly $7 billion of taxpayers' money was spent for munitions alone—blown up into smoke, of course—because of our involvement in an immoral, illegal, and stupid war. I say "stupid" because it is the gravest mistake any President has made. It is stupid, folly, that we are involved in the civil war in Vietnam.

At the present time the cost in dollars alone is approximately $2.6 billion every month. That cost is increasing.

In addition thousands of young Americans have been killed in combat. Those are priceless lives. As you know, Mr. President, every community in Ohio has been afflicted with losses. Just yesterday I signed my name to 26 letters of sympathy and regret that went out to young widows and fathers and mothers of the finest young men in Ohio who were killed in combat in South Vietnam.

The Defense Department admits that more than 25,000 men have been killed in combat there. What the Defense Department does not tell the American people so readily is that of the some 150,000 who have been wounded in combat, 3 percent have eventually died. What the Defense Department does not tell the people of the United States—and the senior Senator from Oregon referred to it as the credibility gap in the Pentagon, and he said it could be called worse names than that—is that there is a category the Pentagon has of "Accidents and Incidents"—men killed and injured, for example, when helicopters collide in the combat zone or when a truck is overturned outside the immediate combat zone. The present Presiding Officer knows, and those of us who served in combat in World War II know, these should be regarded as combat casualties.

To return to the dollar cost, in addition to the 10-percent surtax that is to be added to existing taxes—instead of having tax reform and eliminating some of the most atrocious taxes—we in the Congress are urgently requested by the President to extend and continue abominable excise taxes, such as taxes on telephone bills and air travel, and other excise or sales taxes, which, all of us know, very unfortunately burden those who have the least. They are regressive in their character.

At this time, in addition to the tragedy of the deaths and wounding of so many American youngsters in Vietnam, and at a time when more than $2.6 billion is being spent every month in the Vietnam war, we should be working on tax reform to tax fairly and equitably all Americans, instead of being brought here today and requested to pass this conference report to support this most unpopular war. Instead of voting on a tax increase on individual taxpayers and on corporations, we should be working on an excess profits tax bill to recover for taxpayers the billions of dollars in excess profits with which some war profiteers are fattening their incomes. There were excess profits taxes in World War II and during the Korean war, and as a result billions of dollars of taxpayers' money was saved, as much as $10 billion in a single year.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. Mr. President, I yield 5 minutes to the Senator from Ohio.

Mr. YOUNG of Ohio. I thank the Senator.

Mr. President, incidentally, the war in which we are now engaged in South Vietnam is an involvement in an ugly civil war. There can be no question about it. I interviewed General Westmoreland on two occasions, in October 1965, and in January of this year. He may have forgotten what he told me in 1965, but I reminded him in January 1968. I said, "You told me in October 1965, that the bulk of the VC fighting us in the Mekong Delta"—which is south and west of Saigon—"were born and raised in South Vietnam, most of them in the Mekong Delta, and your top deputy, General Stilwell, stated to me that 80 percent of the VC fighting us in Vietnam were born and reared in South Vietnam." I said "General Westmoreland, I remember those statements. I said to your deputy, 'Well, then, we are involved in a civil war over there.' He said, 'Well, it could be called that'." I said, "Of course I call it that, and any sensible person calls it that."

Mr. President, next Sunday, this American ground war in South Vietnam and American air war over the temporary demarcation line over what is North Vietnam, will become the longest war that the United States has ever engaged in—6 years, 6 months, and 1 day. It will then be a longer war than was our War for Independence, which lasted 6 years and 6 months; longer than the 2 years and 6 months of the War of 1812; longer than the 4 years of the War Between the States; longer than the 1 year and 7 months of World War I; longer than the 3 years and 9 months of World War II; longer than the 3 years and 1 month of the Korean war.

The war we are engaged in in Southeast Asia continues to erode the very moral fiber of the Nation. It is blocking an attack on social problems at home, which have reached the point of disaster, because of our neglect of them. The senior Senator from Oregon [Mr. MORSE] referred to that in detail. I support every statement he made. This war that President Johnson involved us in because he gave in, in a servile manner, to the Joint Chiefs of Staff and to the industrial-military complex that President Eisenhower warned against in his final statement to the American people, has

demoralized our politics and has deranged our daily lives. It is setting American against American. It is encouraging the violence that now seems to pervade our society. It is inevitably leading to a pocket-picking inflation. It is undermining the United States dollar abroad as it is leading toward uncontrolled inflation at home and higher and higher interest rates. It is strengthening Communist countries which have been torn and weakened by internal conflicts. It is undermining our influence in other vital areas of the world. It is pushing us ever closer to world war III and a nuclear holocaust.

Mr. President, Defense Department officials have announced that as of June 15, 24,364 Americans have been killed in combat and 150,243 wounded in combat. This total of 174,607 American casualties exceeds the total French casualties killed and wounded in combat in the entire Indochinese war for liberation which the French finally lost to the Vietminh, now called Vietcong. Historians list the total French losses during 7½ years of combat seeking to reestablish their lush Indochinese empire at 172,708.

Unfortunately for us Americans, the Pentagon is not truthful in its casualty reports. The Defense Department credibility gap is deep and wide. These figures of killed in combat do not include the thousands of Americans who died of wounds. In addition, some thousands have been killed in what the Pentagon terms "accidents" or "incidents." Also, most unfortunately, disease has taken its toll. Thousands of GI's have been afflicted with malaria in a virulent form. Some will suffer recurrences of this as long as they live. In addition, men of our Armed Forces have died from hepatitis, bubonic plague, and various jungle diseases. All of this in an undeclared war in South Vietnam—a small faraway country of no strategic or economic importance whatever to the defense of the United States.

Now, since the successful VC Tet offensive the VC or forces of the National Liberation Front have been hurling mortar shells into Saigon intermittently day and night. The tempo of these attacks has increased in recent weeks. In our retaliation from bombers and helicopters not only have many civilians lost their lives but whole city blocks in densely populated slum areas including Cholon, the closely built and densely populated Chinese slum district of Saigon, have been hard hit. Entire city blocks have been utterly destroyed. In 1 month, from May 16 to June 15, 130,000 Saigon civilians either lost their homes or fled from Saigon. On a typical night, June 7, 25 men, women, and children were killed, and 27 homes were destroyed. By these attacks, the VC have brought about a record desertion from the armed forces of South Vietnam stationed in Saigon. More than 15,000 deserted in one 30-day period, presumably returning to their hamlets. All or nearly all of these members of the so-called friendly forces of South Vietnam carried with them their rifles and ammunition. How many joined the VC or turned their guns over to the VC, no one knows.

It speaks ill of the generals commanding thousands of American soldiers stationed in and about Saigon that we have remained on the defensive instead of engaging in bold offensive action to drive away the VC and thereby put an end to the mortar fire on targets within Saigon. The forces of the National Liberation Front, or VC, have cared for thousands of additional refugees whose homes have been destroyed or who have fled from the combat area. These uphappy people, if considered friendly to the Americans months ago, no doubt think only of fleeing to some place where they may live in peace or join with the VC and further demonstrate enmity toward Americans. A final result detrimental to the United States is that in the various Asiatic capitals, Tokyo for example, where there are anti-American riots, the Saigon street fighting adds further emphasis to the fact that there is a civil war raging in South Vietnam and that we are fighting on the losing side.

Let us hope that the negotiations now limping on in Paris will soon give signs of leading toward a cease-fire and an armistice and an end to the bloodshed in Vietnam. However, we cannot blind ourselves to the fact that the war in Vietnam continues in its ferocity with its continuing horrendous toll of human life and material resources and its brutalizing effect on us as a nation.

Mr. President, when President Johnson appeared before the Congress early in 1964 to deliver his State of the Union message, he proposed a wonderful program for war on poverty and the creation of a Great Society. I recall he said that under his leadership he proposed we would win against poverty, deprivation, and ignorance and give the underprivileged and those discriminated against the opportunities they never had. He spoke of the uncrossed desert and the unclimbed ridge and of how we would go forward. We had high hopes not only for complete civil liberties and civil rights for all Americans but for a new life, a new opportunity, a job for every worker, a home for every family and for every man to come home to his family at night after a day's work with something for them to eat; and for youngsters regardless of race or the financial status of their families to be given every opportunity to achieve a higher education.

Then came the crash. President Johnson became subservient to the Joint Chiefs of Staff of our Armed Forces, Secretary of State Rusk, and Gen. Maxwell Taylor, yielding deference and devotion to them and following their urging and advice to wage war to achieve ultimate military victory instead of a diplomatic settlement.

These high hopes that his statements created early in 1964 had to be given up with our escalating and expanding the fighting in Vietnam. Low-cost housing, Federal aid to education, government aid to rebuild ghettos and slums in our cities became casualties of our Vietnam involvement.

It is tragic that President Johnson a very great man, could have achieved the goals he set out to achieve had he not been subservient to the military-industrial complex represented by the men and groups I have named.

Had he done otherwise, we would not today be considering a 10-percent income tax surcharge on individual taxpayers and corporations and a drastic cut in expenditures which will very, very seriously curtail programs vitally needed for the welfare of all Americans in these days of serious domestic unrest. He could have carried out his goal of eliminating poverty in our Nation, of replacing our ghettos with decent homes and decent schools, of cleaning up our Nation's polluted rivers, lakes, and streams, of eliminating the filth from the air we breathe, of giving hope to the hopeless, and equal opportunity for all.

Mr. President, instead of wasting the huge sums that are being spent in an immoral undeclared war, this conference report before the Senate today should be rejected, and then we should immediately set about to achieve a tax reform in this country. At the same time, of course, we should cease supporting a military regime in Saigon, which is not representative of the people of South Vietnam, but which is composed of 10 generals who overturned the civilian rulers there, and 9 of those 10, including Ky, fought with the French against their own people, seeking to restore the French empire. When I interviewed General Ky in Vietnam, he made a very bad impression on me—though, of course, one should not attempt too rigid an appraisal in 40 minutes. When I remarked about a certain medal on his chest, he puffed himself out and said, "I won that when I was with the French forces in 1954." He won it fighting against his own people, who were fighting for the liberation of all of Vietnam.

Mr. MORSE. Mr. President, will the Senator yield?

Mr. YOUNG of Ohio. I yield.

Mr. MORSE. I rise simply to congratulate the Senator from Ohio. Once again he has shown what a man of courage he is. Time and time again, during this historic debate for the last 4 years, he has dared to stand up and speak out against the great foreign policy mistake we are making because the Pentagon took over, a long time ago, the foreign policy of this Republic.

What the Senator is saying, in effect, if I were to characterize this speech, is that he recognizes that the general welfare programs of this country, so vital to restore and maintain domestic tranquillity here at home, are to continue to be sacrificed at the altar of the American money changers, who are watering at the mouth, as I said earlier this morning, to get this monstrosity passed today, so that they can make their economic killing, to go along with the physical killing this war is producing of American boys in Vietnam.

I congratulate the Senator, and I am glad to stand shoulder to shoulder with him once again.

Mr. YOUNG of Ohio. I thank the Senator from Oregon.

Mr. President, I feel that those of us who vote "no" on this conference report today will cast a vote in favor of real

tax reform in the United States, a vote in favor of winning the war against poverty in this country, and a vote in behalf of the already overburdened taxpayers of America.

The PRESIDING OFFICER. Who yields time?

Mr. WILLIAMS of Delaware. I yield 15 minutes to the Senator from Pennsylvania.

Mr. CLARK. Mr. President, with great reluctance I intend to vote for the 10-percent surtax legislation reported by the conference committee. I shall do so because of my overriding concern about the need to act without any further delay in putting our fiscal house in order.

Over the past several months it has become increasingly apparent that our national budget must be brought into closer balance if the dollar is to be saved from devaluation. The consequences of further inaction have not, in my judgment, been exaggerated. Here at home we would be faced with an upward spiralling of prices which robs the pockets of those least able to defend themselves—those living on social security and fixed incomes, the elderly, teachers, and others whose salaries tend to lag behind surging prices. Wages would lag behind prices as they usually do.

In our international financial affairs, we would be faced with a new and far more serious run on our dwindling gold supply. It is true that the gold supply was augmented in its ability to meet foreign claims as a result of the bill freeing the domestic reserves, which I was the first to introduce over 3 years ago, which we took far too long to pass, and which was finally signed into law only early this year. But that law is just first aid; it is no final cure.

Although I shall vote for the surtax, I would have far preferred that the additional revenue be raised in a more equitable way. That is why I voted against this bill some weeks ago.

All that this new tax will yield and more could be produced without raising a single taxpayer's rate by a single percentage point—just by closing some of the more obvious and outrageous loopholes which have existed for years. Ever since I came to the Senate I have worked and voted against the continuation of the oil depletion allowance, even though I personally benefit from it. It has been estimated that this loophole costs the taxpayers $4 billion a year. It should be closed.

But, Mr. President, we do not have the votes to close it. The House Committee on Ways and Means will never let us close it in the foreseeable future. Therefore, it is a condition that confronts us, and not a theory; and I have never been one who believed in banging my head against a stone wall unless there was some chance of the stone wall giving way.

Other tax gimmicks such as stock options for corporate executives which are simply not available to 95 percent of the taxpaying public should likewise have been abolished years ago. But, Mr. President, we do not have the votes to do it, and I question when we ever will have. The net result, if we were able to close these tax loopholes, would be: First, more money going into the Federal Treasury, and quite likely; second, lower tax rates for everybody. But this is not in the cards, because the lobbies of the wealthy control the Congress of the United States. I say this with chagrin and some shame. But we do not have the votes for tax reform. We do not have the zeal from the administration to urge us to make the necessary tax reform; and I, for one, do not feel that therefore I can close the book, abdicate my responsibility, and go home.

Next to a thoroughgoing tax reform, I would have preferred to see the needed tax dollars raised in the traditional way—through a wartime excess profits tax. This is another reason why I voted against this bill the last time it was before the Senate. It is obvious that this surtax is a war tax. If we did not have the war going on, we would not need the tax. If we were not spending $82 billion for a swollen military budget, we would not need this tax.

Mr. President, we cannot persuade the Pentagon and we have not been able to persuade the President of the United States to cut that budget, although I think we must cut it and cut it soon, and do it partly, at least, through the military construction bill which is presently on the floor. And I shall move to cut that bill by at least 10 percent and obtain rollcall votes on my various amendments before we come to final passage.

Without Vietnam the annual Federal budget would be at least $30 billion lower. Why not raise war revenues as we have traditionally done in the past—not by putting the burden on the back of the individual taxpayer, but by taking the needed revenue out of business' excess profits? And there are excess profits. And no one need deny it. The swollen military-industrial complex of corporations is getting rich on the military expenditures which Congress has voted.

There is another aspect of this bill which causes me serious concern—the $6 billion spending limitation. My concern is not over the limitation. I believe that $6 billion at least can and should be pruned out of the Federal budget. My concern is with where these cuts will be made, not where they ought to be made. And I have dealt with that.

When the tax bill was on the Senate floor I offered an amendment to lay down priorities for the President in making spending cuts. I think it is the duty of the Congress to establish priorities for the President. It is easy to tell the President to cut the budget wherever he likes and reserve the right to complain whenever he cuts a Senator's pet project. It is easy to be for economy in general and against all cuts in particular. But the honest course is for Congress to take the responsibility for indicating to the President the areas in which it believes cuts should be made. We control the purse strings, not the President. He recommends. We appropriate.

My amendment would have directed the President to concentrate the budget cuts in the foreign military aid program; the space program; and the Defense Department budget, to the extent that cuts in defense spending would in no way endanger the security of the United States or the safety of U.S. troops.

I assert categorically that we could cut $8 billion out of the defense bill, and the American people would never know it was gone, and the security of the United States would not be adversely affected.

I had intended to include the proposed supersonic transport as an area for spending cuts, but I was assured by the chairman of the Senate Commerce Committee that the administration does not intend to spend any money on this project in the coming fiscal year in any event. So, I did not include that amendment, although perhaps I should have.

The budget requests for next year for the three programs listed in my amendment come to more than $88 billion; $2.1 billion for the military aid budget; $4.3 billion for space; and $82.3 for defense—and that is where the cuts have to be made if our economy is going to survive.

The arguments for cutting military aid would be convincing even if we did not need the money for other things. We have gotten too much in the habit of poking our military noses into all sorts of places in which we do not belong. Vietnam, it seems to me, is a prime example of the kind of so-called commitment we can get ourselves into with a small beginning through a military assistance program. We should not need another lesson like that. While I do not view these programs as commitments, and never have, there are others—including the President and most of his advisers—who obviously do. The answer is to cut back severely on military assistance and stop being arms mongers and drill masters to every underdeveloped country that comes asking. Let us begin giving the cold shoulder to those who use our arms to keep their own people in a state of subjugation, like the illegal junta in Greece. There is no excuse for us to give $1 in military aid to be used by them to enslave their own people.

Let us save our aid for those who deserve it, as Israel does, because of their commitment to democracy, and who need it, as Israel does, to prevent aggression by their neighbors.

I have no quarrel on principle with the objectives of our space effort. It is a noble thing to aspire to place men on the moon and to explore the planets. The question is, do we have to be in such a hurry? Our cities are being torn apart by civil disorder. Our air is polluted; much of our water is unfit to drink. Too many of our children are not getting the kind of education they need in order to get and keep meaningful and remuerative jobs. Too many of our fellow citizens are still ill housed, ill fed, and ill clothed; thousands, if not millions, are actually hungry. And I know and have seen it personally. It was my job as chairman of the Subcommittee on Employment, Manpower, and Poverty of the Committee on Labor and Public Welfare to go all over the country and determine the extent of hunger and poverty in the United States.

I assure my colleagues that millions of Americans will go to bed hungry tonight. This is a disgrace in the richest country the world has ever known. And

we paid $82 billion for defense and cannot spend $2 billion to alleviate poverty.

Surely obtaining solutions to our problems here on earth must be speeded up, even if this means the race to the moon must be slowed down.

Obviously the bulk of the spending cuts will have to come out of the defense budget, since that is where the great bulk of the money is. The simplest and most obvious cut should be the antiballistic missile program, which is responsible for $1.141 billion of the budget request for the coming year. I know of no responsible scientist or military expert who believes that the ABM is any good in terms of safeguarding this country against a Russian missile attack.

I was flabbergasted and gravely disappointed to note that the new Secretary of Defense, Mr. Clifford, wrote a letter the day before yesterday reversing the position taken by his predecessor, Secretary McNamara, and going along with the generals and the admirals in the Pentagon in promoting a proposal which has no logical basis in fact.

I hope that the Cooper amendment will be soundly adopted when we vote on it next week.

If not another penny were spent on this program, the net result would be a strengthening of our security through the sound reallocation of this money. We should direct this money into essential domestic programs instead of creating a toy erector set for the generals and admirals to play with at a high cost to the American taxpayers and with no benefit whatever to the security of the United States.

In addition, the new Secretary of Defense should take a good hard look at our military manpower requirements. At the beginning of this year there were 3.4 million Americans in uniform, of which only 568,000 were in Southeast Asia. Every businssman knows that a swollen payroll is a shortcut to financial disaster. We have all heard of Parkinson's law in government. I know it is true here, too.

I suspect there is room for substantial cutting—perhaps on the order of 10 percent—in the uniformed personnel not engaged in the Vietnam fighting. I would not be surprised if in the end the fighting efficiency of our forces was upgraded as a result of the cuts. In any event, it is obvious that reductions can be made in the nonessential elements of this 3.4 million uniformed force without endangering our national security. And I shall propose amendments to enable us to get just this result.

Similarly, civilian personnel serving the Department of Defense at home and overseas could be significantly cut with large attendant savings. Other military areas where cuts are entirely feasible without prejudicing national security are the military construction and military hardware appropriations.

Although I would have preferred the bill if it had included my amendment directing the President to make priority cuts in defense and space appropriations, nothing in the bill would prevent the President from making the required spending cuts in these areas. I hope he will. In fact, I believe he almost has to. I simply do not believe that at a time like this we can afford to take any money out of basic domestic programs, such as education, housing, the war on poverty, manpower training, health, antihunger programs, and the like. These programs are already seriously underfunded. To cut these programs further is to cut the very fabric of American life. We simply cannot do it. In my opinion, we do not have to do it.

If Congress will wake up, if it will put the Pentagon in harness, it will cut the defense appropriations where they should be cut, and let us get away from the military-industrial ownership of this country—that military-industrial complex against which former President Eisenhower so prophetically warned us.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. WILLIAMS of Delaware. I yield 1 additional minute to the Senator from Pennsylvania.

Mr. CLARK. Mr. President, we have as a nation three great crises with which to deal. First, we must find a way to an honorable end to the fighting in Vietnam and the killing of American boys as promptly as possible. Second, we must act with dispatch to rescue the dollar and repair our sagging fiscal condition. This is one reason that I am going to vote for this bill: because the dollar is in jeopardy. If we do not protect it, the savings of every American will go down the drain. Third, we must move promptly to establish social and economic justice within our own society, and restore order and domestic tranquillity to our cities.

With this bill, we can take a step toward meeting one of these three great objectives. It is not a perfect bill. It is not even a good bill. But it is better than no bill at all, and for that reason, I shall vote for it.

Mr. WILLIAMS of Delaware. Mr. President, I yield the remainder of my time to the Senator from Wisconsin.

Mr. PROXMIRE. I thank the Senator.

Mr. President, I yield 3 minutes of my time to the Senator from Michigan.

Mr. HART. Mr. President, economists are by no means agreed as to the necessity for a tax increase of the character recommended by the conference report, and one need not be an economist or a Ph. D. in Sociology to understand the implications to this country in the reduction of $6 billion unearmarked.

We can cut back on a dozen search and destroy missions in Vietnam for every small neighborhood Headstart or medical care center that has been created in the last year in a dozen of our cities; and if that is where the cuts fall, let us not look around for the Stokely Carmichael to put the finger on for what will happen this summer.

Mr. President, undoubtedly some Senators in this debate will consider that a vote for this conference report will be interpreted as a statesmanlike act. Generally, in Congress it is assumed to be politically unpopular to vote for a tax increase.

However, Mr. President, after listening to the rhetoric surrounding this tax bill and the predictions of its proponents of galloping inflation and complete financial disaster if this bill is defeated, I wonder if politically the popular position is not in favor of the conference report. To me the proper course is to vote against this tax bill—thus casting a vote for the poor and disadvantaged in addition to the long-suffering overtaxed middle-income families all of whom have the most to lose if this 10-percent surtax coupled with a $6 billion expenditure cut goes into effect.

And let's make no mistake about this $6 billion expenditure cut. As was clearly evidenced by the action of the House Appropriations Committee yesterday, much of the $6 billion will be taken from our vital human resources programs—programs that are so essential to saving our cities and giving all Americans a real stake in the future. At this point, I ask unanimous consent to insert in the RECORD today's New York Times account of yesterday's House Appropriations Committee action.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

HOUSE PANEL CUTS SCHOOL FUNDS—VOTES BAN ON REQUIRED BUSING

WASHINGTON, June 20.—The House Appropriations Committee cut deep into education funds today, trimming $847.8-million from budget estimates for the Health, Education and Welfare Department.

Even so, the department was allotted $14.38-billion, almost $3-billion more than it received for this year.

The committee inserted in the bill a ban on compulsory busing of students. It provided that no funds could be used for this purpose or for "abolishment of any school, or to force any student attending any . . . school to attend a particular school against the choice of his or her parents or parent."

The appropriation bill now goes to the floor.

The committee approved $1.32-billion for elementary and secondary school activities, a reduction of $200-million from budget requests and of $356.15-million from the amount appropriated for the present fiscal year, ending June 30.

MORE MEANINGFUL FIGURE

But its report said part of the cut was "due to transfers, expiration of authorizing legislation for certain parts of the program, and other adjustments." A "more meaningful" reduction figure, it said, is $186.1-million, a figure resulting from comparing the bill with amounts actually obligated this fiscal year.

Total reductions under budget estimates in the bill, which combines funds for the Labor Department, the Health, Education and Welfare Department and related agencies, was given as $1.17-billion. The committee said this should result in cutting actual expenditures for the coming fiscal year by $450-million.

The panel said it followed a "general rule of denying the many requests for funds to ininitiate new great programs."

The Public Health Service, which includes the National Institutes of Health, was reduced $165.5-million under budget estimates, receiving $2.54-billion, or about $161-million less than its appropriation for this year.

The committee approved $1.87-billion for the Office of Economic Opportunity, which administers the antipoverty program. This is a reduction of $307-million from the amount requested, but an increase of $100-million over the amount appropriated for this year.

Mr. HART. Mr. President, the arguments in support of the 10-percent surtax and the $6 billion expenditure cut are familiar to all of us. Unless we take this action, we are told, we will push up interest rates on all types of loans, we will see the number of housing starts reduced to a trickle, business expansion will be shut off because of the high cost of money, growing inflation will take even more out of the pockets of the workers, the purchasing power of the dollar will be reduced, and the soundness of the dollar will be jeopardized around the world.

While these may be sound arguments, economists are not in agreement on this rationale. I respect the judgment of Senator PROXMIRE in this area. Having read the argument he is about to make, I adopt the view he shall voice.

But there is another set of problems that requires our attention. To say that our cities are in a period of crisis has become a cliche. Ears seem to have become almost deaf to the daily cries for the basic American right to have the opportunity to fulfill one's ambitions, unhampered by poverty, inadequate housing and diet, and insufficient education and training.

To ignore the pleas of those without opportunity is shameful enough. For the Congress to demand that the President cut expenditures and curtail programs aimed at broadening the promise of America to everyone is not only cruel, it is foolhardy. Such denials could undo our society.

This bill would hurt low-income families in two ways. First, it would actually increase their tax more than it would the tax of certain wealthier individuals and corporations. At present, the first $1,000 of taxable income is already taxed at 14 percent. In 1964, there were 19 individuals earning over a million dollars who paid no tax at all.

Second, it is clear that human resources programs would, as a result of the $6 billion cutback, suffer. Budget Bureau Director Charles Zwick has mentioned probable cutbacks in elementary and secondary education aid, anticrime activities, maternal and child welfare grants, the school lunch and food stamp program, and model cities grants. Health, Education, and Welfare Secretary Wilbur Cohen said that this reduction would force "substantial" cuts in many HEW programs.

The Congress cannot be a party to this Nation's taking a step backward in its resolve to assist the problems of the poor, of inadequate housing, of inferior education, of insufficient training, of unemployment.

Therefore, Mr. President, I urge that this proposal be defeated. If it is defeated, I would suggest that it be sent back to conference with specific instructions to the conferees that at least half of the $6 billion be "raised" not through budget cuts, but through tax reform.

I urge consideration of tax reform in three areas: Excess corporate profits tax, tax loopholes, and the minimum income tax.

First, a corporate profits tax. Certainly prices have been rising at a steady pace, but it seems to me that we may be confusing traditional inflationary pressures with rising prices not directly related to supply and demand or cost-push considerations. Many of our key industries are operating far below capacity. Labor costs have been rising moderately in the past year, but not in a fashion which would explain our continuing price spiral. Therefore, I am not sure that reducing demand or severely curtailing wage hikes, will have much effect on our present price structure. Many economists share this doubt, as Senator PROXMIRE has outlined.

One item that has been rising dramatically is corporate profits. This is true both in absolute and in relative terms. In absolute terms, they have shown an approximately 88-percent increase since 1958. In terms of return in shareholder equity there has been a greater than 30-percent gain during the same period.

It would seem, then, that a rather dramatic increase in corporate profits over the past 10 years may partially explain the price hikes. Apparently, prices seem to be going upward despite any supply and demand consideration. In addition, corporations received the 7-percent tax credit on investment in new equipment.

I recommend that we raise part of the $6 billion by initiating tax laws that would reduce excessive corporate profits. I recommend that the 48-percent tax ceiling on corporate profits be raised—allowing a graduated levy of possibly up to 75 percent on firms with a very high profit rate.

The amount of additional revenue this would bring would depend, of course, on the rate schedule adopted. If the corporate income tax rate were 52 percent, rather than 48 percent, there would be $3.5 billion additional revenue. If the rate were 55 percent, the figure would be $4.25 billion. Incidentally, repeating the 7-percent investment credit allowance would add $2.5 billion to Federal revenues.

Second, tax loopholes. Perhaps the most glaring loophole is the oil depletion allowance of 27½ percent. It is true the exploration for oil and minerals is a costly business. But I cannot believe that, given oil companies' profits, modifying the oil depletion allowance would mean the end of exploration for oil.

Something is out of kilter when the man in the lowest tax bracket pays 14 percent of his net income and, in 1965, the 20 largest oil companies paid an average of 6.3 percent of their net incomes in Federal taxes. I have seen estimates for additional revenue resulting from the end of the oil depletion allowance ranging from $1½ to $2½ billion a year; whichever is correct, it would be a substantial amount of money.

Another key tax loophole area is capital gains. The tax rate for one's capital gains; that is, the increase in price of any property or stock, is half the regular income tax rate. Why should capital gains not be taxed as ordinary income? Halving the rates for the capital gains that are now reported costs the Federal Government a minimum of $3 billion a year.

There are other tax loopholes which should be closed—with a resulting more equitable tax system for this country.

Mr. President, I am aware that the tax reform measures such as those I have recommended will not come overnight.

But, Mr. President, if this measure is defeated, I will propose that the conferees adopt a minimum income tax of 10 percent for corporations and individuals on presently tax-sheltered income. It has been reliably estimated that under a 10-percent minimum income tax proposal on such items of nontaxable capital gains for free income from State and municipal bonds, on oil and mineral depletion allowance income, and income from rapid real estate depreciation and other tax-sheltered income, we could raise an additional $4 to $6 billion in tax revenues.

It is incredible and unfair—but true—that there are individuals in this country who pay no income tax whatsoever. In 1964 there were 35 individuals with adjusted gross incomes in excess of $500,000 who paid no income tax. In 1965, three taxpayers earning more than $5,000,000 annually paid no tax.

Today, the United States has one-third of the world's industrial production. We have solved the problem of creating wealth—but not of sharing it.

The present income tax system, which was supposed to tax in accordance with the ability to pay has not done so. Herman Miller of the Census Bureau compared income distribution in the United States and came up with the following:

[Percent of wealth]

	1937	1962
Top 5th	46	45.5
2d	22	22.7
3d	16	16.3
4th	11	10.9
Low 5th	5	4.6

The situation with many corporations is equally unhappy. I have already noted that the 20 largest oil companies paid an average of 6.3 percent income tax in 1964.

I am not implying these individuals and corporations avoid taxes by illegal means; their means are entirely legal. But is it fair for the rich individuals and corporations to escape paying taxes or to pay less than the poor? As Congressman TENZER has said:

> If, "taxation without representation is tyranny," the representation without taxation is scandalous.

In conclusion, Mr. President, if we need additional tax revenues to pay for the cost of a tragic war in Vietnam, it would be a mistake to take this money from the demand side of the economy, as its primary effect would be to penalize the American consumer, without at the same time bringing down prices. What is needed is total tax reform as I have said.

Yet we are told it is never the proper time for basic tax reform. Either there is a fiscal crisis and no time for the careful analysis on which to base the overhaul, or, with the economy moving smoothly there is no will to do this job. There is gross inequity in our Federal tax system. To underwrite the cost of a war I believe

we ought not to have escalated, we should not add 10 percent to the tax obligation imposed by that inequitable system. And most certainly we ought not cut by $6 billion—blindly—in Federal expenditures.

No Member can claim that cut will not reach domestic programs waging war on poverty. The war on poverty must not be lost; and victory over poverty will not be found in a bargain basement. In terms of our survival as a nation we could cut back on "search and destroy missions" with far less danger than now closing small neighborhood health care or Headstart centers in a dozen cities. Such closings can follow a $6 billion cut and we should need no fortune teller to describe the likely repercussions.

Admittedly, Mr. President, there are many here today who reach the opposite conclusion on this question.

Admittedly, this issue involves the delicate balancing of competing claims and priorities.

I conclude, however, on balance that we can do better than the conference report would have us do, and therefore respectfully urge my colleagues to reject the conference report.

UNLIKELY TO ACHIEVE ANY OF THE OBJECTIVES USED TO JUSTIFY ITS PASSAGE

Mr. PROXMIRE. Mr. President, I intend to vote against the tax increase conference report for a number of reasons.

In my 11 years in the Senate, I can remember no economic legislation which has had more comprehensive claims for what it will achieve; and I can remember no legislation which is more doomed to disappoint its supporters than this.

On the basis of many weeks of testimony before the congressional Joint Economic Committee—of which I am chairman—by some of the outstanding economic experts in government, business, universities and elsewhere, and after a very careful review of scores of analyses of this issue, I have come to the conclusion that it represents a very serious economic mistake for this Nation.

I say this recognizing that a very large proportion of the Nation's economists, business leaders, and other experts do support this legislation.

The vote in the House just yesterday showed how very powerful and widespread this support is.

The first and most obvious argument for this package is that we are confronted with a deficit in the coming fiscal year which may exceed $25 billion. It is argued that unless taxes are sharply increased and spending drastically cut, the Nation is headed for a budgetary irresponsibility that is certain to destroy waning confidence in the dollar and provoke very serious inflation.

It is argued that if taxes are increased as proposed and if spending is cut, it will reduce the deficit below $10 billion.

This is based on the simple-minded assumption that if taxes are increased, the growth of the economy will not decline during the coming year, in spite of the very sharp degree of fiscal restraint involved in this conference report on which we are asked to vote.

Mr. President, such a conclusion is not based on economic experience. It is not based on the Nation's most recent economic response after a sharp change in fiscal policy by our Federal Government.

Four years ago, in 1964, Congress sharply reduced—I stress "reduced"—taxes; and on the basis of today's reasoning in support of the tax-hike conference report, the conclusion should have been inevitable that with a tax cut revenues would drop.

But did they? What happened?

Far from dropping, they increased and increased sharply. Why?

They increased because the massive 1964 tax reduction so stimulated the economy, so increased the number of jobs, the wages paid to those who were working in those jobs, and the profits to corporations, that taxes on the increased income and increased profits, even at lower tax rates, yielded an increase in revenue.

Now, Mr. President, I ask, is it not logical to contend that if we increase tax rates—as we are doing in this bill—we may—it is not inevitable—so slow down the economy, so decrease the number of jobs, so reduce the size of profits, that tax revenues will decline, even though the tax rate has been increased.

Now, I would be the first to concede that such a development is not inevitable. Whether this tax increase shoves the economy into a recession that will result in lower revenues and an increased deficit depends upon economic conditions.

So let us take a hard look at those economic conditions as we know them at the present time.

The best available publication on our economic indicators is Business Cycle Developments of the Department of Commerce.

Unfortunately, the most recent period for which data is available is the month of April. However, there has been little change in the overall mix of economic indicators in the last few weeks.

In April, the economy began to turn around and point down instead of up. Of the 21 available series on leading indicators—I want to emphasize that these indicators foreshadow developments in the economy at a later time and have been demonstrated for many years to be the best forecasters of economic activity available to us—15 now either point compared with a modest six which suggest the economy may continue to expand.

Among the series which showed declines were the following:

Average workweek: 40.4 hours in April; 40.7 in March. I shall indicate in a moment how important that particular statistic is.

Nonagricultural job placements, all industries: Down 8 percent from March to April.

New orders, durable goods industries: Down 2.6 percent in April, compared with March.

Contracts and orders, plant and equipment: Down 6.1 percent in April.

New building permits, private housing: Down 5.8 percent in April.

Industrial material prices: Down 1.8 percent in April.

Ratio, prices to unit labor cost, manufacturing: Down 0.3 percent in April.

Sales of retail stores: Down 1.7 percent in April.

Labor cost per unit of output, manufacturing: Up 0.5 percent in April. When that goes up, it is bad news for the future.

Mr. President, just last week, a panel of some of the most competent economists in the country appeared before the Joint Economic Committee to testify on the economic implications of the recommendations of the President's Commission on Riots; that is, the Kerner Commission.

At this hearing Professor Thurow, of Harvard, informed the committee that if we program the tax increase and expenditure reductions that are in this conference report into an economic model that he knew of, it shows a recession in 1969.

Mr. President, there is no question that if the fiscal restraint involved in the conference report does shove our economy into a recession, we will not reduce the deficit, we are likely to have a deficit greater than $25 billion, and, of course, the so-called fiscal restraint will have caused untold human misery in the process.

At the hearing to which I have referred, Dr. Gerhard Colm, one of the Nation's most eminent economists, said that this tax package could increase unemployment to 4½ percent which would be close to an additional million men and women out of work.

WILL NOT RETARD INFLATION

Mr. President, the major economic claim for this tax package is that it will slow down the rise in prices. I flatly deny that it will do this unless it does so through the painful and unacceptable process of a serious recession.

This massive tax increase will not retard inflation for these reason:

We are not at the present time suffering from a demand-pull inflation. The whole theory behind the argument that the tax increase will slow down the price rise is that it will reduce excessive demand, restrain people from buying as much as they otherwise would buy, and thus ease pressure on limited resources in our factories and in our manpower supply.

This theory does not stand up because there is no strain on our factory capacity, or on our manpower.

The statistics are clear and emphatic. It is true that in early 1966, we were operating at 91 percent of capacity which is the preferred level for most of American business. At the present time, however, we are operating at only 84 percent of capacity, far, far below the level at which American industry would prefer to operate and actually lower than the 85 percent of capacity at which the economy was operating in 1964 when we reduced taxes to get the economy moving.

Just imagine that, Mr. President. In 1964 we cut taxes because demand was presumably inadequate and yet that demand was sufficient for the economy to operate at 85 percent of capacity.

Now, we are increasing taxes with the argument that demand is excessive but the pressure of that demand on our capacity is lower—I repeat, lower—84 per-

cent—than it was when the inadequacy of demand was used as an argument to reduce taxes. We need more demand to keep our factories busy.

Now, much more emphasis has been put by proponents of the conference report on a theoretical shortage of labor.

Mr. President, there are today 3 million men and women out of work. Report after report has told the Congress that the answer to the problem of our cities is more jobs.

Today, the hours of work in our factories, shops, and stores are not only lower than they were in 1964, when we reduced taxes so that people could work more, but is as low as it has been since 1962.

Mr. President, it is senseless to argue that demand is putting an excessive burden on our limited supply of manpower. If it were, men and women would be working far longer hours, there would be far more overtime than there is at the present time.

Of course, it is true, once again, that if this tax increase shoves this country into a serious recession, throwing hundreds of thousands of men and women out of work, one consequence of a serious increase in unemployment will be less cost pressure through wage increases and that in this way the cost-push inflation that we now suffer may be moderated.

But, Mr. President, this is the worst possible way to cope with a cost-push inflation.

The last time we did this, this way, in 1957–58, unemployment went to a level of more than 7 percent before price increases began to moderate. If that happens again, it will mean an additional 3 or 4 million Americans out of work and this Senator simply does not want to pay that price.

Also, Mr. President, it is clear that you do not retard a cost-push inflation by increasing costs and certainly every Member of the Senate knows that a tax increase represents a cost increase.

Who is going to pay the increased taxes that this bill imposes on corporations? Mr. President, you and I know who it is. It is the consumer who buys what the corporations produce. He always pays all costs in the end.

Furthermore, as this conference report reduces the take-home pay of tens of millions of American workers, they will do their best to restore their net reductions by seeking more substantial wage increases which in turn will be reflected in higher prices.

MEASURE WILL HURT, NOT HELP, BALANCE OF PAYMENTS

One of the most emphatic claims for this conference report is that it is necessary to improve the Nation's seriously adverse balance of payments.

It is my understanding that if there is any argument that has changed the minds of a majority of Members of the House of Representatives and of the business community, it is the argument that this tax increase is necessary to end the gold drain and shore up the dollar by improving our balance of payments.

Mr. President, this is probably the weakest argument of all those mustered to support the conference report.

In February of 1964, Secretary of the Treasury Douglas Dillon came before the Ways and Means Committee to plead for a tax reduction. Note I said a tax reduction.

One of his principal arguments was that this tax reduction was necessary to improve—yes I said improve—our balance of payments. And how did Mr. Dillon justify this argument? Very sensibly.

He said that the tax reduction would improve the profitability of American corporations as compared with businesses throughout the world. He pointed out that the decrease in taxes would increase the profitability of American corporations compared to European and Japanese corporations. He argued that this reduction in taxes would lure capital from abroad to this country to invest in American corporations, that this capital would mean that the dollar outflow would be reduced and that at the same time American dollars would not flow as rapidly overseas because the profitability of foreign corporations would be relatively less.

Now, Mr. President, what happened after Mr. Dillon's arguments prevailed and we reduced taxes? What happened to our balance of payments? Was he right? Did the tax reduction so increase the flow of dollars to this country and decrease the flow of dollars abroad that the balance of payments improved?

The answer, Mr. President, is that Mr. Dillon was absolutely correct. The balance of payments did improve and the tax reduction was a principal reason for its improvement.

Now, Mr. President, we are asked to increase taxes to improve our balance of payments. In view of our 1964 experience, how foolish that would be. It is obvious that a 10-percent increase in taxes on American corporations, which now pay half of their profits to the Federal Government in taxes, would mean a 10-percent reduction in the profitability of those corporations. This is a universal reduction throughout all of American business. A 10-percent reduction in profitability is a decisive reduction, indeed. It is sure to discourage investment in American corporations. It is sure to encourage investment by Americans abroad. It is sure to worsen our balance of payments.

As I said earlier, Mr. President, taxes are a cost. To the extent that these taxes on American corporations are shifted to the consumer, they are bound to increase the prices of the goods American corporations sell. As they do this, what American corporations sell will decline in competitiveness with what foreign corporations sell. This tax increase will certainly tend to worsen our balance of trade, as well as our investment balance, and I say this recognizing that there might be some slight decline in American imports because of the reduction that the tax increase represents in the income of American consumers.

MEASURE WILL NOT RESTORE CONFIDENCE IN THE DOLLAR

Mr. President, one of the vaguest and fuzziest arguments in favor of this conference report is that it is necessary to restore confidence in the dollar.

I suppose more businessmen and Congressmen have made this argument than any other. Mr. President, I think that this is a completely mistaken notion.

May I ask what is the principal ingredient in the confidence by Americans and by foreigners in the soundness of the economy?

My answer is that that confidence depends on the capacity of the economy to grow, to produce, to expand, to provide economic opportunity for more and more Americans.

In a simple word, Mr. President, that confidence depends on American prosperity.

The one economic development sure to enfeeble that confidence is a recession or a depression. And yet, Mr. President, recall that Professor Therow, of Harvard, assured the Joint Economic Committee just a week ago that every responsible economic model shows that if we pass this conference report, we will have a recession in 1969. Now, Mr. President, do we achieve confidence in the dollar by shoving this economy into a recession? Frankly, I cannot think of anything that Congress can do more likely to upset confidence than to take economic policy action that will provoke a recession.

The so-called tough Draconian actions to slam the brakes on the economy may appeal to some masochistic streak, especially on the part of those who will not lose their jobs through a recession, but there is no record that it ever increased confidence in the economy of the country that went through a recession.

For those who are skeptical of this viewpoint, I refer to the experience of the United Kingdom which has just endured a series of extraordinary tough, economic measures. In her case, necessary because of the extraordinary dependence of England on foreign trade—but which have developed a recession in England and certainly have not succeeded in establishing confidence either in the British economy or in the pound.

IN SPITE OF SHORT-TERM EFFECT ON SPENDING, MEASURE ENCOURAGES SPENDING IN THE LONG RUN

Mr. President, I voted with enthusiasm for the part of this conference report which would reduce spending by $6 billion. Frankly, I think the reduction in spending should have been greater. It is true that for the next few months, the enactment of this conference report will have the effect of holding spending down. But, Mr. President, you and I know, and certainly every Senator must know, that this spending reduction is strictly temporary—and I mean temporary.

After all a new administration will take office 7 months from now. That new administration, whether it be Democratic or Republican, will have its own ideas on the budget. Anybody who has eyes to see or ears to hear, or who has observed the conduct of the Congress over the past few years must know that if revenues permit,

that Congress will undo that part of the conference report which inhibits the new President and the new Congress from carrying out the new programs which they wish to carry out.

The PRESIDING OFFICER (Mr. BURDICK in the chair). The time of the Senator has expired.

Mr. PROXMIRE. Mr. President, will the Senator yield to me for 5 additional minutes?

Mr. SMATHERS. I yield 5 minutes to the Senator from Wisconsin.

The PRESIDING OFFICER. The Senator from Wisconsin is recognized for 5 additional minutes.

Mr. PROXMIRE. Mr. President, the only realistically restraining force on that Congress, as on all past Congresses, will be the amount of revenue available.

There is no question that if we increase taxes today, and do not have a recession, we are going to make more revenue available for calendar 1969 and future years, and certainly the oldest and surest natural law of modern government is that spending rises to meet revenues.

And this brings me to my next emphatic argument against the conference report and that is that once a tax is enacted, it is very, very hard indeed to secure its repeal.

This is not simply a theory, Mr. President; it is a fact. For months now I have asked witness after witness before the Joint Economic Committee to indicate a single tax increase which has been repealed before its expiration date or shortly thereafter and indeed very, very few can recall any tax increase which has been allowed to expire, until years have passed.

As taxpayers throughout this Nation know so well, we are still paying many of the temporary tax increases imposed more than 25 years ago during World War II. We will be paying this tax increase for many, many years to come.

SERIOUS ADVERSE EFFECT ON POOR

Mr. President, whatever the arguments may be pro and con the effect of this tax increase package on American corporations or on the American taxpayer, the American who is going to be hit hardest and surest by this tax hike is the poor man.

In the last few years, we have made more progress in developing programs to give all Americans a chance to develop the skills necessary to enable them to enter the productive forces of American industry.

With the passage of the antipoverty bill, with the remarkable mobilization of public support for legislation to begin to end the poverty in this country, with the overwhelming support of the American public as reported by the Gallup poll just last Sunday for providing all Americans with an opportunity of gainful employment, with the Government as the residual employer, if necessary, the future has begun to look much brighter for an America with real opportunity for all.

This tax package explodes the high hopes that this mobilization of American opinion in favor of acting to end poverty had developed.

The very heart of the Kerner Commission report is that we must provide more jobs for the Nation's poor. The report specifically recommends the creation of 1 million public sector jobs and 1 million private sector jobs forthwith.

Mr. President, how can we begin to create an additional 2 million jobs when we are taking action today that will destroy a million jobs?

I have in my possession a letter from Gardner Ackley, former head of the Council of Economic Advisers under President Johnson, and a leading proponent of the tax increase. Mr. Ackley assures me in this letter that the tax increase will eliminate hundreds of thousands of jobs.

Mr. President, if we add to the tax increase that mandate for expenditure reduction, this whole package bill in my view, will increase unemployment by 1 million. Mr. President, let us ask, who are going to be those who are among the million to be laid off?

All of our experience shows that the last hired and the first fired are the marginal workers, the poor, the Negroes, the very ones who have been victimized by inadequate job opportunities in the past.

One recent study, for example, showed that whereas Negro income is about 60 percent of white income in periods of prosperity, in recession that Negro income drops down to only 50 percent of white income.

These will be the victims of this conference report.

Garth Mangum, eminent economist, told our committee and told it truly that the poor have been the price stabilizers of our economy, that we have achieved price stability by keeping a proportion of our population out of work and the incidence of unemployment has fallen very, very heavily among the unskilled white and especially Negro American citizens.

Mr. President, just think what this conference report does to the hopes of those who are seeking jobs. What the overwhelming majority of these people need more than anything else is the development of a skill. They need the training that is essential to give them something to sell to an employer. This is crucial if they are to hope to earn a respectable income adequate to support their family in dignity.

Of course, it is true that the Federal Government and State and local governments have provided more and more training programs of this kind but the overwhelming majority of such training programs have been provided by private employers. And private employers, in general, provide these programs for a very clear economic reason. They do so in periods of prosperity. They do so when the economy is expanding. They do not do so in periods of economic retraction, in recession, when they are laying men off.

And the reason is perfectly obvious. Why in the world should any private employer seek out and train unskilled men and women at considerable cost when he does not have enough work for the skilled men and women who have toiled faithfully for him for years? Obviously, the first victim of a recession that may be brought about by this conference report are the private training programs which constitute literally 90 percent of all of the opportunity for the unskilled, untrained dwellers in American ghettos can hope to get.

SLOWS GROWTH

Mr. President, every proponent of this conference report agrees it will slow our economy down, that it will retard the growth of our economy.

Now this slowing in the growth of our economy comes after a year, 1967, in which the economy grew at a rate of only 2½ percent—far, far below the target level of 4½ percent necessary to keep our manpower and factory capacity busy.

After all, we have a million and a half additional persons net coming into our workforce each year.

We must speed up our rate of growth over 1967 if we are to avoid unemployment, stagnation, and if we are to provide the kinds of economic strength necessary for American security in world leadership.

It is true that in the first quarter of this year we grew at a rapid rate. But as I indicated at the beginning of this speech today, that rate slowed down sharply in April and there is every indication that even without this conference report, without this amended fiscal restraint, the economy would slow down in the remainder of this year and 1969.

What this tax hike will do will be to slow America's growth for years to come. This will mean less automation, less productivity, because automation and productivity are peculiarly the product of economic prosperity and growth. Only in prosperity are the funds available and the incentive available for instituting the technological change, for engaging in the highly expensive research, for investing in the expensive automated equipment, necessary to improve the efficiency as well as the productivity of the American economy.

SUMMARY

Mr. President, I am strongly opposed to the conference report. I will vote against it and I will do my very best to secure as prompt a repeal of its tax increase provisions as I possibly can.

I will do this because I believe very strongly that this tax increase is unlikely to achieve any of the objectives used to justify its passage. It will not decrease the deficit. It will not retard inflation.

It will not help our balance of payments. Indeed it will seriously aggravate that balance of payments.

It will not restore confidence in the dollar.

In spite of a short-term tendency to reduce spending, in the long run it will increase expenditures as expenditures rise to meet the higher rate of taxation.

It will seriously hurt the poor. It will not only increase unemployment by hundreds of thousands but it will destroy most of the training programs for the poor now in effect in American industry.

And it constitutes a very serious blow to the long-term growth of our economy.

Mr. NELSON. Mr. President, this country is faced with a series of serious fiscal, social and international problems including an unbalanced budget, a drain on the dollar, inflation, the war in Vietnam and massive unmet social needs at home. This tax increase will not solve our fiscal problems, and the budget cut will intensify our social problems. The tax increase puts the burden on the wrong people and the budget cut will take the money from the wrong places.

I recognize we must make budget cuts and increase revenues to close the gap between income and outgo. When this measure was before us several weeks ago, I voted for a $14 billion tax on excess profits and against the 10 percent surtax because it is unjust and unfair in the extreme. I would vote again for an equitable tax measure if there were one before us despite the fact that our fiscal problem is caused by a tragically mistaken war that I have fought and voted against since 1965. Today, I hope we will not have to listen to pious lectures on high taxes and fiscal irresponsibility from those who supported the launching of a ground war in Vietnam in 1965.

This tax package will levy a 10 percent surtax for $11.6 billion, continue auto and phone taxes and speed up corporation tax collections, for a total of about $15 billion. Combined with a $6 billion budget cut it still leaves an untenable budget gap; it will not stop the inflationary spiral; it will not stop the drain on the dollar; and it will not leave enough in the budget for critical social programs. You know that, Mr. President, and I know that, and administration spokesmen will privately concede it if we press the point vigorously enough. But they tell us, this is the best stopgap emergency measure we can get through Congress. What other measure has the administration tried to get through Congress? Why have they not come to Congress with the kind of tax that lays a fair share of the burden where it ought to go—an excess profits tax on the unprecedented profits of a war economy. Is it not ironic that the financial and business leaders of America are the administration cheerleaders for this tax increase. Well, why not? They will not have to pay it.

It is in the national interest they tell us. In times of crisis, we Americans must all stand together, they say. I can buy that, but while we are all standing together why not throw in our tax money together too? During the Second World War in 1944 the excess profits tax produced $10 billion out of an economy a fraction as large as this one.

The 10-percent surtax will not much be noticed by the rich, the affluent or the well to do. It will just reduce their savings or investments a relatively modest amount. But for those who are trying to save a little bit or who are having trouble balancing their budget and keeping up with the inflation, the tax increase does mean something. Even more important is the principle involved. Americans have always been willing to sacrifice in the interests of their country when called upon to do so. I trust it will always be so. But they properly resent it when the sacrifice is not fairly shared by all. In fact it is pretty hard to make a convincing case for the urgency of the cause with a proposal like this one. In good conscience we must concede this is a tax prescription with the wrong medicine for the wrong patient.

If we mean business about this serious matter, for heavens sake let us confront it head on with a proposal that resolves the issue and does it fairly. That means we should junk this measure and call upon the administration to come up with a proposal that does the job. Under the circumstances, that is where the proposal should come from. If they have no recommendation to make we then should do the job ourselves.

The budget should be put in balance and it can be accomplished if we have the courage to levy the taxes where they should be levied and cut the budget where it should be cut. We are living in a wartime economy with the highest profits in history yet we are asking them to sacrifice almost nothing while we discriminate against programs for the poor, the jobless, the elderly, the hungry, and the untrained and uneducated youth of America.

We should enact a tax and budget package that raises $22 billion in taxes and cuts the budget by the amount recommended by the President—$4 billion; $14 billion should be raised by an excess profits tax, $5 billion from the surtax, $2.7 billion by extension of the phone and auto excise taxes and $300 million miscellaneous—removal of tax exemption from certain industrial development bonds, and so forth. This combined with a $4 billion budget cut will total $26 billion.

In my judgment, the emphasis on budget cuts should be in the military budget—a 5-percent research and development cut, for example, would save $1.2 billion; postponement of the thin ABM several hundred million—public works—$1 to $2 billion should be postponed—with most of the balance being cut from space, SST, European troop reduction, and military procurement.

This would put us in a fiscally sound position with a balanced budget or at most a modest imbalance. If within a reasonable time this did not reverse the inflationary trend the President should request the imposition of price-and-wage controls. We cannot afford to permit the inflationary trend to continue at its present rate.

We are in a war. Our fiscal situation is serious. We ought to have the courage to face up to it with a program that will do the job.

I therefore will vote against this conference report as I voted against the original bill.

Mr. SMATHERS. Mr. President, I yield myself 4 minutes.

The PRESIDING OFFICER. The Senator from Florida is recognized for 4 minutes.

Mr. SMATHERS. Mr. President, this is a historic legislative proposal now before the Senate. It is the first time in over 100 years that Congress has considered at the same time a tax proposal and an appropriation proposal in one piece of legislation.

This idea is not original with me. I got the idea from an economist, Dr. Pierre Renfret, on the basis of which I made a speech, on October 4, 1967, recommending that if there was a tax increase proposed which the majority on this side of the aisle believed, and if a majority also believed that we need to cut expenditures, the two should be put together.

Thereafter, the distinguished Senator from Delaware [Mr. WILLIAMS], in January of this year, came in with a proposal attempting to to just that. He even went further and spelled out in detail that which he thought could be accomplished.

He proposed an $8 billion expenditure cut proposal, and he coupled it with a tax increase bill, after some conversations with me. We took it to the Finance Committee of the Senate and presented it there, and it failed in the Finance Committee by only one vote.

Thereafter we decided we would offer it as an amendment to the excise tax bill when that bill, which had cleared the House, came before us. In developing this package one of the more difficult problems was to develop the delicate balance necessary between expenditure reductions and tax increases which was necessary to attract sufficient support. This was not merely the question of obtaining support in the Senate but in the House as well. Many thought that even if the bill passed the Senate in the form we sought it still would not be acceptable to the House. The Senator from Delaware and I, however, never shared that view.

It was a great privilege for me to be able to work with the distinguished Senator from Delaware and an inspiration to see him try to get through something that he felt was in the interest of the Nation, just as I did. He was willing to reduce the $8 billion expenditure cut which he originally wanted, and he came down to $6 billion. I cooperated with him and compromised with him in various aspects.

We finally put together the language which was voted on and passed on the floor of the Senate in April of this year.

During the deliberations and debate we were very encouraged and helped by the work of the distinguished Senator from Kansas [Mr. CARLSON]; by the senior Senator from Tennessee [Mr. GORE]; by the distinguished Senator from Ohio [Mr. LAUSCHE], who is here on the floor who supported our position and finally became a cosponsor of the bill; and by other Members of the Senate, particularly the distinguished majority leader and the distinguished minority leader. So we were able to finally pass a type of bill combining expenditure cuts and tax increases, as I say, which had been unheard of in the last 100 years.

Before all time expires, I want to congratulate the distinguished Secretary of the Treasury, Joe Fowler, for the manner in which he stood up for and defended his position with respect to this particular proposal. He did not like the expenditure cut, but every time we asked him about an expenditure cut,

he said, "We need the tax increase so badly that I will take an expenditure cut." Every time the Senator from Delaware asked him whether he favored an $8 billion or $6 billion or $4 billion cut, he said, "I do not care for any cut, but I will follow the advice of the Congress on that." His position never changed. He was straightforward and honest. He said, "Whatever you gentlemen believe you have to have to get the tax increase through the Congress which is so urgently needed for this Nation and the free world, I will take." So he gave us his support. I thought his position in respect to this whole matter was outstanding and most deserving of every type of commendation.

Mr. President, yesterday the House of Representatives voted to approve the Revenue and Expenditure Control Act of 1968, H.R. 15414 and in a few minutes the Senate will act on the conference report.

According to our Constitution, the Congress is the center of the decision-making process on taxation and spending, and for excellent historical reasons. These prerogatives were gained in many battles over many centuries by parliamentary assemblies in Britain and America. They were viewed by the Founding Fathers as a treasured guarantee that the executive branch of the U.S. Government would not go beyond the expressed wish of the electorate and their representatives.

It is certainly easy and popular to exercise these powers to reduce taxes and to appropriate additional sums of money for projects which many people believe to be worthy. Since 1962, Congress has indeed cut taxes by $22 billion, and has left this country as the most lightly taxed of all Western industrialized countries. Since 1958, Federal spending for projects within this country rose over 100 percent on a rising tide of prosperity.

Increasing taxes and cutting spending are not easy and not popular, particularly when they are combined into a single package. A vote in favor of such a measure is extremely difficult, and a Representative or Senator does not do this without searching his soul and, in many cases, risking his career and the many years of hard work which he has put in to reach his present position.

However, if our system is to be preserved, Congress must act in the difficult cases as well as the easy ones.

A recent editorial in a respected business publication put the issue this way:

> The nation will pay dearly if its elected representatives continue to avoid what is so clearly needed: cuts in government spending and an increase in taxes. The consequences of a failure by Congress . . . will be disastrous. . . . Renewed attacks on the dollar are sure to come. The European members of the Gold Pool went along with the United States very reluctantly in response to American pledges of imposing restraints on the domestic economy to safeguard the dollar. But they did not agree to (wait indefinitely). . . . If it becomes clear that the United States does not mean to make good its pledges, an international monetary crisis . . . will return with a vengeance. . . . A tax increase and budget cuts have acquired a kind of symbolic significance as evidence that the United States has the moral fortitude to take politically unpopular action to assure the value of the dollar . . . in circumstances . . . more dangerous for the United States and the world monetary system (than ever before).*

We might prefer to do otherwise; but if the Congress is to be responsible to our country's best interests, acceptance of a tax increase at this time is imperative. This is the course of statesmanship, and I hope and trust that responsible action is also the course of good politics.

It is therefore my pleasure to offer my congratulations to the Members of the other body who supported the Revenue and Expenditure Control Act in 1968. They have shown that our institutions can meet tests of our times. They have acted to restore financial responsibility to the councils of our Government, and deserve the deep gratitude of the Nation. I would like particularly to express my appreciation to the great chairman of the Ways and Means Committee, Mr. WILBUR D. MILLS, of Arkansas, and the ranking minority member of that committee, Mr. JOHN BYRNES of Wisconsin.

I would also like to commend the Chairman of the Federal Reserve Board, Mr. William McChesney Martin. He wanted the tax increase, but he was also in favor of an expenditure cut, although he did not name a figure.

Mr. President, I yield myself 1 additional minute.

I would like to commend other people, but the time does not permit it. I want to make special mention of our staff, particularly the director of the staff, Larry Woodworth. Frankly, without his services, we could not have passed this bill. He was able to take our wishes, ambitions, and desires, and put them into the correct language. He was the one who offered us good counsel, not only here on the floor but later when we went to conference with the House. He was the one who wrote all the details of the conference report. He and his staff have done most of the preparation for the speeches which have been made. What he has done deserves the commendation of every one of us, and certainly our appreciation.

Mr. President, at this time I yield 6 minutes to the distinguished Senator from Virginia [Mr. BYRD].

Mr. BYRD of Virginia. I thank the Senator from Florida.

Mr. President, we have a basic problem of Government deficits and a basic problem of domestic inflation.

These deficits are eroding the value of the American dollar, and the resulting inflation is eating deeply into the paychecks of every wage earner and into the grocery money of every housewife.

The major cause of this inflation is Government spending, as was candidly admitted recently by the Chairman of the President's Council of Economic Advisers.

Yes, our Government is facing a financial crisis. Our national debt exceeds $350 billion. The interest charges thereon exceed $15 billion, the largest nondefense item in the entire budget.

Approximately 13 cents of every income tax dollar now goes to pay the interest, which is another way of saying that when the wages are taken out of the paycheck of an individual employee, 13 percent of that money goes to pay the interest charges on the national debt.

It is estimated that the Government will take in the next year $80 billion in personal income taxes and $34 billion in corporate income taxes, for a total income tax take of $114 billion, in round figures; and the interest on the national debt will be $15 billion.

Drastic action is required if we are to put our financial house in order.

Both Houses of Congress—and the President—have agreed to a proposal for the enactment of a 10-percent surtax on personal and corporate incomes, coupled with a $6 billion reduction in Federal spending.

If runaway inflation is to be avoided, there appears to be little alternative to the package legislation combining an increase in taxes with a reduction in Federal spending. Even with this legislation, a substantial deficit is in prospect for the new fiscal year which begins July 1. And this will be on top of this year's deficit of $20 billion, by far the highest deficit in our history, except during the years of World War II.

Putting our financial house in order is a joint responsibility of both the Congress and the President. The Congress cannot do it alone, and the President cannot do it alone.

Federal spending has doubled during the past 9 years.

Yet all of the candidates for President, with one possible exception, are telling the people that if elected they will demand greater spending.

All of them, or most of them, appear to be promising each group in our Nation anything that that group wants in the way of new Federal spending programs.

So regardless of the enactment of the joint tax increase-spending cut legislation, our Nation is a long way from being on a sound financial basis.

But I think this is worth a try.

It is significant that the 10-percent surcharge will automatically expire June 30, 1969, 1 year from now.

If by that time, the Congress and the President—by President, I mean both Mr. Johnson and his successor—have not taken firm steps to bring Federal spending under control, then many of us who support this package today will vigorously oppose any efforts to reinstate the tax when it expires a year from now.

I emphasize again that the Congress and the President face a joint responsibility. That is why it is so discouraging when candidates for the Presidency are seeking to outpromise one another in the amount of Federal money they will spend if elected.

What is so often overlooked by those seeking votes is that approximately two-thirds of all the individual income taxes is obtained from those with an annual income of less than $15,000.

It is possible that presidential candidates are misjudging the intelligence and the stamina of the American people. There is only one place from which

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* "Why Fiscal Restraint is Crucial", *Business Week*, March 30, 1968, p. 173.

the money to finance these big spending programs can come. That is for the Government to dig deeper into the pockets of the wage earner—either through more taxes or more inflation.

Mr. SMATHERS. Mr. President, I yield the distinguished Senator from Ohio [Mr. LAUSCHE] 3 minutes.

Mr. LAUSCHE. Mr. President, I was a cosponsor of the amendment under which the 10-percent surtax and the expenditure were combined into one measure.

Now is not the time to consider whether or not this propasal should be approved. It must be approved. We will have to collect the moneys that are needed to run the Government and stabilize the price of the American dollar. Inflation is speeding up. It will become unchecked unless we do something about it.

I believe the interest rates paid by the Federal Government on short-term obligations of 3 to 5 years will soon be from 5 to 6 percent. The cost of borrowing money from banks for the building of houses is up to 6.5 percent. The price of goods is rising daily. The housewife and those who purchase goods understand what the fact is.

The economic advisers to the President, the Secretary of the Treasury, the financial exports of the world, the economists in the International Monetary Fund and the World Bank have been telling Congress and the Government of the United States, "Unless you put your fiscal house in order, there will be collapse of the dollar, causing untold damage to the economy of the American citizens, and probably collapsing the economy of the world."

Pierre Jacobson, now deceased, 7 or 8 years ago, said that we had to put our fiscal house in order. In effect, he said, "You cannot, each year, be spending more than you take in, without eventually getting into trouble."

The PRESIDING OFFICER. The Senator's time has expired.

Mr. LAUSCHE. May I have 2 more minutes?

Mr. SMATHERS. I yield the Senator from Ohio 2 additional minutes.

Mr. LAUSCHE. We did not heed his words. The need for caution was expressed on the floor of the Senate to the same effect; but it fell upon deaf ears. Spending has continued in excess of the revenues taken in, and the national debt has been climbing. It is my understanding that our Government now owes more money to creditors than all the other nations of the world put together.

Something must be done about it. I do not want to impose taxes; but unless we tax at this time, the money which will be taken from our citizens through inflation will by far exceed the 10-percent surtax.

The 10-percent surtax will be operative for 1 year. At the end of that time, those who will remain here will have the task of determining what shall be done.

I conclude, Mr. President, as follows: We are either going to take more through inflation or through the imposition of this tax; and if we do not tax and do not stop spending in the extravagant manner we have followed, there will be grave trouble ahead.

Mr. SMATHERS. Mr. President, I yield 1 minute to the distinguished Senator from Washington.

Mr. MAGNUSON. Mr. President, after much thought and after carefully weighing all of the arguments, I have very reluctantly come to the conclusion that it is in the best interest of the United States for the Congress to approve H.R. 15414. I have, therefore, voted for the bill.

Whether one supports the Vietnam war or is against it—whether one favors escalation or deescalation; one thing should be crystal clear to all of us. This is a war tax. The Federal Government is spending around $30 billion a year on the Vietnam war. We could decimate the Department of Labor, the Department of Health, Education, and Welfare, the Department of Agriculture, the Department of Commerce, the Department of the Interior, the Department of Housing and Urban Development, the Office of Economic Opportunity and all 26 independent agencies and we still would not offset the cost of this war. We should call a spade a spade. It is the Vietnam war which has overheated the economy. This should not surprise anyone; every other war has caused a similar disruption of the economy.

Nor should anyone be surprised if this tax increase results in a net loss of revenue for the Federal coffers. Indeed, its primary purpose is to dampen the economy. Our past experience with increased taxes leads me to believe that this tax increase will bring in much less money than is generally anticipated.

In my view, it would have been infinitely better if this bill could have been voted upon in segments. But we were presented with an all-or-nothing choice. The result will be a curtailment of many vital programs such as health and education to mention only two. Social programs which could have cooled our sizzling cities will be crippled in some respects. But it will help one main facet of the problem, low-cost housing.

The spending portion of this legislation because of the way it is drafted will have the effect of removing from the Congress further control over appropriations. It provides the executive branch with a line item veto and as such defers from the constitutional authority of the Congress to appropriate money.

At least, temporarily, I would have much preferred coupling any tax increase with tax reform. It is time that the Congress paid heed to the inequities in the Federal income tax structure. Why, for example, should we continue giving oil companies such an unconscionable tax break? But as I said before, we were confronted with an all-or-nothing proposition.

With all these reservations, why do I now support this legislation?

Early last fall there was considerable evidence that a tax increase was not desirable at that time. The leading economic indicators were mixed, and our most brilliant economists could not agree on when a tax increase should be imposed. As it turned out, the economy did not heat up as rapidly or as much as many had supposed.

In the intervening months, much has happened to change the economic picture.

Prices are now beginning to rise at an alarming rate. People in lower and moderate income brackets are beginning to notice severe reductions in their buying power. A great credit crunch is upon us—interest rates are much too high. Homebuilders, lumber and logging companies, and small businessmen of all kinds are begininng to feel the pinch. International loss of confidence threatens the stability of the dollar and the viability of U.S. trade with other countries.

So, I do agree, with most all economic experts, however, this proposal will help our world financial situation.

There are persuasive arguments in opposition to a tax increase; but the overwhelming weight of opinion supports the increase.

A tax increase is never popular. But it is curious that this particular proposal has generated so much antagonism. The tax increase represents less than one-half the tax reduction realized by the 1964 act. The surtax will leave personal income taxes lower than at any time during the 20 years preceding 1964. For most people, the cost of this increase will be only 1 percent of their income, but it could save them 2 to 3 percent in reduced consumer prices. It could significantly improve the buying power of the poor, the elderly, and others with fixed incomes.

I want to make it quite clear at this point, however, that my vote for this measure was conditioned upon its being a temporary tax. I definitely do not intend to support any extension of this tax after its termination date and I will do all in my power to help remove the tax when it has served its purpose of cooling an overheated economy.

After careful consideration, then, it appears to me that this temporary measure, with all its infirmities, is in the best interests of the United States and its citizens—particularly, its effect on inflation—I am going to urge the President to be selective in the reduction so that we will not be "penny wise and pound foolish" on programs to meet the social and economic needs of the people.

Mr. SMATHERS. Mr. President, I yield 2 minutes to the distinguished Senator from Michigan.

REPORT OF CHIEF JUSTICE WARREN'S RESIGNATION

Mr. GRIFFIN. Mr. President, an unconfirmed report has been circulating this morning that Chief Justice Earl Warren has submitted his resignation.

Rumors appeared in print earlier this week to the effect that the Chief Justice might make such a move so that President Johnson could designate the next Chief Justice of the Supreme Court.

While the report is still only a rumor which has not been confirmed or denied—and before we know what the next development, if any, may be—I want to indicate emphatically, as one

U.S. Senator, that I shall not vote to confirm an appointment of the next Chief Justice by a "lame duck" President.

I hope, if it should become necessary to pass on such a question, that a majority of my colleagues in the Senate would take the same view.

Under established precedents, the appointment of the Chief Justice of the Supreme Court, whether or not it is made from among sitting justices, is subject to confirmation by the Senate.

Mr. President, I do not speak from the standpoint of a critic of the Supreme Court. In fact, I agree with most of the Court's decisions. That is not the point.

The Supreme Court has adjourned for the summer, and the people of our Nation are about to choose a new Government in November.

If a "lame duck" President should seek at this stage to appoint the leadership of the Supreme Court for many years in the future, I believe he would be breaking faith with our system, and that such a move would be an affront to the American people.

I do not know whether Mr. Johnson, in such an event, would appoint a Democrat, a Republican, a liberal, a conservative, or a moderate. The point is that such an appointment should be made by the next President—whether he be a Democrat or a Republican—after the people have an opportunity to speak in November.

I have no reason to believe that President Johnson would take advantage of such a situation if, in fact, it should develop. I would hope, and expect, that he would not seek to deny the people and the next President of their appropriate voice in such a crucial decision.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

The Senate resumed the consideration of the conference report on the Revenue and Expenditure Control Act of 1968.

Mr. SMATHERS. Mr. President, I yield 1 minute to the distinguished Senator from New York

Mr. JAVITS. Mr. President, I support this measure because:

First, without it we could not possibly accommodate within the existing budget the heavy expenditures that are and will be necessary to finance high-priority domestic programs to alleviate the causes of poverty in this Nation; and

Second, it is an essential step to bring our fiscal situation under control and to assure continued confidence at home and abroad in the management of the American economy in the U.S. dollar.

I would have preferred a cut in nonessential expenditures after a comprehensive review of our national priorities. This the administration failed to do. During Senate debate on this measure the Senate refused to agree to an amendment I proposed which would have specifically exempted certain essential domestic programs from the proposed spending cuts.

This measure will raise an estimated $14 billion in new revenue in fiscal year 1969 and at the same time reduce $6 billion in fiscal year 1969 spending. Even with the enactment of this measure the deficit in the 1968 budget is expected to remain $20 billion and $10 billion in the current fiscal year.

Interest rates are the highest in 100 years which is hurting our consumers through higher credit payments and higher mortgage costs. The Treasury's heavy borrowing operations to finance this deficit is causing a credit squeeze, despite continued ease in the Federal Reserve Board's monetary operations. Prices are rising by more than 4 percent.

It will be up to Congress as well as to the President to insure that the cuts are concentrated on those programs not directly related to the most urgent domestic problems.

There is nothing in this conference report that requires expenditure cuts in any particular program and there is no reason to believe these cuts would come from the area of essential domestic programs. On the one hand we have the assurances of the President that these cuts will not come from these areas. Second we have the assurances of Chairman WILBUR MILLS that the proposed expenditure cuts will not come from this area. Third those of us in the Congress with a lifetime concern for the disadvantaged will certainly do our part that this will not happen. Finally, and most importantly, the aroused conscience of this Nation cannot permit it in this unprecedented election year.

There is room in the fiscal year 1969 budget to accommodate a $6 billion expenditure cut, without cuts having to be made in essential programs in the field of health, education, and welfare. The conferees exempted from reductions only $84 billion of the President's $186.1 billion budget. The remaining $102 billion is at least legally available for reduction, including the $54 billion in the Defense budget not devoted to Vietnam; the $7 billion agricultural program; the $4.6 billion space program; and the $351 million for the SST, and so on.

There are those who say that if the war in Vietnam could be ended tomorrow the need for this measure would disappear. Unfortunately, the war is still with us and the bills must be paid until it can be brought to an end through a negotiated settlement. Moreover, even when the war will be over—and I hope and pray it will be soon—the pressing domestic and international responsibilities we face will require substantial Federal revenues and expenditures.

Enactment of this measure will do much to strengthen the international position of the dollar. It will dampen demand for imports, which in March, for the first time in the postwar period, exceeded our exports. It will reassure those abroad who hold close to $33 billion in short-term claims against us that the value of their claims will not be eroded through inflation. It will reassure the international financial community that the management of the American economy is in responsible hands.

I am pleased that the conference report contains my amendment which requires that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code. This is an important victory for the American people. At a time when they are asked to undertake new tax burdens, they are assured that Congress will within 6 months have before it proposals which will do away with many inequities in the present tax code, and spread more evenly the burden of heavy taxes among the American taxpayers. There are many areas ripe for reform and at the appropriate time I will make specific proposals of my own.

This measure contains another set of amendments which, like the expenditure cut, very directly affects our antipoverty efforts. As the Senate will remember, we passed last year as part of the amendments to the Social Security Act a group of amendments which, in my view, set the welfare system back by several decades in terms of policy and administration. Two of the most serious of those amendments were first, the freeze on the level of payments made to States under the aid for families with dependent children program; and, second, the requirement that payments to fathers under the AFDC-unemployed parent program could not be made unless the father had a certain period of attachment to the labor force. The effect of these provisions is not really to force more persons into gainful employment, as some Members of the Congress apparently thought, but is rather to shift the burden of steadily mounting relief costs wholly onto the States and localities.

The bill before us improves somewhat on those previous amendments by postponing the effect of the freeze until July 1, 1969, and by barring a family from receiving AFDC only as to those weeks when the parent receives unemployment compensation. But this is only postponing the effect of bad legislation rather than curing the problem which the Congress itself created. And these postponements, while welcome, are not enough, for the States and localities are even now gearing up for the impact of the freeze, and many have already begun to trim the welfare rolls and deny vital assistance to new applicants. We badly need a thorough overhaul of the entire public assistance system, and I am hopeful that with the report of the Heineman Commission the Congress can next year make major progress on this urgent task.

This bill also contains a technical amendment to the title 19 of the medicaid program, which would delay the effect of one aspect of the changes made in that program last year, that is, the provisions allowing States to buy into part B of medicare. The Congress may quite properly seek to coordinate those changes with other Federal requirements; however, the medicaid amendment in this bill does not change nor does it delay the major impact of last year's bill on state medical assistance programs. It grants no relief to those States which enacted broad and comprehensive programs on the basis of earlier Federal legislation. These States have been forced to cut those programs back in compli-

ance with severely limited standards for Federal matching funds. Thus, further attention to the health care needs of the "medically indigent" is urgently required.

I want to express my concern over the provisions in the conference report dealing with industrial development bonds. I supported the amendment sponsored by Senator RIBICOFF when it came before the Senate because I have long felt that many of these bonds have been used to pirate industry out of my State and as leverage against unions seeking to organize. Yet, I did caution the Senate at that time that in dealing with a specific problem, we must be careful not to use such a broad brush so as to invalidate some of the most important State and local economic and social programs which use bonds to raise capital. When the problems concerning the New York State Dormitory Authority and the Job Development Authority were brought to my attention during the debate on the Ribicoff amendment, I immediately obtained from the Treasury Department an opinion stating that the tax-exempt status of both the dormitory and the Job Development Authority would not be impaired by the passing of the Ribicoff amendment.

In addition, I sought and am pleased to note the inclusion of an exemption for residential housing which will materially assist the continued effectiveness of the New York Urban Development Corporation.

I am still concerned about some of these activities which are carried out by the State of New York. I note that Chairman MILLS yesterday said he would hold hearings on this industrial bond question as soon as the various Governors came up with a specific plan. I hope that will be prompt. I feel quite certain that Governor Rockefeller will urge his fellow Governors to act as soon as possible so as to protect some of our State's programs financed through tax-exempt bonds.

In the meantime, at the request of Governor Rockefeller, I shall soon introduce a proposal to amend section 103 of the Internal Revenue Code to provide exemptions for bonds such as those to finance the building and rehabilitation of blighted urban areas.

Not by any means will we have solved our fiscal problems with passage of this bill. In addition to reforming our tax code we must undertake a fundamental reassessment of our national priorities as the first order of business in the next session of Congress.

If the new administration will not undertake it then Congress should appoint an independent commission on national goals.

We must then streamline the operation of the executive branch with the aid of a Hoover-type commission.

There is an urgent need for some form of revenue sharing between the Federal Government and State and local governments.

Consideration should be given to minimizing politics in the determination of fiscal policy just as we minimized politics in the area of monetary policy by setting up the Federal Reserve Board.

Time for action on the economic and fiscal front is now. The alternative is inflation followed by a recession lest we are willing to impose wage and price controls on the American economy. I, for one, do not wish to contemplate this course of action and will vote for this conference report.

The PRESIDING OFFICER. Who yields time?

Mr. SMATHERS. Mr. President, I would like to comment on one point raised by the senior Senator from New York [Mr. JAVITS]. I understand there is no question under the conference report as to the tax-exempt status of the New York State Dormitory Authority, at least as we understand how it is now operating. I must say, however, that the conference report on the industrial bonds differs from the Ribicoff amendment with respect to which the Treasury letter, referred to by the Senator, was written. I can give no assurance as to the tax-exempt status of the Job Development Authority, especially as to its leasing or selling of industrial plants or commercial properties.

Mr. President, I ask unanimous consent to have printed in the RECORD a letter addressed to me from the Secretary of the Treasury concerning the transition to the new withholding level.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

THE SECRETARY OF THE TREASURY,
Washington, June 19, 1968.

Hon. GEORGE A. SMATHERS,
Chairman, Select Committee on Small Business, U.S. Senate, New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: You have asked for my opinion as to whether any steps might be taken to ease the transition for small business to the new withholding level required to implement the 10 percent surcharge contained in H.R. 15414.

The bill states that the new withholding shall go into effect with respect to wages paid after the 15th day after the date of enactment of the bill. To accomplish this, businesses must change their payroll procedures in order that withholding may be calculated at the new level. Many small businesses use withholding tables as the basis for the calculations of the amounts to be withheld. Others use machine programs, which will have to be changed to the new withholding rates. The Internal Revenue Service has prepared the necessary new withholding rates and tables and is ready to mail them to all employers as soon as the Congress has given its approval to this measure.

In view of the President's statement that he would sign this measure if approved by the Congress, small businesses, as well as other businesses, could commence to change over their payroll procedures as soon as they have the necessary information. Consequently, it is important that they have these new rates and tables as early as possible.

In this light, if the Conference Report is approved in the House on Thursday of this week, then if the Senate were also to approve that Report on either Thursday or Friday, such approval would enable the Internal Revenue Service to mail immediately the necessary information. Businesses would thus have this information by Monday morning and could commence at once to start the changeover of their payroll procedures. The weekend could thus be used to absorb the necessary mailing time, so that there would be no delay in business days in getting at once to the task of effectuating the new withholding level. This procedure would thus facilitate a prompt implementation of the new withholding level.

I believe that this step, which combines both a minimum time between Congressional approval and the new withholding and as much lead time as possible for employers, will be of considerable help to small businesses generally. I therefore believe it is a factor to be taken into consideration in the scheduling of this measure in the Senate.

Sincerely yours,

HENRY H. FOWLER.

Mr. SMATHERS. I yield 5 minutes to the distinguished Senator from Kansas.

Mr. CARLSON. Mr. President, the Senate will soon be privileged to vote upon a conference report that, in my opinion, is not a panacea for all of our domestic and international monetary problems, but I personally believe it is absolutely essential that we have this legislation and that we take affirmative action upon it now.

It will have some rather serious economic consequences in our own Nation. It will have helpful consequences, I hope, in the field of our international relations with every country on the globe.

I take 1 minute of my few minutes to pay tribute to the many who are entitled to credit for the action that we will be privileged to take soon on a tax bill.

I think it can be said that there were indications early this year that it would be impossible to pass a tax bill this year. There were indications that we could not get together as Members of Congress and that the President himself had some different ideas on the legislation than Congress had.

The President earlier had recommended a 10-percent surtax. The House Ways and Means Committee, I think we can state accurately, refused to act because they insisted on a substantial reduction in Federal expenditures before they would consider a tax bill.

It looked impossible at the beginning of this year to get a tax bill. The House Ways and Means Committee did send over to the Senate a bill to extend the excise taxes on automobiles and communications services. That bill was referred to the Committee on Finance, and our chairman, the distinguished Senator from Louisiana [Mr. LONG], held hearings on the measure. We reported the bill to the Senate and, for the first time in my 30 years of service in Congress, the Senate added a completely new tax bill to a House-passed bill. In the final analysis, we received concurrence from the House of Representatives yesterday on that matter. This is the first time I have seen such a situation develop.

Mr. GORE. Mr. President, will the Senator yield?

Mr. CARLSON. I do not have much time, but I am pleased to yield to the distinguished Senator from Tennessee.

Mr. GORE. Mr. President, the able Senator from Kansas has made a noteworthy observation.

There was a time when the Senate played a very minor role in the enactment of tax legislation. The role of the Senate has been increasing in importance. In this instance, the tax bill was

virtually written on the floor of the Senate.

Mr. CARLSON. Mr. President, I appreciate very much the remarks of the Senator. That is exactly what I am trying to stress at the present time.

It should be stated that when the bill came before the Senate on the extension of the excise taxes on automobiles and communications services, the distinguished Senator from Florida [Mr. SMATHERS] and the distinguished Senator from Delaware [Mr. WILLIAMS], who had prepared a tax bill dealing not only with an increase in surtax but also with a substantial reduction in Federal expenditures and a reduction in Federal personnel, offered their measure as an amendment on the floor of the Senate. That amendment was agreed to by a vote of 57 to 31.

I pay my respects to both of these distinguished Senators for their determination to secure action in an effort to strengthen the fiscal structure of the Nation.

I think it was absolutely essential that such action be taken. For a time it looked as though it would be impossible to tell the world that we in America had finally reached the conclusion that we would take action to stabilize and expand the value of the dollar in the world and strengthen our fiscal economy by coming closer to a balanced budget.

The distinguished Senator from Florida and the distinguished Senator from Delaware are entitled to much credit for this action. In addition, other Senators on both sides of the aisle were involved in this battle.

Mr. President, if it had not been for the distinguished Senator from Delaware, there would not be a tax bill before the Senate today.

Mr. President, I shall read briefly from an article written by Marshall McNeil, a Scripps-Howard staff writer. The article is entitled "The Tenacious Senator WILLIAMS—Spending Cut Owed to One Man."

The Senator from Delaware would not agree with that statement, but I think that the statement ought to be made a part of the RECORD.

The PRESIDING OFFICER. The time of the Senator has expired.

Mr. SMATHERS. Mr. President, I yield 2 additional minutes to the Senator from Kansas.

The PRESIDING OFFICER. The Senator from Kansas is recognized for an additional 2 minutes.

Mr. CARLSON, Mr. President, the article reads in part:

It's a good thing for a senator to have guts. But in the law-making process he must also be tenacious.

Sen. John J. Williams of Delaware is loaded with tenacity. He has shown his political courage time and again fighting federal extravagance and waste, petty and major chiseling, and lapses in government ethics.

It was these two qualities of courage and tenacity that caused the President Thursday to say: "Yes!"

The question put to the President in his press conference at the Texas ranch was: Would he sign a bill that linked a $6 billion budget cut to the 10 per cent income tax increase his administration has been seeking unsuccessfully for more than a year? The President said: "Yes!"

Thus Williams won what can be considered the biggest battle of his career, a victory which—unless our whole economy unravels—will protect the foundation of the dollar and curb the speeding inflation that's penalizing everyone.

Mr. President, I ask unanimous consent that the entire article be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

THE TENACIOUS SENATOR WILLIAMS—SPENDING CUT OWED TO ONE MAN

(By Marshall McNeil)

WASHINGTON.—It's a good thing for a senator to have guts. But in the law-making process he must also be tenacious.

Sen. John J. Williams of Delaware is loaded with tenacity. He has shown his political courage time and again fighting federal extravagance and waste, petty and major chiseling, and lapses in government ethics.

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Thus Williams won what can be considered the biggest battle of his career, a victory which—unless our whole economy unravels—will protect the foundation of the dollar and curb the speeding inflation that's penalizing everyone.

Washington was a sorry sight early this Spring. The administration demanded a 10 per cent tax increase. The House Ways and Means Committee, where such a law must originate, refused to move until the White House came through with firm promises of substantial cuts in government spending. The White House stood fast by what it called its "tight" budget.

This stalemate threatened our whole nation fiscal posture. The dollar was running into trouble here and abroad; the Treasury deficit was rising toward record levels.

Then the Ways and Means Committee approved and the House passed a bill extending excise taxes on autos and communications services. The bill went to the Senate, was cleared by the Finance Committee and reached the floor.

There Williams, a Republican, moved in where Democratic leaders feared, or refused, to tread. While others cried for economy and higher taxes, Williams offered an amendment to the excise tax bill to achieve those very things, very specifically. His amendment called for a $6 billion cut in spending and a 10 per cent income tax increase. Sen. George Smathers (D., Fla.) cosponsored the amendment.

Last April 2, the Senate approved that amendment, 53 to 35, with most of President Johnson's Democrats opposing and most of Williams' Republican colleagues approving.

The administration's fight against so deep a budget cut then began. The President wanted only a $4 billion cut, or less. His men in virtually every department began to tell tales about how this service or that, this project or the other, would be killed or badly maimed if government spending were cut $6 billion.

Every few days the tenacious Williams got to his feet in the Senate, and in his unlikely low-pitched, sometimes squeaky, voice complained. The President said he wanted a tax increase? Well, the Senate had approved it. The House wanted a spending cut? Well, the Senate had ordered a cut. All the administration had to do was to put the heat on its own party members in the House and the tax increase and the budget cut would become law. House and Senate conferees met on the issues, but the stalemate continued.

Then, prodded by another Floridian, Democratic Rep. Sydney Herlong the Ways and Means Committee instructed its conferees to accept the Senate proposal. This was done. But still the administration clamored against so deeply reducing government spending.

Last Wednesday the House was given a chance to say whether it wanted spending cut only $4 billion. By a vote of 259 to 131, again with most Republicans on the side of the deeper cut, and most of the Democrats against it, the House spoke its mind. It said $4 billion wasn't enough.

It may never have had this chance if it hadn't been for Williams' guts and tenacity. He was the man who laid the issue squarely before Congress. And before President Johnson.

So, yesterday, the big question was: Would the President relinquish his fight for a budget cut of only about $4 billion, and accept the $6 billion cut to get his tax increase?

The President, reluctantly, said: "Yes."

ORDER FOR RECOGNITION OF SENATOR PELL TODAY

Mr. SMATHERS. Mr. President, I yield to the distinguished Senator from West Virginia for a unanimous-consent request.

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that immediately following the vote on the conference report, the Senator from Rhode Island [Mr. PELL] be recognized for a period not to exceed 1 hour.

The PRESIDING OFFICER. Without objection, it is so ordered.

REVENUE AND EXPENDITURE CONTROL ACT OF 1968—CONFERENCE REPORT

The Senate resumed the consideration of the conference report on the Revenue and Expenditure Control Act of 1968.

Mr. SMATHERS. Mr. President, I yield 1 minute to the distinguished minority leader.

The PRESIDING OFFICER. The Senator from Illinois is recognized for 1 minute.

Mr. DIRKSEN. Mr. President, when the pending measure was before the Senate, the impressive vote by which it was passed certainly reflected the Senate's sense of fiscal responsibility.

As has been indicated, we are deeply indebted to the distinguished Senator from Delaware [Mr. WILLIAMS] and the distinguished Senator from Florida [Mr. SMATHERS] for keeping this matter constantly before the committee and before the House and before the Senate until it eventuated in the action that brings the measure here today.

I am rather proud of this body, and I am proud of the Senator from Delaware and the Senator from Florida for the job they did.

I am speaking as a member of the Senate Committee on Finance, and I know what a difficult undertaking it was. And I know also the obstacles and impediments that were encountered. However, it finally eventuated in a complete result.

Mr. SMATHERS. Mr. President, I yield one-half minute to the Senator from Delaware.

The PRESIDING OFFICER. The Senator from Delaware is recognized for one-half minute.

Mr. WILLIAMS of Delaware. Mr. President, I thank the Senator from Illinois, the Senator from Kansas, and the other Senators for their kind remarks. However, I am sure that the Senator from Florida will agree that we could not have succeeded if we had not received cooperation in our efforts from many Senators on both sides of the aisle.

Likewise, I wish to join the Senator from Florida in paying respects to Dr. Woodworth and other members of the staff. Their services were invaluable.

Mr. SMATHERS. Mr. President, I yield 1 minute to the distinguished Senator from Utah.

The PRESIDING OFFICER. The Senator from Utah is recognized for 1 minute.

Mr. MOSS. Mr. President, I propose to vote for the Revenue and Expenditure Control Act of 1968, and I hope it will pass.

Early last November, in the closing days of the first session of the 90th Congress, I took this floor to ask my colleagues to defer adjournment until we completed a full debate on the need for, and the obligation of, a surtax. I felt confident that any sustained discussion on this important public policy issue would lead to the conclusion that Congress should act, and act immediately. We did not debate, of course, and we are not taking final action until today—some 7 long months later.

At the time I first spoke, many opponents of the bill doubted that failure to act would bring serious consequences. I could not agree—I felt the consequences would be severe and predicted a number of them. All have proved correct in one degree or another. The consequence which I most feared, because it would most directly affect the people, was inflation. As we now know, the cost of living has risen about 2 percent since last November. It is no coincidence, that the 2 percent of personal income which has been eaten up in inflation since that date—or about $12.8 billion—is a little more than the $11 billion surtax will cost the taxpayer. It was a sound forecast, and one which I made, that the surtax would cost the average citizen less than the increase in the cost of living which would result without it.

It is incredible to me that the other body could have held up a surtax bill for so many months. The case for a surtax has become more insistent with each passing day. The Senate had to resort to attaching an amendment to the excise tax bill to get action—taking the initiative away from the House where tax measures are supposed to originate.

The Senate had also to take the initiative on the $6 billion spending cut which the bill contains, in order to get a tax-spending package. So in this respect, the Senate had also to initiate action which the House could have initiated, since it acts first on appropriation bills.

It is with some reluctance that I support a $6 billion cut in expenditures in fiscal 1968, because I know how difficult it is going to be to make a slash of this magnitude without hurting essential Federal operations, but I am trusting that we can make these cuts without damaging our economy, without generating more social unrest and without emasculating important programs and projects.

There is one aspect of the delay in enacting this surtax which I find heartening. Many, many more of our citizens have come to realize that a surtax is essential, and to support it. At the time I first spoke out on the Senate floor, I had received only a half dozen letters from people who read the economic signals clearly enough to be willing to pay more taxes, but now I am receiving dozens of letters from constituents who know this bill must be passed, and are willing to dig down in their pockets for more money to pay for it.

I am heartened, too, by relief with which economists and other governments around the world are greeting this evidence of fiscal restraint in the United States. If we had taken action earlier, perhaps we could have prevented the dollar crisis which occurred earlier this spring. Certainly what we are doing here today should provide greater protection for the dollar in the future.

Mr. SMATHERS. Mr. President, I ask for the yeas and nays.

The yeas and nays were ordered.

Mr. SMATHERS. Mr. President, I yield 1 minute to the distinguished Senator from Nebraska.

The PRESIDING OFFICER. The Senator from Nebraska is recognized for 1 minute.

Mr. CURTIS. Mr. President, I thank the distinguished Senator for yielding.

I add my voice to the others in praise of the distinguished Senator from Delaware [Mr. WILLIAMS], and the distinguished Senator from Florida [Mr. SMATHERS] for the leadership they have shown.

A tax increase and a reduction in spending will be painful. However, we owe it to the future of the United States to enact this measure. We owe it to our children and to our grandchildren. It is absolutely necessary that we set our financial house in order to keep faith both at home and abroad. I hope that out of this situation will come a determination to reduce the size of the Federal Government.

We are spread too far, with too many programs—not only abroad, but also at home. I hope that we can soon return to a government restricted to those things that are properly the functions of the Federal Government.

I am happy for the gains we made on the industrial bond issue. The Congress retained the right to legislate. We turned back the efforts of the Treasury Department to enact tax laws. It is my hope that the $1 million limit on tax-free issues of industrial bonds can soon be materially increased. The States involved are entitled to a hearing on this issue.

Mr. WILLIAMS of New Jersey. Mr. President, the Senate is asked today to accept the conference report on legislation to increase taxes and cut Federal spending. These measures have been advocated by economists, administration spokesmen, and tax strategists. There seems to be general agreement that some kind of tax increase is necessary, and that some degree of spending reduction is going to be required to make the tax increase acceptable.

These are not popular actions, but they will be more than unpopular—they will be catastrophic—if we allow spending cuts to infringe on vital domestic programs. A conference report urging $6 billion in cuts seems to me to threaten the existence of programs only recently begun, and only lately successful.

When this measure was originally considered by the Senate, I opposed the cuts in domestic spending proposed and urged a reorientation of priorities. Today, I wish to further expound on this theme.

President Johnson's 1969 budget is a tight budget. There are no extravagant domestic expenditures; there is little ornamentation. Today we are a nation of 200 million people. By the year 2000 we will be 300 million. And we are charged with the responsibilities and opportunities we face today, cannot expect the Federal budget to remain static. It must grow, and as it grows, it must reflect the needs of the people.

A $6 billion spending cut, trims about 3 percent from the fiscal 1969 budget, or about $3 from every hundred. A $4 billion cut could have reduced this to about 2 percent. I think most of us recognize that the difference is drastic, particularly at a time when we need to do so much to mend the fabric of our society.

The acceptance of any spending cut should require much care about where spending is reduced. The Bureau of the Budget has described the present "tight budgeting" as "a rigorous application of priorities." We have all heard the talk about national priorities, and now seems to be an appropriate time to establish some priority programs which must not—absolutely must not—be cut.

Some programs and activities which I believe to be most in need of continued full funding include ongoing programs of direct Federal assistance to the Nation's poor: these include Office of Economic Opportunity programs, labor and manpower development and training, school food programs, direct welfare payments; elementary and secondary education; higher education; teacher training; veterans' education programs; business and economic development in low-income urban areas; urban renewal, community development, model cities; housing programs; food for peace; Agency for International Development; and air and water pollution control program.

These are the Federal programs that have promise for an immediate, identifiable return on the investment. These are the programs that represent our "outreach" toward the victims of pollution and congestion and blight. These are the steps we said we would take after Watts, after Newark, after Detroit—and after we looked deep into the troubled heart of America.

These are minimums. In a tight budget, all programs and all activities

reflect some trimming; but what I suggest in some programs should suffer no more cuts, or any kind, for any reason. Let us do it in the name of priorities, or let us do it in the name of economy, but let us be clear about this: we must honor our commitment to Americans in need of help.

Additionally, I want to urge the budgeteers to seek ways to trim demonstration programs, personnel additions, and administrative costs. Let us focus the power of the Federal budget on the doing—and less on the demonstrating and conferring.

Priorities, indeed, are called for today. We have budgeted more money for ammunition for the U.S. Army than for low-income public housing. We have planned to spend more for migratory bird refuges than for health services for migrant agriculture workers. Somewhere in the scheme of things, the Congress must declare that it values human growth and human progress above all else.

Mr. President, very reluctantly and with considerable misgiving, I am going to vote for the adoption of the conference report. But in doing so, I strongly urge that the utmost consideration be given to a system of priorities in line with my previous comments.

Mr. BREWSTER. Mr. President, with great reluctance, I have decided to cast my vote in favor of the tax bill conference report. My reluctance stems from long-standing opposition to a tax increase and from the hope that we could cool off the economy sufficiently by means other than a raise in personal and corporate income taxes.

Today, I do not think that we realistically can expect to put our financial house in order without a tax increase. This is not a happy situation, and I realize that the citizens of my State will be severely burdened by yet another claim on their earnings.

Yet, what are the alternatives? We face a huge deficit, mounting inflation, rising interest rates, a critical imbalance on our international payments account, and a very shaky international monetary situation. These problems cannot be left unsolved, and unpleasant though the job may be, it is we in this Congress who must solve them. To turn our backs would be totally irresponsible, all the more so because in the long run our negligence would impose a burden on the taxpayer far in excess of the proposed, modest tax increase.

The situation is one in which we must act now to avoid drastic action later. It is a situation which gives a Congress responsible for the financial welfare of the Nation no choice but to act.

There is even a chance now that our action will come too late and involve too little. It is possible to understand the seriousness of the crisis we face by realizing that even the $15.5 billion more the tax hike is estimated to bring into the Treasury will only hold the fiscal year 1969 deficit down to about $10 billion. The point is not that we cannot afford important social legislation and a costly war at the same time. The point is that we must pay for them, or risk budgetary disaster.

For the average American consumer, a huge deficit and an overheated economy mean one thing: inflation. Unless we pass this tax measure today, we endanger the economic welfare of every American who must depend on a fixed income, and even those with more flexible incomes could be sucked into an inflationary spiral the likes of which this Nation has never seen.

For the prospective homeowner and credit buyer, a failure to enact a tax surcharge will mean a continuation of high interest rates and, in all probability, a trend toward even steeper rates. Financial institutions, for example, have warned of a possibility of 8 percent interest on prime loans, to be followed by a complete credit collapse.

Unless something is done to cool off the economy, we run the risk of pricing our goods and services completely out of the world market, thereby throwing the international payments account into an even heavier imbalance. This spring, for the first time in many years, our international trade account showed an unfavorable balance, and this unfortunate development could continue unless we sell more abroad. Needless to say, we will not be able to sell if our prices are too high, and nothing pushes prices up faster than runaway inflation.

One of the most serious consequences of inflation could be another gold rush, a development which this time would force abandonment of the two-tiered price on gold, established only last winter. Already European bankers are concerned about the maintenance of this price system, but should we not pass the surcharge as a hedge against inflation, our inaction might persuade them to reduce their dollar holdings substantially. With some $32 billion in foreign hands and only $10.5 billion in gold reserves, we are in no position to encourage another gold rush. On the contrary, we must persuade the world that we are serious about halting inflation and intend to keep the dollar at its present value.

Finally, Mr. President, this tax increase can be justified because it is accompanied by an absolute guarantee to reduce Government expenditures by $6 billion. There is no chance whatsoever that the additional tax dollars will lead to more Government outlays; the Congress has written into this bill a firm promise to the American people that this will not happen.

The need for the surcharge derives, of course, from the continuation of the tragic war in Vietnam. If the war should be scaled down, no increase in revenue would be necessary, and the peace talks in Paris offer some hope that this may actually come about. Let us pray that it does. In the meantime, I feel it would be wise to review our tax situation 6 months after this conference report becomes law. If in 6 months there is any chance that we can reduce our war expenditures, then we should lift this additional tax burden.

Mr. MONDALE. Mr. President, I vote in support of this conference tax bill with great reluctance and misgivings. But I do so believing that—on balance—the danger of not passing it is the greater.

I fully support the theory that the Federal Government ought to use appropriately and fully its powers of taxation, spending, and control of interest rates to spur economic underperformance and to check economic overheating and inflation. My deep concern is not based on the tax increase portion of this measure.

If it were only a question of a tax increase, what we really would be talking about today is a choice between higher taxes on the one hand, and higher interest rates and prices on the other. I would certainly want to avoid higher interest rates and prices, because those consequences tend to deprive those sectors of our economy which are already starved and which do not share equally in our economic wealth. They affect poor people on fixed or poverty level incomes very severely. Higher taxes, on the other hand, would not have the same effect because the tax burden of the poor is already low, and this bill exempts individual taxpayers in the two lowest brackets from the surcharge.

I am, however, deeply concerned over the provisions for a $6 billion reduction in Federal spending, especially with no direction agreed by the Congress for itself or the President as to the areas in which the reductions are to be made. I simply do not believe that cuts should be made in any case in the programs we have passed to bring the poor, and the deprived, and the hungry into an equal share of national opportunity and abundance.

In the last analysis, my vote in support of this bill is a vote of confidence in the President. It reflects my belief that he will not make any significant reductions in programs dealing with poverty, civil rights, education, urban assistance, pollution, manpower and job training, and other hard-won and sorely needed social welfare legislation.

It is my belief that the President is firmly committed to these programs, and that budget cuts made by him pursuant to this bill will be made in nonessential and deferrable public works programs, military programs, the space program, the supersonic transport, and the like. For example, the President could defer, if the Congress does not, the deployment of an antiballistic missile system.

I am also persuaded that some of the other features of this conference report deserve support.

The partial closing of the unjustifiable tax loopholes for industrial development bonds is a sound first step.

The deferral of the severe restrictions on public assistance and aid for dependent children programs is absolutely necessary.

And finally, the bill contains a provision for submission by the President to the Congress of proposals for a comprehensive reform of the Internal Revenue Code of 1954. This is definitely not earth shaking. It could be a beginning.

It is especially relevant now when the obvious alternative to a tax increase for more revenue is tax reform.

A system which presently allows—as it does—its wealthiest citizens to escape taxation or pay only a minimal percentage of their incomes in taxes, while the majority of wage-earning middle-income

taxpayers are seriously burdened by their tax load, is outrageous. In theory our system is progressive; in practice, it is not. Statutory tax rates rise from 14 percent on incomes under $5,000 to 70 percent on those over $100,000. Actual tax rates paid show that a taxpayer earning $50,000 or more on the average pays an effective rate of only about 25 percent.

Some escape taxation altogether. In 1962, three taxpayers with incomes in excess of $5 million annually paid no Federal income tax. In 1965, 35 taxpayers with annual incomes or more than half a million dollars paid nothing. We have a system riddled with loopholes, devices, and gaps which enable the rich to throw the tax burden on the middle-income taxpayer.

This system allows deductions for expense account living for corporation personnel, while the wage-earning individual must meet his daily expenses without that subsidy.

Big business is allowed a 7-percent credit for new plant investment, and accelerated depreciation for rapid tax writeoffs.

Financial institutions such as banks and life insurance companies may set up huge reserves for losses which provide a tax benefit to them.

In December of last year, Congress passed a bill to allow American Motors to carry back net operating losses for 5 years instead of 3 years as allowed by present law, in effect giving the company a rebate of $20 million.

I cite these examples for only one reason. Such tax relief and loopholes are in actual effect Federal subsidies supporting assumed public policy objectives. My purpose is not to say they are unjustified, but rather, that these subsidies ought to stand or fall in the same arena as farm subsidies, education assistance, urban programs, and all of the other budgeted expenditures. Their size and effect is unfairly masked by inclusion in the tax law, since they then do not appear in the Federal budget.

Mr. Stanley Surrey, Assistant Secretary of the Treasury, has suggested that tax loopholes and breaks be designated as Federal expenditures. This would show that tax relief and tax absolution are actually the same as Federal spending—an allocation of economic resources for specific policy goals.

Mr. Surrey argues that such a scheme would make those who argue for Government expenditure cuts, particularly businessmen, aware that large Federal budgets include, as well, the tax subsidies that enable him to stay in business. For example, the Department of the Interior would be required to include the oil depletion allowance benefit in its "billion dollar budget" as a subsidy supporting the oil industry.

Or tax credits and untaxed industrial or municipal development bonds might be counted as expenditures by the Federal Government—paid for by the middle-income taxpayer—to attract new business to certain cities. We might even reduce Federal spending in such areas by allocating by States or cities a certain number of dollars in the budget for such bond subsidies.

The day of tax reform—and public recognition of tax loopholes as Federal subsidies—may not be far distant. We have riots in our cities, 15 million starving and malnourished people in our Nation, a Poor Peoples' March, and an economic pie which gives 20 percent of the wealth to 5 percent of the people, and gives only 5 percent of the wealth to the bottom 20 percent of the people. It is time for a change.

Mr. YARBOROUGH. Mr. President, as we pass this tax bill, I would like to state that I am voting for the bill because I think it is just or an equitable distribution of the financial burden of running this country, but because some kind of an increase in revenue is an economic necessity. I believe that some kind of a tax bill is absolutely necessary because of the uncertain condition of the U.S. budget due to the great drain on the Government's fiscal resources caused by the war in Southeast Asia.

During World War II, excess profits taxes aided in the financing of our war effort. This bill is in stark contrast, as it is the individual wage earner who finances the cost of this war, not those making vast fortunes and profits out of our defense expenditures. It is almost inconceivable in these times of economic difficulty that the Senate of the United States would turn down an excess profits tax to be levied on those making war fortunes, but it has happened. The proposal of Senator McGOVERN for an excess profits tax, for which I voted, received only 16 votes in this body. Even the Renegotiation Board established by the Renegotiation Act of 1951 has had its authority and personnel substantially reduced—even though they recovered more than $800 million through renegotiated contracts in the Korean war alone.

In this war in Southeast Asia, there are those who are taking advantage of the Federal Government through large defense profits. Vice Adm. Hyman G. Rickover pointed out in congressional testimony that he has seen profits of defense contractors rise by 25 percent. These profits are taken right out of the individual taxpayer's pockets at a time when he is contributing more than his share in taxes and lives to keep this country strong. The average John Q. Public is footing the bill for the war, not only in blood, but in money.

I would like to point out that the individual's percentage of the revenue collected to run this country has risen from 41.1 percent in 1967 to 49 percent in the 1969 budget. Yet, at the same time, corporate contributions have dropped from 22.7 percent in 1967 to 20.8 percent in this year's budget. And yet, we are here today putting an additional surtax on the individual.

For these reasons, I vote for this tax bill reluctantly, as an economic necessity under the conditions existing in the Government and private sectors today. I vote for it not because of its fair application, but because it is the only tax bill we have any hope of passing this session, at a time when it is an economic necessity to raise the tax levies in order to pay for our ever-increasing military efforts, else the dollar is so weakened as to jeopardize our economic strategy.

Mr. HOLLINGS. Mr. President, when this tax bill was before the Senate nearly 3 months ago, I offered, on behalf of myself and 67 other Senators, an amendment and a plea. The amendment was the textile quota amendment and the plea was for the jobs of over two million American workers whose livelihood depends on the textile industry.

In spite of strenuous opposition, the Senate refused to turn a deaf ear to these workers and the amendment was adopted overwhelmingly.

When the bill reached conference the Senate conferees led by the distinguished junior Senator from Louisiana were true to their charge and they made every effort to retain the Senate amendments. They fought long and hard and I would like to take this opportunity to thank them for myself and the textile workers of this country.

But we did not prevail. We were unable to obtain any help from the House conferees—in spite of the fact that 197 Members of that body had sponsored similar legislation.

We were hopeful at this juncture that the administration would live up to past pronouncements and help the industry obtain the help that even the administration calls vital. But once again the real policy of the Government was affirmed—a policy of promises, promises.

Because of the efforts of the Senator from Louisiana, I was allowed to appear before the conference committee and present my case along with Ambassador Roth who spoke for the administration.

Mr. President, the Grimm brothers would have been hard put to conjure up a stranger encounter.

I spoke of job loss.

I spoke of declining profits.

I spoke of money not invested.

I spoke of facilities being built over seas.

As my source I quoted the Department of Commerce Textile Economics Bureau, the U.S. Department of Labor, Bureau of Labor Statistics, the FTC-SEC Quarterly Financial Reports, the U.S. Department of Labor, Division of Foreign Commerce Conditions.

Ambassador Roth spoke of a light at the end of the tunnel and prosperity that was just around the corner. He talked of a booming economy that would soon affect the textile industry. And he quoted Nations Business, Women's Wear Daily, and prospectus' issued by companies trying to sell stock.

The entire presentation was ludicrous—but then so is the administration's trade policy.

Less than a month ago on May 28, the President sent to the Hill his trade message. In it he said:

> At the present time, proposals pending before the Congress would impose quotas or other trade restrictions on the imports of over twenty industries.
>
> . . . In a world of expanding trade, such restrictions would be self-defeating. Under international rules of trade, a nation restricts imports only at the risk of its own exports. Restriction begets restriction.
>
> . . . In reality, "protectionist" measures do not protect any of us.

. . . Our policy of liberal trade has served this nation well. It will continue to advance our interests in the future.

On June 10, just 13 days later, the President, by proclamation, acted to place a quota on certain dairy products. The tariff commission had not acted—their investigation was still underway. Congress had not acted—indeed the Senate had defeated milk quotas immediately after they had overwhelmingly passed textile quotas. And only 13 days had passed since the President said that our policy of liberal trade would continue to advance our interest in the future.

Now, Mr. President, this is not sour grapes. The dairy industry has a problem—I have supported them in their efforts to obtain relief and I am glad that it was forthcoming.

However, the fact remains that the problems of the textile industry are long standing—they are provable beyond question by Government gathered figures—and a legislative solution has the endorsement of at least 265 Members of Congress. All we ask, Mr. President, is that the American businessman and the American workers be shown the same consideration we show their foreign counterparts.

Mr. President, 6 weeks ago I was forced to carry to the 210,000 textile workers that hold 70 percent of the jobs in my State the message that the job assurance they had sought so long would not be forthcoming.

Today I am asked to carry them a new and equally apalling message. I am asked to explain to these workers why the Government cannot manage its own fiscal affairs in the way in which every householder is required to manage his.

I am asked to explain why Government is not able to differentiate between the desirable and the necessary and why the Federal Government refused to cut back spending when it first became necessary.

Now the taxpayers of America are going to be asked to dip into their already depleted pockets to ante up the difference in Uncle Sam's income and outgo and I am going to have to tell the textile workers in South Carolina that the excuse the Government is using is that the economy is "overheated" and needs to be "cooled off."

Mr. President, the textile workers' economy is already "cooled off." He faces the hard, cold reality of layoffs, unpaid vacations, shorter work weeks, and a lighter paycheck.

I do not intend to ask him to assume more responsibility when the Government apparently ignores its responsibility.

For these reasons I intend to vote against the income tax surcharge conference report and I urge every other Member of this body to do so.

Mr. TOWER. Mr. President, in April, after a good bit of effort, the Senate passed H.R. 15414 to ameliorate our Nation's fiscal problems by both cutting Federal spending and increasing Federal taxes. Though the Senate-House conferees made some changes in the original Senate-passed bill, this legislation retains its most important aspect: substantial reductions in the expenditures scheduled by the Federal Government during fiscal year 1969. Our present Federal financial dilemma requires that we do all that we possibly can to correct our Nation's financial ills. Latest estimates of the Federal budget indicate that we shall have a mammoth deficit of perhaps $19.8 billion during the current fiscal year—the largest such deficit we have had since the years of World War II. The need to close the huge gap between Federal income and output is paramount, and this legislation at least represents a step in the right direction.

The Revenue and Expenditure Control Act of 1968 as approved by the conference committee contains some important revisions. It was agreed, with respect to permanent full-time civilian employees in the executive branch, that one vacancy in four in each department or agency is not to be filled until such time as the overall number of employees reaches the level of June 30, 1966. Hopefully, of course, any needed manpower needs can be met while substantially reducing any sinecures or overstaffing.

I am pleased that the conference committee approved without change what I consider the most important provision of the bill: the limitation of expenditures for fiscal 1969 to $180.1 billion. This represents a $6 billion across-the-board cut. Some important limitations in such reductions apply to expenditures for special support of Vietnam operations, interest payments on the debt, veterans' benefit payments, and payments from trust funds established by the Social Security Act.

However, in several areas of higher priority, I believe that it may be necessary to defer some reductions. Certainly our Vietnam commitments must remain firm. We must move carefully in the area of necessary veterans' benefits, for it is my understanding that the Veterans' Administration may well lose some 3,000 employees in the critical area of nurses and VA hospital aides. Clearly, the Veterans' Administration will be hard pressed to stand such a shortage. I presume the administration will exercise some insight and judgment in such cases.

I am, of course, pleased that the Senate-House conferees retained the provision for reduction of new obligational and loan authority for the fiscal year 1969 by some $10 billion. This represents a cut from $201.7 billion proposed in the budget to $191.7 billion.

Mr. President, I believe that cuts in excessive welfare spending in some areas was wisely retained by the conferees, as was a provision calling for a comprehensive reform of the Internal Revenue Code of 1954.

Mr. President, as much as we all deplore the imposition of higher taxes, I believe that the 10-percent tax surcharge must be temporarily imposed if we are to return to a course of fiscal responsibility and to restore foreign confidence in the dollar. As of March 1968, our gross public debt had climbed to $351 billion. We must move with haste to correct this situation.

Such an enormous public debt and wanton Federal spending can only lend to the mounting spiral of inflation which threatens to undermine the stability and strength of the U.S. dollar. Inflation, of course, falls with particular severity upon low-income individuals and the aged on fixed incomes who find that their dollars buy less and less of the necessities of life.

Mr. President, I support the conferees' action on H.R. 15414, for this important piece of legislation should demonstrate to the world and to ourselves that we, too, are willing to tighten our belts and to make whatever sacrifices may be necessary to bring greater stability to our national economy and to the international monetary system, which is of course in our own best interests.

Mr. SPONG. Mr. President, the Senate has before it legislation that would impose a 10-percent surcharge on individual and corporate income taxes, require a $10 billion reduction in projected fiscal 1969 appropriations, and require a $6 billion reduction in fiscal 1969 spending. In addition, the bill would require a $6 billion reduction in fiscal 1969 spending.

Our country is facing one of the most difficult times in its history. The violence and disorder in our society, the problems of our cities and the war in Vietnam and our obligations around the world impose a heavy burden on our resources.

The deficit in the administrative budget for fiscal year 1968 will apparently be $28 billion while the deficit in the unified budget for the same year will be $25 billion. In the absence of a tax increase and budget cuts, it is estimated that the administrative budget deficit for 1969 would be around $31.3 billion and the unified budget deficit would be approximately $24 billion.

The impact on our economy of our current policies has become more obvious and damaging in recent months. In the first quarter of 1968, the gross national product increase was $19.4 billion, the largest quarterly increase that we have ever had. However, it is estimated that 50 percent of this increase is due to inflation. In April, prices rose by 4.1 percent on an annual basis, the highest monthly increase since the Congress began considering a tax increase, and wage costs outstripped the increase in productivity during the first quarter of the year.

The burden of this inflation will be felt by millions of our people, and the cruelest blow will be on those who can least afford it—the poor, the infirm, and those living on fixed incomes.

The strain on the money market of financing the Federal deficit and the policies of credit restraint imposed by the Federal Reserve to restore balance in our country have pushed interest rates up and they are expected to continue to rise unless action is taken. For example, since last August the cost of financing good quality corporate bonds has risen 4.8 percent to about 7 percent, while the interest cost on 3-month treasury bills has risen from 4.15 percent to 5.65 percent, an increase of one and one-half percent. Mortgage interest rates have risen from 5.5 percent to 7 and even 8 percent in some areas and is expected to go even higher. Unless the deficit is cut it is likely that the pressure on the money

market will dry up much of the available credit for housing.

The soundness of the American economy and the dollar underlie our commitments at home and abroad, as well as the international monetary system and the world economy. In March, the continuing deficit in our balance of payments and doubts about the soundness of the dollar contributed to an increase in the speculative buying of gold and a crisis in the international monetary system.

The United States and its friends moved quickly to meet the crisis. The Congress freed all of the U.S. gold stock from the reserve requirements for Federal Reserve notes. The London gold market was closed for the last half of March. A two-price gold market was established with leading nations agreeing to buy and sell gold only among central banks. In Stockholm there was agreement to accelerate the plan to supplement international monetary reserves with a new and additional form of reserve currency for international payments settlement called special drawing rights.

These actions have had a salutary effect and the possibility of the collapse of the international monetary system has been deferred. Whether this is a temporary or a permanent solution of the world monetary crisis depends on the policies of both the United States and other countries.

Most observers believe that the United States must act to solve its balance-of-payments deficit, and that the key to this is a program of austerity for the domestic economy. This view holds that current price inflation in our economy must be stoped or slowed because such inflation undermines the competitive strength of the dollar in world markets and thus the country's international balance of payments.

The Congress, the President, and the country must face the facts of our current economic situation and be willing to take the steps necessary to set our financial house in order.

The war in Vietnam is costing us over $70 million a day, and Vietnam costs represent a figure that is strikingly similar to the size of our budget deficits. Traditionally, America has responded to the costs imposed by war by increasing taxes. For example, after the fighting began in Korea Congress imposed $8 billion in new taxes in 1950 and $6 billion in in 1951. This would be the equivalent of $36 billion in today's economy.

During my tenure in the Senate, I have called for the establishment of rational priorities in Federal spending and I have supported selective and substantial cuts in the budget which represent what I believe the priorities should be.

During the past year, I have said that before I would support the enactment of new taxes, I would have to be convinced that substantial cuts in Federal spending would be imposed, and that a tax increase was absolutely necessary to meet our obligations overseas and protect our economy at home.

In the face of the cost of the Vietnam war, the international monetary crisis, and the threat of inflation, I concluded on April 2, 1968, that a combined tax increase and spending cut was vital to our Nation and I voted for an amendment to the Tax Adjustment Act of 1968 that had much the same effect as the legislation before us today. Events since that time have strengthened my belief that such action is necessary and I intend to vote in support of the pending legislation.

Mr. COOPER. Mr. President, I rise in support of the conference report on H.R. 15414. When the bill was before the Senate, I voted for and supported the Smathers-Williams amendment providing for the 10-percent tax surcharge coupled with the mandatory expenditure reduction of $6 billion. I am pleased to note that the Senate conferees were able to retain in conference the $6 billion expenditure cut rather than compromise on the lesser amount of $4 billion contained in the House bill.

It has been my view that before the Congress should ask the American public to pay increased taxes, that every effort must be made by the Congress and the administration to reduce Federal spending. Yesterday in the debate in the House on the conference report, the chairman of the House Ways and Means Committee [Mr. MILLS] stated that the deficit in the administrative budget, as adjusted for participating certificates, for fiscal year 1968 will amount to $28 billion without H.R. 15414, and that for fiscal 1969 we would be faced with a prospect of a deficit of $31.3 billion in the administrative budget—as adjusted for the participating certificates, proposed for fiscal 1969—unless something is done.

A brief reference to some of the current key economic indices is sufficient to underline the serious and mounting inflation that our country faces today. Prices rose by 4.1 percent on an annual basis in April, the highest increase in prices on an annual basis that we have experienced in a long period of time. In the first quarter of 1968 we experienced an increase in gross national product of $19.4 billion which, I understand, is the largest quarterly increase in our gross national product in our history. More than half of that increase is attributable to inflation. Last year interest rates rose to a level greater than at any time in the last 40 or 50 years. In 1968 interest rates increased even further and are now higher than they have been in over 100 years. The interest rate on mortgage money to finance the purchase of residential homes is now 8 percent and the interest on triple A corporate bonds increased from 5.25 percent in May 7, 1967 to 6.25 percent in May 7, 1968.

I believe that it is absolutely necessary that the administration and we of the Congress face up to their responsibilities to reduce Federal spending by eliminating unnecessary programs and projects and by postponing the initiation of Federal programs carrying a low priority if we are to control inflation and restore confidence in the dollar at home and abroad. This bill is a good first step.

In the past few months I have voted for substantial cuts in the authorization bills for military procurement, maritime construction and NASA. I shall continue to vote for further cuts.

The distinguished Senators from Delaware and Florida, Senators WILLIAMS and SMATHERS, deserve the commendation of the country.

INDUSTRIAL REVENUE BONDS

I would like to draw attention to a provision agreed to by the conferees which has not received a great deal of public discussion to date. I refer to the provision which places certain ceilings on the tax-exempt status of industrial revenue bonds and thereby limits their effective use.

On March 23 of this year the Internal Revenue Service published proposed regulations providing that the interest paid on industrial development bonds described in the proposed regulations would no longer be considered to be exempt under section 103 of the code. The amendment introduced by Senator CURTIS, and agreed to by the Senate, would have, in effect, suspended the application of the proposed regulations by requiring the continued application of the present revenue rulings until the Congress acted on the subject. Later an amendment offered by the distinguished Senator from Connecticut [Mr. RIBICOFF] was adopted which denied tax-exempt status to industrial development bonds issued after January 1, 1969, except to finance certain limited projects of a municipal or quasi-public character. The conferees have retained these exemptions of the Ribicoff amendment in addition to establishing a limitation of $1 million on the use of tax-exempt industrial revenue bonds for all other projects.

The $1 million ceiling on industrial revenue bond financing would, in my view, unduly restrict, if not eliminate the use of revenue-bond financing as a means for assisting industry to seek new locations in the economically depressed areas of the country.

In my own State of Kentucky the sale of industrial revenue bonds has provided an important impetus to the economic growth and development of many communities. In recent years some 137 revenue bond issues have financed a variety of new industries in Kentucky, and have produced an estimated 27,000 additional jobs.

In opposing the Ribicoff amendment I concluded my remarks with the following statement:

Mr. President, in conclusion, I note at page 108 of the hearings that representatives of the Treasury Department have estimated that the loss of tax revenue to the Department as a result of the tax-exempt status of industrial revenue bonds amounts to some $50 to $100 million annually.

When we compare this loss of tax revenue with the billions of dollars that the Federal Government is spending in the country on programs to assist in economically depressed areas and in its war on poverty, it is my view that we should not curtail the limited means at the disposal of local communities to attract new industry and new jobs not financed by the Government. If abuses have developed in the employment of this means of financing, then efforts should be made to cure or remove the abuses without eliminating the tax-

exempt status of revenue bonds for industrial purposes.

I believe that the limitation agreed upon by the conferees of a million-dollar ceiling should be increased to a higher ceiling of perhaps $5 million, or a comparable amount, which would permit the program of financing new industries in economically depressed areas of the country to continue, and, at the same time, would set an amount sufficiently low enough to correct those situations where the program has been abused in its application by businesses of sufficient financial strength which can provide their own financing.

I hope that the Finance Committee will have an opportunity to review these questions and to consider a raise in the ceiling established by the conference report.

THE TAX INCREASE AND THE CUT IN SERVICES

Mr. McGOVERN. Mr. President, I am voting against the proposed 10 percent surtax and the $6 billion cut in such programs as agriculture, education, FHA, REA, and river development.

I am voting no on the tax increase because it aggravates an already unjust tax system and fails to correct any of the existing abuses. The present tax laws permit some citizens to write off various items so that they go tax free on incomes running to hundreds of thousands of dollars a year. I recently pointed out that urban investors are using sideline farming operations as a tax dodge to escape an estimated $400 million in taxes that they would otherwise owe on nonfarm operations.

We all know that the tax increase is requested because of the enormous cost of the Vietnam war. I have for years opposed our deepening involvement in the tangled affairs of the Vietnamese people. But if a special war tax is now needed, it should come in the form of an excess war profits tax as I proposed months ago. That is the way we financed the Korean war and World War II when extra war funds were needed. Since we began the big military buildup in Vietnam 3½ years ago, corporate profits have jumped by $22 billion. If we taxed these excessive wartime profits fairly, we would have more revenue than is proposed in the 10 percent surtax. Yet, it would be a fair tax paid by those corporations that are getting fat off war profits.

Farmers and small businessmen and other residents of rural States such as South Dakota are not getting rich off of this ill-advised war. Yet, they would be hardest hit by the proposed 10-percent tax increase.

I oppose the $6 billion cut in Government services and programs because those cuts are most likely to come not in the vested interests with powerful lobbies, but in programs essential to ordinary citizens.

For years I have tried to bring about reductions in such costly programs as the stationing of 300,000 American troops in Europe. Why cannot the prosperous nations of Europe now take over their own military manpower needs?

Why do we proceed to build another antiballistic missile system at a cost of $30 or $40 billion when we already have enough missiles to blow up the world?

Why do we continue to pour billions of dollars into a corrupt regime in South Vietnam?

The cuts will not come in these areas, but in our schools, roads, hospitals, farm credit, and water development programs.

Mr. President, I cannot vote for this unjust tax increase coupled with the costly weakening of many of our important domestic programs.

I want to do what I can to combat inflation and budget deficits, but this monstrosity before us today is not the way to do it.

The PRESIDING OFFICER (Mr. MUSKIE in the chair). Pursuant to the previous order, the vote will now take place on the adoption of the conference report. On this question the yeas and nays have been ordered, and the clerk will call the roll.

The bill clerk called the roll.

Mr. DODD (when his name was called). On this vote I have a pair with the junior Senator from Connecticut [Mr. RIBICOFF]. If he were present, he would vote "nay." If I were permitted to vote, I would vote "yea." I therefore withhold my vote.

Mr. GORE (after having voted in the affirmative). On this vote I have a pair with the senior Senator from Indiana [Mr. HARTKE]. If he were present and voting, he would vote "nay." If I were permitted to vote, I would vote "yea." I therefore withdraw my vote.

Mr. BYRD of West Virginia. I announce that the Senator from Indiana [Mr. BAYH], the Senator from Idaho [Mr. CHURCH], the Senator from Arkansas [Mr. FULBRIGHT], the Senator from Indiana [Mr. HARTKE], the Senator from Massachusetts [Mr. KENNEDY], the Senator from Missouri [Mr. LONG], the Senator from Minnesota [Mr. MCCARTHY], the Senator from Montana [Mr. METCALF], the Senator from Oklahoma [Mr. MONRONEY] the Senator from New Mexico [Mr. MONTOYA], the Senator from Connecticut [Mr. RIBICOFF], and the Senator from Georgia [Mr. RUSSELL] are necessarily absent.

I also announce that the Senator from Alaska [Mr. GRUENING] and the Senator from Georgia [Mr. TALMADGE] are absent on official business.

I further announce that, if present and voting, the Senator from Georgia [Mr. RUSSELL] would vote "yea."

I further announce, that if present and voting, the Senator from Massachusetts [Mr. KENNEDY] would vote "nay."

On this vote, the Senator from Oklahoma [Mr. MONRONEY] is paired with the Senator from Alaska [Mr. GRUENING]. If present and voting, the Senator from Oklahoma would vote "yea," and the Senator from Alaska would vote "nay."

Mr. KUCHEL. I announce that the Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], and the Senator from Colorado [Mr. DOMINICK] are necessarily absent.

If present and voting, the Senator from Utah [Mr. BENNETT], the Senator from Massachusetts [Mr. BROOKE], and the Senator from Colorado [Mr. DOMINICK] would each vote "yea."

The result was announced—yeas 64, nays 16, as follows:

[No. 189 Leg.]

YEAS—64

Aiken	Hayden	Muskie
Allott	Hickenlooper	Pastore
Anderson	Holland	Pearson
Baker	Hruska	Pell
Boggs	Inouye	Percy
Brewster	Jackson	Prouty
Byrd, Va.	Javits	Randolph
Carlson	Jordan, N.C.	Scott
Case	Jordan, Idaho	Smathers
Clark	Kuchel	Smith
Cooper	Lausche	Sparkman
Cotton	Magnuson	Spong
Curtis	Mansfield	Stennis
Dirksen	McClellan	Symington
Eastland	McGee	Thurmond
Ellender	McIntyre	Tower
Ervin	Miller	Tydings
Fannin	Mondale	Williams, N.J.
Fong	Morton	Williams, Del.
Griffin	Moss	Yarborough
Hansen	Mundt	
Harris	Murphy	

NAYS—16

Bartlett	Hatfield	Nelson
Bible	Hill	Proxmire
Burdick	Hollings	Young, N. Dak.
Byrd, W. Va.	Long, La.	Young, Ohio
Cannon	McGovern	
Hart	Morse	

PRESENT AND GIVING LIVE PAIRS, AS PREVIOUSLY RECORDED—2

Dodd, for.
Gore, for.

NOT VOTING—17

Bayh	Gruening	Monroney
Bennett	Hartke	Montoya
Brooke	Kennedy	Ribicoff
Church	Long, Mo.	Russell
Dominick	McCarthy	Talmadge
Fulbright	Metcalf	

So the conference report was agreed to.

Mr. MANSFIELD. Mr. President, it has been well over a year since President Johnson first requested the tax surcharge proposal just adopted with this conference report. His call then for this tax boost was based upon the best economic forecasts available at the time. I think the Senate and the great majority of the American people now agree that the original request was made with a great deal of foresight, a great deal of wisdom.

I am happy to note that the effort to achieve this success was truly bipartisan; that the initiative here in the Senate was taken by two prominent members of the Committee on Finance, representing both sides of the aisle. I refer, of course, to the Senator from Florida [Mr. SMATHERS] and the Senator from Delaware [Mr. WILLIAMS]. Together they carried the President's message through the Senate. Together they must share the achievement. And they also deserve commendation for reading correctly the economic barometers and for so strongly urging passage of this tax measure simply because it is of such vital importance to the Nation's financial position.

It is true that not all Senators were satisfied with every feature of the conference. Perhaps a $6 billion expenditure reduction is more than some thought necessary. Perhaps the limitation on Federal employment will cause some inconvenience. But all in all, the proposal contains what is necessary to provide the economic stability that must be applied at this time.

Over the years Senator SMATHERS has consistently lent his deep understanding and broad knowledge of fiscal matters to obtaining constructive legislation. His strong and able support on this measure certainly carries on that tradition. The

same may be said of the senior Senator from Delaware [Mr. WILLIAMS].

Others, too, deserve our commendation. The Senator from Kansas [Mr. CARLSON], the Senator from Virginia [Mr. BYRD], and so many more spoke in support. I personally want to thank all those who participated.

But our particular thanks today must go to those two Senators most responsible—to Senator SMATHERS and Senator WILLIAMS. The entire Senate, indeed, the Nation, are in their debt.

TEN-PERCENT SURTAX AND SPENDING CUT MEASURE SQUARES WITH FISCAL RESPONSIBILITY

Mr. RANDOLPH subsequently said: Mr. President, the Senate, in passing and sending to the White House a tax bill providing a 10-percent surtax and a $6 billion cut in spending, has completed in Congress action that is fiscally responsible. It is a statute which, when signed by the President of the United States, will have many good effects which should vastly exceed the problems it will create.

I voted for this measure when the Senate amended the excise extension bill on April 2, 1968, and I voted for it in its final form today. In doing so, I acknowledge that we have had to perform a painful duty—that of increasing taxes and coupling with it a substantial cut in Government spending.

But, Mr. President, if we had not taken these actions many disturbing realities of the national and international economy could return to haunt us time after time.

The tax increase and the expenditure cuts ordered by law are vital to the United States because it demonstrates that we can act responsibly to curb our own excesses. As bad as are the budget deficits, other problems inherent in the national economy and in the implications of the world money market are even more foreboding.

The measure we have passed will not set the economy right overnight. The inflationary spiral will not be checked automatically by this or any other single action—but the tax increase coupled with the ordered retrenchment in spending will make significant contributions to slowing the inflation in which price increases and cost-of-living escalation are the outward manifestations bearing down on every citizen.

The taxpayer who grows unhappy over the 10-percent surtax can be comforted in some degree by the knowledge that this action by Congress will keep this same taxpayer's hidden taxes—in the form of 4 percent or higher annual inflation—from going much higher. Actually, in the net, the taxpayer probably will be better off paying the out-in-the-open surtax which he can see than meeting the cost of the hidden taxes which these actions taken by Congress should help to reduce.

I believe the tax increase should have been applied sooner, and I believe there is general agreement on this point in the economic community if not in the political community. But it has not been invoked too late. The boom of the economy is going at a sufficiently high level to keep fiscal and monetary brakes from causing a recession.

CONSTRUCTION AT MILITARY INSTALLATIONS

The PRESIDING OFFICER. The Chair lays before the Senate the unfinished business, which will be stated.

The LEGISLATIVE CLERK. A bill (H.R. 16703) to authorize certain construction at military installations, and for other purposes.

The Senate resumed the consideration of the bill.

Mr. PELL was recognized.

Mr. BYRD of West Virginia. Mr. President, may we have order?

The PRESIDING OFFICER. The Senate will be in order.

Mr. PELL. Mr. President, I yield to the Senator from West Virginia.

ORDER FOR ADJOURNMENT TO MONDAY, JUNE 24, 1968

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that, when the Senate completes its business today, it stand in adjournment until 12 o'clock noon on Monday next.

The PRESIDING OFFICER. Without objection, it is so ordered.

AUTHORITY FOR THE VICE PRESIDENT TO SIGN DULY ENROLLED BILLS

Mr. BYRD of West Virginia. Mr. President, I ask unanimous consent that the Vice President be authorized to sign duly enrolled bills during the adjournment of the Senate or away from the Chamber while the Senate is in session today.

The PRESIDING OFFICER. Without objection, it is so ordered.

THE HELEN KELLER MIRACLE

Mr. SPARKMAN. Mr. President, I ask unanimous consent to have printed in the RECORD an editorial entitled "The Helen Keller Miracle," published in the Washington Post on June 3, 1968.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

THE HELEN KELLER MIRACLE

Mark Twain's comment that "the two most interesting characters of the 19th century are Napoleon and Helen Keller" has an element of humor because the two were so different. Yet Miss Keller's conquest of the spirit was as striking in its way as the military conquests of the dashing French general. Her life was truly one of the remarkable phenomena of our time, and her death just short of the age of 88 years leaves the whole world poorer.

Miss Keller would doubtless have been a notable figure if illness had not left her blind and deaf at the age of 19 months. But her attainment of the status of eminent writer and lecturer, known throughout the world, despite these usually crippling handicaps, clearly falls into the category of the miraculous. And for this generation her achievement is the more meaningful because it was centered in the area of personal struggle and spiritual triumph.

The blind and deaf girl who found a way to express the "sweet strange things that were locked up in" her heart had an enormous appeal to the imagination. She came to reflect in a very real way the finest aspects of the American spirit. Her indomitable will was akin to the motivation behind our pioneers and empire builders. Her relentless pursuit of goals that once seemed impossible was a dramatic example of the restless questing which is characteristic of this country.

Yet her courage and skills were channeled into intensely human endeavors that are well understood and appreciated by this generation. She will long be remembered not only as a remarkable individual but also as an inspiration to all those who have gigantic problems or handicaps to overcome.

In this age of disillusionment and easy surrender to hardships and discouragement, the world can ill afford to lose the shining example of Miss Keller fighting her way through every adversity to a rich and satisfying life in which she became, despite her handicaps, a source of help, comfort and strength to her generation.

JOE SEWELL NAMED SOUTHEASTERN CONFERENCE COACH OF THE YEAR

Mr. SPARKMAN. Mr. President, we are in the midst of the baseball season and much of our attention goes to baseball from day to day.

Back many years ago while I was a student at the University of Alabama a young fellow named Joe Sewell was called up just before the beginning of the world series in order to take the place of Ray Chapman who had been killed by a pitched ball. For a good many years Joe Sewell had a wonderfully successful career in the major leagues.

Joe is now back home serving as baseball coach for his Alma Mater, the University of Alabama. In fact, his team won the Southeastern Conference championship this year to Joe's great delight.

Recently Benny Marshall, the Birmingham News sport's editor, wrote a column about Joe Sewell and his career. The next day there came out an article in the Birmingham News telling of Joe Sewell's being named the Southeastern Conference Coach of the Year. I think we all would agree that he is having quite a success in baseball at the good age of 69.

I believe all of this will make interesting reading for those who may remember Joe Sewell and for all who like baseball.

Mr. President, I ask unanimous consent to have printed in the RECORD the article entitled "Bigger for Joe Sewell Than All of It," published in the Birmingham News.

There being no objection, the articles were ordered to be printed in the RECORD, as follows:

BIGGER FOR JOE SEWELL THAN ALL OF IT

(By Benny Marshall)

Joseph Wheeler Sewell came Saturday morning, in the 69th year of his life, to one of the special moments which the young are given to thinking are reserved only for them.

Alabama's baseball team was playing for a Southeastern Conference championship, and Joe Sewell was the coach.

The Little General had an undefeated pitcher ready, and momentum going, and his team was at home on Thomas Field as the Crimson Tide and the Florida Gators went to work at 11 in the first half of the biggest springtime doubleheader the University of Alabama ever knew. The second half was Tennessee's winning the conference track

championship, which everyone knew would happen, anyway.

Coach Sewell approached the morning with extra bounce in the step, and an added gleam in the eye, and it was a very good morning which had showed up to crown a lifetime spent in baseball.

He brought to it the old pro's willingness to ride with fate. You do all you can to get ready. Then you play, and accept what a day brings. Some you win, some you lose, some are rained out, and there's always tomorrow.

THE LAST CHANCE

There was the suggestion of something more riding with this one, however, and maybe a little bit of extra yearning for the coach of Alabama.

Joe Sewell will be 70 years old Oct. 9, and that's an inflexible retirement age. This, he might have thought, was the last chance, and the best way for big leaguers to go is winning. The applause can last, then, forever.

"Right now I wouldn't trade jobs with the President of the United States," Sewell was saying Friday night after all the cheers and the congratulating following the 5–0 Alabama win which took the championship playoff to Saturday for final settlement. He was dressing, in a hurry, because now he had to go and be on television, and it was a big moment. Take them where you find them.

Forty-eight years ago, before slugger Stan Moss' dad was born, though later than this in the American League season, the Cleveland Indians sent for the shortstop they had farmed to New Orleans, a kid from Titus, Ala., who had played on an Alabama baseball team which would deliver five players to the majors for extended stays.

Cleveland's Ray Chapman had been killed by a Carl Mays pitch which hit him in the head. Now, this kid reported, and his name was Joe Sewell.

HE COULD DO IT

The Indians were playing Connie Mack's Philadelphia Athletics that day, and Scott Perry was pitching. The second time up Sewell singled. The fourth time up he tripled and he fairly flew around the bases, the insides of him singing, "I can do it, I can do it."

And he did do it, too, for 11 years with Cleveland, and five more with the Yankees. He played in two World Series, and the record books know his name. In 1925, Sewell struck out only four times, while batting .335. He tied the record in 1929, four strikeouts, with a .315 average.

The first time, and the World Series times, Joe Sewell, being much younger and not knowing, really, had to regard them as supreme.

Saturday, in its time and its place in the scheme of things, came up equal and maybe ahead for a man who thinks he must have picked up a ball and bat "as soon as I got out of the cradle."

EXTRAORDINARY STORY

Sewell is an extraordinary story, all the way. After his playing days were done in 1936, he was many years in the hardware business in Tuscaloosa. Then he went back to baseball as a scout, and he'd help the late Happy Campbell in the springtimes on Thomas Field.

Paul Bryant, the athletic director of whom you have heard, had his man right on the scene when a new coach was needed. Not many athletic directors go around hiring 64-year-old head coaches, but Bryant isn't like many athletic directors. He hired Joe Sewell to be baseball coach five seasons ago, and he was wishing with him Saturday when they brought it down to the finish.

"I've got the best seat in the house," Bryant said, and he means the view from his office window in Memorial Coliseum looking out over the vast Crimson Tide sports complex which has grown and grown since he checked in back in 1958.

"The dog-gondest thing happened to me Friday, though the telephone rang and I turned away to answer it, and that's when Moss hits his home run.

"Don't call me Saturday afternoon."

EXCELLENT VIEW

As the muggy morning progressed, Coach Bryant's view from upstairs proved to be eminently satisfactory.

Joe Sewell's pitching produced another shutout, and there were three runs to go with it, and that meant a championship for the Tide.

Friday night, the coach of the baseball team had said, "It has been a great season, whether we win or we lose. We've had a lot of fun."

Saturday night, it was even greater, and it was much more fun, and it wasn't a last chance at all for the young men, or the 69-year-old coach who had turned up Alabama's first conference championship since 1958 in his game. More big moments have been created for the days ahead, bigger than starting in the big leagues, bigger than the World Series that were.

That's because all of this is right now in the happy life of Joe Sewell, champion college coach.

TIDE'S SEWELL SOUTHEASTERN COACH OF YEAR

(By Ben Cook)

It was a banner day for coach Joe Sewell and the Alabama Crimson Tide Sunday afternoon, but, after all, it was a banner year for the NCAA District Three-bound Tide.

Sewell walked away from the Sunday afternoon baseball meeting at the Thomas Jefferson Hotel with the Southeastern Conference baseball championship trophy and the 1968 Coach-of-the-Year trophy.

Alabama also landed five men on the All-Western Division team with three named to the over-all All-Southeastern Conference team.

Pitchers Eddie Prospt, Mike Innes and third baseman Stan Moss were picked on the All-SEC squad. Centerfielder Bill Parker and shortstop J. C. Ranelli joined them on the All-Western Division group.

The Coach-of-the-Year award for Sewell climaxed a drive from the last place spot in the Western Division to the top spot in the conference this season.

The Titus native said he figured he had the team to win it all this season.

"The boys started out to win this thing in the spring training and they just kept coming," he smiled after Alabama's 3-0 clincher over Florida. "We just outhustled everybody and got great pitching down the stretch."

Sewell was a star shortstop for Alabama, Cleveland and the New York Yankees back in his playing days. He will be 70 soon, having taken over the coaching reins at Alabama when Happy Campbell left the scene in 1963.

The 24 wins posted by this year's championship team set a new record for the Crimson Tide. The previous high was 23 by the 1967 Sewell-coached nine, although they finished last in the Western Division.

Third baseman Moss finished the season with a .342 average and seven home runs in nailing down the hot corner spot on the All-SEC team. It was his home run on the final day of the season that threw the race into a tie, and his grand slam in the play-off game that put the Tide at the top of the heap.

Propst compiled an 8-3 record and pitched shutouts against LSU on the final day of the season, had two and two-thirds innings of scoreless relief in the playoff game and then blanked Florida Friday to complete an amazing string of twenty and two-thirds innings of scoreless pitching in the final week as Alabama drove to the top.

Innes, a freshman lefthander, picked up three hits in the last week of the season to run his record to 7-0. He shutout LSU in the next to the last game of the season. He then came back and beat LSU in the playoff for the Western Division crown with three and one-third of relief work and then came back to shutout Florida in the final playoff game Saturday.

Ranelli hit .279 and played brilliantly in the field for the Tide while Parker came through with some clutch hits in compiling his .247 average. It was Parker's single that drove in two runs against Florida in the finale.

PHILIP N. BROWNSTEIN, COMMISSIONER OF FEDERAL HOUSING ADMINISTRATION

Mr. SPARKMAN. Mr. President, in the May 25 editions of the Washington Post there was published a story by John Willmann about the tenure of Philip N. Brownstein as Commissioner of the Federal Housing Administration.

Mr. Brownstein has now served longer in this position than any other individual. This is a remarkable achievement by Mr. Brownstein not from the point of the years he has served, but rather for what he has accomplished during those years.

Armed with legislation provided through the Senate Banking and Currency Committee and this Congress, plus his own will, Mr. Brownstein has guided FHA from a suburban orientation to a place where it is a meaningful device for providing housing for all, including low- and moderate-income families.

He has given strength and substance to our efforts. I ask unanimous consent that Mr. Willmann's article be printed in the RECORD.

There being no objection, the article was ordered to be printed in the RECORD, as follows:

P. N. BROWNSTEIN AN UNFLAPPABLE: FHA CHIEF SETS ENDURANCE MARK

(By John B. Willmann)

Almost 33 years ago, Philip N. Brownstein decreased the population of Ober, Ind., 2 per cent by leaving his birthplace and coming to Washington.

With the help of a friend, he got a job as an assistant truck driver and mail handler for the then-infant Federal Housing Administration. Today—he often works on Saturdays—Brownstein sits behind a desk in spacious Room 741 of the Lafayette Building, 811 Vermont ave. nw., as the Assistant Secretary for Mortgage Credit of the Department of Housing and Urban Development.

In that presidential-appointment post, Brownstein also serves as Commissioner of the Federal Housing Administration. As of next Wednesday, he will have held the top FHA post longer than any of his 10 predecessors. And he has been the only FHA Chief also to serve as Assistant Secretary of HUD, created in 1965.

Brownstein, whose career has included a law degree from Columbus University here . . . four years of World War II duty in the Marine Corp. . . . and 17 years with the Veterans Administration and its housing programs, now is facing his biggest challenge.

In the year that already has seen an open housing law passed, major civil disorders and property loss, and the FHA-VA interest rate ceiling raised to 6¾ per cent, the FHA Commissioner views the proposed 1968 housing bill as "the next piece of legislation we need to give added substance to urban life . . . by breaking down the remaining barriers to the fullest private participation in providing

Public Law 90-364
90th Congress, H. R. 15414
June 28, 1968

An Act

To increase revenues, to limit expenditures and new obligational authority, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Revenue and Expenditure Control Act of 1968.

SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Revenue and Expenditure Control Act of 1968".

(b) TABLE OF CONTENTS.—

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

Sec. 101. Amendment of existing law.
Sec. 102. Imposition of tax surcharge.
Sec. 103. Payment of estimated tax by corporations.
Sec. 104. Special rules for application of sections 102 and 103.
Sec. 105. Continuation of excise taxes on communication services and on automobiles.
Sec. 106. Timely mailing of deposits.
Sec. 107. Industrial development bonds.
Sec. 108. Advertising in a political convention program.
Sec. 109. Tax-exempt status of certain hospital service organizations.
Sec. 110. Submission of proposals for tax reform.

TITLE II—EXPENDITURE AND RELATED CONTROLS

Sec. 201. Limitation on the number of civilian officers and employees in the executive branch.
Sec. 202. Reduction of $6 billion in expenditures during fiscal year 1969.
Sec. 203. Reduction of $10 billion in new obligational authority.
Sec. 204. Specific recommendations for $8 billion rescission in old obligational authority.
Sec. 205. Application of certain formulas.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Sec. 301. Limitation on number of children with respect to whom Federal payments may be made under program of aid to families with dependent children.
Sec. 302. Aid to families with dependent children in case of unemployed fathers receiving unemployment compensation.
Sec. 303. Federal payments under medical assistance program for certain services includible under supplementary medical insurance program.

TITLE I—INTERNAL REVENUE CODE AMENDMENTS

SEC. 101. AMENDMENT OF EXISTING LAW.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 102. IMPOSITION OF TAX SURCHARGE.

(a) IMPOSITION OF TAX.—Subchapter A of chapter 1 (relating to determination of tax liability) is amended by inserting at the end thereof the following new part:

68A Stat. 4.
26 USC 1-48.

96-077(175) O - 68

"PART V—TAX SURCHARGE

"Sec. 51. Tax surcharge.

"SEC. 51. TAX SURCHARGE.

"(a) IMPOSITION OF TAX.—

"(1) CALENDAR YEARS.—

"(A) INDIVIDUALS (OTHER THAN ESTATES AND TRUSTS).—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every individual (other than an estate or trust) whose taxable year is the calendar year a tax as follows:

CALENDAR YEAR 1968

TABLE 1.—Single person (other than head of household) and married person filing separate return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$148	0	$275	$282	$20	$527	$540	$40
$148	155	$1	282	288	21	540	553	41
155	162	2	288	298	22	553	567	42
162	168	3	298	313	23	567	580	43
168	175	4	313	327	24	580	593	44
175	182	5	327	340	25	593	607	45
182	188	6	340	353	26	607	620	46
188	195	7	353	367	27	620	633	47
195	202	8	367	380	28	633	647	48
202	208	9	380	393	29	647	660	49
208	215	10	393	407	30	660	673	50
215	222	11	407	420	31	673	687	51
222	228	12	420	433	32	687	700	52
228	235	13	433	447	33	700	713	53
235	242	14	447	460	34	713	727	54
242	248	15	460	473	35	727	734	55
248	255	16	473	487	36	734 and over, 7.5% of the adjusted tax		
255	262	17	487	500	37			
262	268	18	500	513	38			
268	275	19	513	527	39			

TABLE 2.—Head of household

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$223	0	$350	$357	$20	$527	$540	$40
$223	230	$1	357	363	21	540	553	41
230	237	2	363	370	22	553	567	42
237	243	3	370	377	23	567	580	43
243	250	4	377	383	24	580	593	44
250	257	5	383	390	25	593	607	45
257	263	6	390	397	26	607	620	46
263	270	7	397	403	27	620	633	47
270	277	8	403	410	28	633	647	48
277	283	9	410	417	29	647	660	49
283	290	10	417	423	30	660	673	50
290	297	11	423	430	31	673	687	51
297	303	12	430	437	32	687	700	52
303	310	13	437	447	33	700	713	53
310	317	14	447	460	34	713	727	54
317	323	15	460	473	35	727	734	55
323	330	16	473	487	36	734 and over, 7.5% of the adjusted tax		
330	337	17	487	500	37			
337	343	18	500	513	38			
343	350	19	513	527	39			

TABLE 3.—Married persons or surviving spouse filing joint return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$293	0	$420	$427	$20	$553	$560	$40
$293	300	$1	427	433	21	560	567	41
300	307	2	433	440	22	567	573	42
307	313	3	440	447	23	573	580	43
313	320	4	447	453	24	580	593	44
320	327	5	453	460	25	593	607	45
327	333	6	460	467	26	607	620	46
333	340	7	467	473	27	620	633	47
340	347	8	473	480	28	633	647	48
347	353	9	480	487	29	647	660	49
353	360	10	487	493	30	660	673	50
360	367	11	493	500	31	673	687	51
367	373	12	500	507	32	687	700	52
373	380	13	507	513	33	700	713	53
380	387	14	513	520	34	713	727	54
387	393	15	520	527	35	727	734	55
393	400	16	527	533	36	734 and over, 7.5% of the adjusted tax		
400	407	17	533	540	37			
407	413	18	540	547	38			
413	420	19	547	553	39			

CALENDAR YEAR 1969

TABLE 1.—Single person (other than head of household) and married person filing separate return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$150	0	$270	$280	$13	$510	$530	$26
$150	160	$1	280	290	14	530	550	27
160	170	2	290	310	15	550	570	28
170	180	3	310	330	16	570	590	29
180	190	4	330	350	17	590	610	30
190	200	5	350	370	18	610	630	31
200	210	6	370	390	19	630	650	32
210	220	7	390	410	20	650	670	33
220	230	8	410	430	21	670	690	34
230	240	9	430	450	22	690	710	35
240	250	10	450	470	23	710	730	36
250	260	11	470	490	24	730 and over, 5% of the adjusted tax		
260	270	12	490	510	25			

TABLE 2.—Head of household

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$225	0	$345	$355	$13	$510	$530	$26
$225	235	$1	355	365	14	530	550	27
235	245	2	365	375	15	550	570	28
245	255	3	375	385	16	570	590	29
255	265	4	385	395	17	590	610	30
265	275	5	395	405	18	610	630	31
275	285	6	405	415	19	630	650	32
285	295	7	415	425	20	650	670	33
295	305	8	425	435	21	670	690	34
305	315	9	435	450	22	690	710	35
315	325	10	450	470	23	710	730	36
325	335	11	470	490	24	730 and over, 5% of the adjusted tax		
335	345	12	490	510	25			

TABLE 3.—Married persons or surviving spouse filing joint return

If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—	If the adjusted tax is: At least	But less than	The tax is—
0	$295	0	$415	$425	$13	$545	$555	$26
$295	305	$1	425	435	14	555	565	27
305	315	2	435	445	15	565	575	28
315	325	3	445	455	16	575	590	29
325	335	4	455	465	17	590	610	30
335	345	5	465	475	18	610	630	31
345	355	6	475	485	19	630	650	32
355	365	7	485	495	20	650	670	33
365	375	8	495	505	21	670	690	34
375	385	9	505	515	22	690	710	35
385	395	10	515	525	23	710	730	36
395	405	11	525	535	24	730 and over, 5% of the adjusted tax		
405	415	12	535	545	25			

"(B) OTHER PERSONS.—In addition to the other taxes imposed by this chapter, there is hereby imposed on the income of every corporation, and on the income of every estate and trust, whose taxable year is the calendar year, a tax equal to the percent of the adjusted tax (as defined in subsection (b)) for the taxable year specified in the following table:

Calendar year	Percent	
	Estates and trusts	Corporations
1968	7.5	10.0
1969	5.0	5.0

"(2) FISCAL AND SHORT TAXABLE YEARS.—

"(A) IN GENERAL.—In addition to the other taxes imposed by this chapter and except as provided in subparagraph (B), in the case of taxable years ending on or after the effective date of the surcharge and beginning before July 1, 1969, there is hereby imposed on the income of every person whose taxable year is other than the calendar year, a tax equal to—

"(i) 10 percent of the adjusted tax for the taxable year, multiplied by

"(ii) a fraction, the numerator of which is the number of days in the taxable year occurring on and after the effective date of the surcharge and before July 1, 1969, and the denominator of which is the number of days in the entire taxable year.

"(B) LIMITATION.—In the case of—

"(i) a husband and wife (or surviving spouse) who file a joint return under section 6013 and whose adjusted tax for the taxable year is less than $580,

68A Stat. 733.
26 USC 6013.

"(ii) an individual who is a head of a household to whom section 1(b) applies and whose adjusted tax for the taxable year is less than $440, and

68A Stat. 6;
78 Stat. 21.

"(iii) any other individual (other than an estate or trust) whose adjusted tax for the taxable year is less than $290,

the tax imposed by subparagraph (A) shall not be greater than an amount equal to twice the tax which would be imposed by subparagraph (A) if the tax were imposed on the amount by which the adjusted tax exceeds $290, $220, or $145, respectively.

"(C) EFFECTIVE DATE DEFINED.—For purposes of subparagraph (A), the term 'effective date of the surcharge' means— "Effective date of the surcharge."

"(i) January 1, 1968, in the case of a corporation, and

"(ii) April 1, 1968, in the case of any other taxpayer.

"(b) ADJUSTED TAX DEFINED.—For purposes of this section, the term 'adjusted tax' means, with respect to any taxable year, the tax imposed by this chapter for such taxable year, determined without regard to— "Adjusted tax."

"(1) the taxes imposed by this section, section 871(a), and section 881; and 80 Stat. 1547, 1555. 26 USC 871, 881.

"(2) any increases in tax under section 47(a) (relating to certain dispositions, etc., of section 38 property) or section 614(c)(4)(C) (relating to increase in tax for deductions under section 615(a) prior to aggregation), 76 Stat. 963. 72 Stat. 1637.

and reduced by an amount equal to the amount of any credit which would be allowable under section 37 (relating to retirement income) if no tax were imposed by this section for such taxable year. 68A Stat. 211. 68A Stat. 15.

"(c) ESTIMATED TAX.—For purposes of applying the provisions of this title with respect to declarations, amended declarations, and payments of estimated tax the time prescribed for filing or payment of which is on or after—

"(1) in the case of an individual, September 15, 1968, or

"(2) in the case of a corporation, June 15, 1968,

sections 6654(d)(1) and 6655(d)(1) shall not apply with respect to any taxable year for which a tax is imposed by this section. 80 Stat. 62; 68A Stat. 825; Post, p. 264.

"(d) WESTERN HEMISPHERE TRADE CORPORATIONS AND DIVIDENDS ON CERTAIN PREFERRED STOCK.—In computing, for a taxable year of a corporation, the fraction described in—

"(1) section 244(a)(2), relating to deduction with respect to dividends received on the preferred stock of a public utility, 68A Stat. 73; 78 Stat. 55.

"(2) section 247(a)(2), relating to deduction with respect to certain dividends paid by a public utility, or

"(3) section 922(2), relating to special deduction for Western Hemisphere trade corporations,

the denominator shall, under regulations prescribed by the Secretary or his delegate, be increased to reflect the rate at which tax is imposed under subsection (a) for such taxable year.

"(e) SHAREHOLDERS OF REGULATED INVESTMENT COMPANIES.—In computing the amount of tax deemed paid under section 852(b)(3)(D)(ii) and the adjustment to basis described in section 852(b)(3)(D)(iii), the percentages set forth therein shall be adjusted under regulations prescribed by the Secretary or his delegate to reflect the rate at which tax is imposed under subsection (a). 70 Stat. 530.

"(f) SPECIAL RULE.—For purposes of this title, to the extent the tax imposed by this section is attributable (under regulations prescribed by the Secretary or his delegate) to a tax imposed by another section of this chapter, such tax shall be deemed to be imposed by such other section."

(b) TECHNICAL AMENDMENT.—Section 963(b) (relating to receipt of minimum distributions by domestic corporations) is amended— 78 Stat. 29.

(1) by striking out the heading of paragraph (1) and inserting in lieu thereof the following:

"(1) TAXABLE YEARS BEGINNING IN 1963 AND TAXABLE YEARS ENTIRELY WITHIN THE SURCHARGE PERIOD.—", and

(2) by striking out the heading of paragraph (3) and inserting in lieu thereof the following:

"(3) TAXABLE YEARS BEGINNING AFTER 1964 (EXCEPT TAXABLE YEARS WHICH INCLUDE ANY PART OF THE SURCHARGE PERIOD).—", and

(3) by adding after the table in paragraph (3) the following: "In the case of a taxable year beginning before the surcharge period and ending within the surcharge period, or beginning within the surcharge period and ending after the surcharge period, the required minimum distribution shall be an amount equal to the sum of—

"(A) that portion of the minimum distribution which would be required if the provisions of paragraph (1) were applicable to the taxable year, which the number of days in such taxable year which are within the surcharge period bears to the total number of days in such taxable year, plus

"(B) that portion of the minimum distribution which would be required if the provisions of paragraph (3) were applicable to such taxable year, which the number of days in such taxable year which are not within the surcharge period bears to the total number of days in such taxable year.

"Surcharge period." As used in this subsection, the term 'surcharge period' means the period beginning January 1, 1968, and ending June 30, 1969."

(c) WITHHOLDING ON WAGES.—

(1) PERCENTAGE METHOD OF WITHHOLDING.—Subsection (a) of section 3402 (relating to requirement of withholding) is amended—

80 Stat. 38.
26 USC 3402.

(A) by inserting before table 1 therein the following:

"(1) In the case of wages paid on or before the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 or after June 30, 1969:"; and

Ante, p. 251.

(B) by adding at the end thereof the following:

"(2) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968 and before July 1, 1969:

"Table 1—If the payroll period with respect to an employee is WEEKLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $4	0.
Over $4 but not over $13	14% of excess over $4.
Over $13 but not over $23	$1.26 plus 15% of excess over $13.
Over $23 but not over $85	$2.76 plus 19% of excess over $23.
Over $85 but not over $169	$14.54 plus 22% of excess over $85.
Over $169 but not over $212	$33.02 plus 28% of excess over $169.
Over $212	$45.06 plus 33% of excess over $212.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $4	0.
Over $4 but not over $23	14% of excess over $4.
Over $23 but not over $58	$2.66 plus 15% of excess over $23.
Over $58 but not over $169	$7.91 plus 19% of excess over $58.
Over $169 but not over $340	$29.00 plus 22% of excess over $169.
Over $340 but not over $423	$66.62 plus 28% of excess over $340.
Over $423	$89.86 plus 33% of excess over $423.

"Table 2—If the payroll period with respect to an employee is BIWEEKLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $27	14% of excess over $8.
Over $27 but not over $46	$2.66 plus 15% of excess over $27.
Over $46 but not over $169	$5.51 plus 19% of excess over $46.
Over $169 but not over $338	$28.88 plus 22% of excess over $169.
Over $338 but not over $423	$66.06 plus 28% of excess over $338.
Over $423	$89.86 plus 33% of excess over $423.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $46	14% of excess over $8.
Over $46 but not over $115	$5.32 plus 15% of excess over $46.
Over $115 but not over $338	$15.67 plus 19% of excess over $115.
Over $338 but not over $681	$58.04 plus 22% of excess over $338.
Over $681 but not over $846	$133.50 plus 28% of excess over $681.
Over $846	$179.70 plus 33% of excess over $846.

"Table 3—If the payroll period with respect to an employee is SEMIMONTHLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $29	14% of excess over $8.
Over $29 but not over $50	$2.94 plus 15% of excess over $29.
Over $50 but not over $183	$6.09 plus 19% of excess over $50.
Over $183 but not over $367	$31.36 plus 22% of excess over $183.
Over $367 but not over $458	$71.84 plus 28% of excess over $367.
Over $458	$97.32 plus 33% of excess over $458.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $8	0.
Over $8 but not over $50	14% of excess over $8.
Over $50 but not over $125	$5.88 plus 15% of excess over $50.
Over $125 but not over $367	$17.13 plus 19% of excess over $125.
Over $367 but not over $738	$63.11 plus 22% of excess over $367.
Over $738 but not over $917	$144.73 plus 28% of excess over $738.
Over $917	$194.85 plus 33% of excess over $917.

"Table 4—If the payroll period with respect to an employee is MONTHLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $17	0.
Over $17 but not over $58	14% of excess over $17.
Over $58 but not over $100	$5.74 plus 15% of excess over $58.
Over $100 but not over $367	$12.04 plus 19% of excess over $100.
Over $367 but not over $733	$62.77 plus 22% of excess over $367.
Over $733 but not over $917	$143.29 plus 28% of excess over $733.
Over $917	$194.81 plus 33% of excess over $917.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $17	0.
Over $17 but not over $100	14% of excess over $17.
Over $100 but not over $250	$11.62 plus 15% of excess over $100.
Over $250 but not over $733	$34.12 plus 19% of excess over $250.
Over $733 but not over $1475	$125.89 plus 22% of excess over $733.
Over $1475 but not over $1833	$289.13 plus 28% of excess over $1475.
Over $1833	$389.37 plus 33% of excess over $1833.

"Table 5.—If the payroll period with respect to an employee is QUARTERLY

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $50	0.
Over $50 but not over $175	14% of excess over $50.
Over $175 but not over $300	$17.50 plus 15% of excess over $175.
Over $300 but not over $1100	$36.25 plus 19% of excess over $300.
Over $1100 but not over $2200	$188.25 plus 22% of excess over $1100.
Over $2200 but not over $2750	$430.25 plus 28% of excess over $2200.
Over $2750	$584.25 plus 33% of excess over $2750.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $50	0.
Over $50 but not over $300	14% of excess over $50.
Over $300 but not over $750	$35.00 plus 15% of excess over $300.
Over $750 but not over $2200	$102.50 plus 19% of excess over $750.
Over $2200 but not over $4425	$378.00 plus 22% of excess over $2200.
Over $4425 but not over $5500	$867.50 plus 28% of excess over $4425.
Over $5500	$1168.50 plus 33% of excess over $5500.

"Table 6—If the payroll period with respect to an employee is SEMIANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $100	0.
Over $100 but not over $350	14% of excess over $100.
Over $350 but not over $600	$35.00 plus 15% of excess over $350.
Over $600 but not over $2200	$72.50 plus 19% of excess over $600.
Over $2200 but not over $4400	$376.50 plus 22% of excess over $2200.
Over $4400 but not over $5500	$860.50 plus 28% of excess over $4400.
Over $5500	$1168.50 plus 33% of excess over $5500.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $100	0.
Over $100 but not over $600	14% of excess over $100.
Over $600 but not over $1500	$70.00 plus 15% of excess over $600.
Over $1500 but not over $4400	$205.00 plus 19% of excess over $1500.
Over $4400 but not over $8850	$756.00 plus 22% of excess over $4400.
Over $8850 but not over $11,000	$1735.00 plus 28% of excess over $8850.
Over $11,000	$2337.00 plus 33% of excess over $11,000.

"Table 7—If the payroll period with respect to an employee is ANNUAL

"(a) Single Person—Including Head of Household:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $700	14% of excess over $200.
Over $700 but not over $1200	$70 plus 15% of excess over $700.
Over $1200 but not over $4400	$145 plus 19% of excess over $1200.
Over $4400 but not over $8800	$753 plus 22% of excess over $4400.
Over $8800 but not over $11,000	$1,721 plus 28% of excess over $8800.
Over $11,000	$2,337 plus 33% of excess over $11,000.

"(b) Married Person:

If the amount of wages is:	The amount of income tax to be withheld shall be:
Not over $200	0.
Over $200 but not over $1200	14% of excess over $200.
Over $1200 but not over $3000	$140 plus 15% of excess over $1200.
Over $3000 but not over $8800	$410 plus 19% of excess over $3000.
Over $8800 but not over $17,700	$1,512 plus 22% of excess over $8800.
Over $17,700 but not over $22,000	$3,470 plus 28% of excess over $17,700.
Over $22,000	$4,674 plus 33% of excess over $22,000.

"Table 8—If the payroll period with respect to an employee is a DAILY payroll or a miscellaneous payroll period

"(a) Single Person—Including Head of Household:

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $1.90	14% of excess over $0.50.
Over $1.90 but not over $3.30	$0.20 plus 15% of excess over $1.90.
Over $3.30 but not over $12.10	$0.41 plus 19% of excess over $3.30.
Over $12.10 but not over $24.10	$2.08 plus 22% of excess over $12.10.
Over $24.10 but not over $30.10	$4.72 plus 28% of excess over $24.10.
Over $30.10	$6.40 plus 33% of excess over $30.10.

"(b) Married Person:

If the amount of wages divided by the number of days in the payroll period is:	The amount of income tax to be withheld shall be the following amount multiplied by the number of days in such period:
Not over $0.50	0.
Over $0.50 but not over $3.30	14% of excess over $0.50.
Over $3.30 but not over $8.20	$0.39 plus 15% of excess over $3.30.
Over $8.20 but not over $24.10	$1.13 plus 19% of excess over $8.20.
Over $24.10 but not over $48.50	$4.15 plus 22% of excess over $24.10.
Over $48.50 but not over $60.30	$9.52 plus 28% of excess over $48.50.
Over $60.30	$12.82 plus 33% of excess over $60.30."

(2) WAGE BRACKET WITHHOLDING.—Subsection (c) of section 3402 (relating to wage bracket withholding) is amended by adding at the end thereof the following new paragraph: 68A Stat. 458. 26 USC 3402.

"(6) In the case of wages paid after the 15th day after the date of the enactment of the Revenue and Expenditure Control Act of 1968, and before July 1, 1969, the amount deducted and withheld under paragraph (1) shall be determined in accordance with tables prescribed by the Secretary or his delegate in lieu of the tables contained in paragraph (1). The tables so prescribed shall be the same as the tables contained in paragraph (1), except that amounts and rates set forth as amounts and rates of tax to be deducted and withheld shall be computed on the basis of table 7 contained in subsection (a) (2)." Ante, p. 251. 80 Stat. 41. Ante, p. 258.

(d) CLERICAL AMENDMENT.—The table of parts of subchapter A of chapter 1 is amended by adding at the end thereof the following:

"Part V. Tax surcharge."

(e) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section (other than subsection (c)) shall apply— Post, p. 264.

(1) Insofar as they relate to taxpayers other than corporations, to taxable years ending after March 31, 1968, and beginning before July 1, 1969.

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(2) Insofar as they relate to corporations, to taxable years ending after December 31, 1967, and beginning before July 1, 1969.

SEC. 103. PAYMENT OF ESTIMATED TAX BY CORPORATIONS.

68A Stat. 738; 80 Stat. 1563. 26 USC 6016. 78 Stat. 27.

(a) REPEAL OF REQUIREMENT OF DECLARATION.—Section 6016 (relating to declarations of estimated income tax by corporations) and section 6074 (relating to time for filing declarations of estimated income tax by corporations) are repealed.

78 Stat. 25; 80 Stat. 64.

(b) INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.—Section 6154 (relating to installment payments of estimated income tax by corporations) is amended to read as follows:

"SEC. 6154. INSTALLMENT PAYMENTS OF ESTIMATED INCOME TAX BY CORPORATIONS.

68A Stat. 320. 26 USC 801-843.

"(a) CORPORATIONS REQUIRED TO PAY ESTIMATED INCOME TAX.—Every corporation subject to taxation under section 11 or 1201(a), or subchapter L of chapter 1 (relating to insurance companies), shall make payments of estimated tax (as defined in subsection (c)) during its taxable year as provided in subsection (b) if its estimated tax for such taxable year can reasonably be expected to be $40 or more.

"(b) PAYMENT IN INSTALLMENTS.—Any corporation required under subsection (a) to make payments of estimated tax (as defined in subsection (c)) shall make such payments in installments as follows:

"If the requirements of subsection (a) are first met—	The following percentages of the estimated tax shall be paid on the 15th day of the—			
	4th month	6th month	9th month	12th month
Before the 1st day of the 4th month of the taxable year	25	25	25	25
After the last day of the 3d month and before the 1st day of the 6th month of the taxable year		33⅓	33⅓	33⅓
After the last day of the 5th month and before the 1st day of the 9th month of the taxable year			50	50
After the last day of the 8th month and before the 1st day of the 12th month of the taxable year				100

"(c) ESTIMATED TAX DEFINED.—

"(1) IN GENERAL.—For purposes of this title, in the case of a corporation the term 'estimated tax' means the excess of—

"(A) the amount which the corporation estimates as the amount of the income tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the sum of—

"(i) the amount which the corporation estimates as the sum of the credits against tax provided by part IV of subchapter A of chapter 1,

26 USC 31-40.

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TEMPORARY ESTIMATED TAX EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under subparagraph (B)) multiplied by the lesser of—

"(i) an amount equal to 22 percent of the amount which the corporation estimates as its surtax exemption (as defined in section 11(d)) for such year, or 78 Stat. 25.

"(ii) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B). 26 USC 11.

"(B) APPLICABLE PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(2), the applicable percentage is— Post, p.262.

"In the case of a taxable year beginning in—	
1968, 1969, 1970, 1971, and 1972	100 percent
1973	80 percent
1974	60 percent
1975	40 percent
1976	20 percent.

"(3) TRANSITIONAL EXEMPTION.—

"(A) IN GENERAL.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under subparagraph (B)) multiplied by the lesser of—

"(i) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"(ii) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"(B) EXCLUSION PERCENTAGE.—For purposes of subparagraph (A) and section 6655(e)(3), the exclusion percentage is— Post, p.262.

"In the case of a taxable year beginning in—	
1968	80 percent
1969	60 percent
1970	40 percent
1971	20 percent.

"(d) RECOMPUTATION OF ESTIMATED TAX.—If, after paying any installment of estimated tax, the taxpayer makes a new estimate, the amount of each remaining installment (if any) shall be the amount which would have been payable if the new estimate had been made when the first estimate for the taxable year was made, increased or decreased (as the case may be) by the amount computed by dividing—

"(1) the difference between—

"(A) the amount of estimated tax required to be paid before the date on which the new estimate is made, and

"(B) the amount of estimated tax which would have been required to be paid before such date if the new estimate had been made when the first estimate was made, by

"(2) the number of installments remaining to be paid on or after the date on which the new estimate is made.

"(e) APPLICATION TO SHORT TAXABLE YEAR.—The application of this section to taxable years of less than 12 months shall be in accordance with regulations prescribed by the Secretary or his delegate.

"(f) INSTALLMENTS PAID IN ADVANCE.—At the election of the corporation, any installment of the estimated tax may be paid before the date prescribed for its payment.

"(g) CERTAIN FOREIGN CORPORATIONS.—For purposes of this section and section 6655, in the case of a foreign corporation subject to taxation under section 11 or 1201(a), or under subchapter L of chapter 1, the tax imposed by section 881 shall be treated as a tax imposed by section 11." 68A Stat. 320. 26 USC 801-843. 80 Stat. 1555.

82 STAT. 262

(c) FAILURE BY CORPORATION TO PAY ESTIMATED TAX.—

(1) RAISING 70 PERCENT REQUIREMENT TO 80 PERCENT.—Subsections (b) and (d)(3) of section 6655 (relating to underpayments of estimated tax) are amended by striking out "70 percent" each place it appears therein and inserting in lieu thereof "80 percent".

68A Stat. 825; 78 Stat. 28. 26 USC 6655.

(2) DEFINITION OF TAX.—Subsection (e) of section 6655 (relating to definition of tax) is amended to read as follows:

"(e) DEFINITION OF TAX.—

"(1) IN GENERAL.—For purposes of subsections (b) and (d), the term 'tax' means the excess of—

"(A) the tax imposed by section 11 or 1201 (a), or subchapter L of chapter 1, whichever is applicable, over

78 Stat. 25. 68A Stat. 320. 26 USC 801-843. 26 USC 31-40.

"(B) the sum of—

"(i) the credits against tax provided by part IV of subchapter A of chapter 1,

"(ii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1977, the amount of the corporation's temporary estimated tax exemption for such year, and

"(iii) in the case of a taxable year beginning after December 31, 1967, and before January 1, 1972, the amount of the corporation's transitional exemption for such year.

"(2) TEMPORARY ESTIMATED TAX EXEMPTION.—For purposes of clause (ii) of paragraph (1)(B), the amount of a corporation's temporary estimated tax exemption for a taxable year equals the applicable percentage (determined under section 6154(c)(2)(B)) multiplied by the lesser of—

Ante, p. 261.

"(A) an amount equal to 22 percent of the corporation's surtax exemption (as defined in section 11(d)) for such year, or

"(B) the excess determined under paragraph (1) without regard to clauses (ii) and (iii) of paragraph (1)(B).

"(3) TRANSITIONAL EXEMPTION.—For purposes of clause (iii) of paragraph (1)(B), the amount of a corporation's transitional exemption for a taxable year equals the exclusion percentage (determined under section 6154(c)(3)(B)) multiplied by the lesser of—

"(A) $100,000, reduced by the amount of the corporation's temporary estimated tax exemption for such year, or

"(B) the excess determined under paragraph (1) without regard to clause (iii) of paragraph (1)(B).

"(4) SPECIAL RULE FOR SUBSECTION (d)(1) AND (2).—In applying this subsection for purposes of subsection (d)(1) and (2), the applicable percentage and the exclusion percentage shall be the percentage for the taxable year for which the underpayment is being determined."

(d) ADJUSTMENT OF OVERPAYMENT.—

(1) ALLOWANCE OF ADJUSTMENT.—Subchapter B of chapter 65 (relating to rules of special application) is amended by adding at the end thereof the following new section:

26 USC 6411-6424.

"SEC. 6425. ADJUSTMENT OF OVERPAYMENT OF ESTIMATED INCOME TAX BY CORPORATION.

"(a) APPLICATION FOR ADJUSTMENT.—

"(1) TIME FOR FILING.—A corporation may, after the close of the taxable year and on or before the 15th day of the third month thereafter, and before the day on which it files a return for such taxable year, file an application for an adjustment of an overpay-

ment by it of estimated income tax for such taxable year. An application under this subsection shall not constitute a claim for credit or refund.

"(2) FORM OF APPLICATION, ETC.—An application under this subsection shall be verified in the manner prescribed by section 6065 in the case of a return of the taxpayer, and shall be filed in the manner and form required by regulations prescribed by the Secretary or his delegate. The application shall set forth— 68A Stat. 749. 26 USC 6065.

"(A) the estimated income tax paid by the corporation during the taxable year,

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year,

"(C) the amount of the adjustment, and

"(D) such other information for purposes of carrying out the provisions of this section as may be required by such regulations.

"(b) ALLOWANCE OF ADJUSTMENT.—

"(1) LIMITED EXAMINATION OF APPLICATION.—Within a period of 45 days from the date on which an application for an adjustment is filed under subsection (a), the Secretary or his delegate shall make, to the extent he deems practicable in such period, a limited examination of the application to discover omissions and errors therein, and shall determine the amount of the adjustment upon the basis of the application and the examination; except that the Secretary or his delegate may disallow, without further action, any application which he finds contains material omissions or errors which he deems cannot be corrected within such 45 days.

"(2) ADJUSTMENT CREDITED OR REFUNDED.—The Secretary or his delegate, within the 45-day period referred to in paragraph (1), may credit the amount of the adjustment against any liability in respect of an internal revenue tax on the part of the corporation and shall refund the remainder to the corporation.

"(3) LIMITATION.—No application under this section shall be allowed unless the amount of the adjustment equals or exceeds (A) 10 percent of the amount estimated by the corporation on its application as its income tax liability for the taxable year, and (B) $500.

"(4) EFFECT OF ADJUSTMENT.—For purposes of this title (other than section 6655), any adjustment under this section shall be treated as a reduction, in the estimated income tax paid, made on the day the credit is allowed or the refund is paid.

"(c) DEFINITIONS.—For purposes of this section and section 6655(g) (relating to excessive adjustment)— Post, p. 264.

"(1) The term 'income tax liability' means the excess of— "Income tax liability." 78 Stat. 25. 68A Stat. 320. 26 USC 801-843.

"(A) the tax imposed by section 11 or 1201(a), or subchapter L of chapter 1, whichever is applicable, over

"(B) the credits against tax provided by part IV of subchapter A of chapter 1.

"(2) The amount of an adjustment under this section is equal to the excess of— 26 USC 31-40.

"(A) the estimated income tax paid by the corporation during the taxable year, over

"(B) the amount which, at the time of filing the application, the corporation estimates as its income tax liability for the taxable year.

"(d) CONSOLIDATED RETURNS.—If the corporation seeking an adjustment under this section paid its estimated income tax on a consolidated basis or expects to make a consolidated return for the taxable

year, this section shall apply only to such extent and subject to such conditions, limitations, and exceptions as the Secretary or his delegate may by regulations prescribe."

68A Stat. 825. 26 USC 6655.

(2) AMENDMENT OF SECTION 6655.—Section 6655 is amended by adding at the end thereof the following new subsection:

"(g) EXCESSIVE ADJUSTMENT UNDER SECTION 6425.—

"(1) ADDITION TO TAX.—If the amount of an adjustment under section 6425 made before the 15th day of the third month following the close of the taxable year is excessive, there shall be added to the tax under chapter 1 for the taxable year an amount determined at the rate of 6 percent per annum upon the excessive amount from the date on which the credit is allowed or the refund is paid to such 15th day.

Ante, p. 262.

"(2) EXCESSIVE AMOUNT.—For purposes of paragraph (1), the excessive amount is equal to the amount of the adjustment or (if smaller) the amount by which—

"(A) the income tax liability (as defined in section 6425 (c)) for the taxable year as shown on the return for the taxable year, exceeds

Ante, p. 263.

"(B) the estimated income tax paid during the taxable year, reduced by the amount of the adjustment."

(e) CONFORMING AMENDMENTS.—

(1) Section 6655(d)(1) is amended by striking out "reduced by $100,000".

78 Stat. 53.

(2) Section 243(b)(3)(C)(v) is amended to read as follows:

"(v) surtax exemption, and one amount under sections 6154 (c)(2) and (3) and sections 6655(e)(2) and (3), for purposes of estimated tax payment requirements under section 6154 and the addition to the tax under section 6655 for failure to pay estimated tax."

Ante, pp. 260, 262.

68A Stat. 740.

(3) Section 6020(b)(1) is amended by striking out "section 6015 or 6016)" and inserting in lieu thereof "section 6015)".

(4) Section 6651(c) is amended by striking out "or section 6016".

(5) Section 7203 is amended by striking out "section 6015 or section 6016)," and inserting in lieu thereof "section 6015),".

80 Stat. 64.

(6) Section 7701(a)(34)(B) is amended by striking out "section 6016(b)" and inserting in lieu thereof "section 6154(c)".

(7) The table of sections for subpart B of part II of subchapter A of chapter 61 is amended by striking out the item relating to section 6016.

Ante, p. 260.

(8) The table of sections for part V of subchapter A of chapter 61 is amended by striking out the item relating to section 6074.

(9) The table of sections for subchapter B of chapter 65 is amended by adding at the end thereof the following:

"Sec. 6425. Adjustment of overpayment of estimated income tax by corporation."

(f) EFFECTIVE DATE.—Except as provided by section 104, the amendments made by this section shall apply with respect to taxable years beginning after December 31, 1967.

SEC. 104. SPECIAL RULES FOR APPLICATION OF SECTIONS 102 AND 103.

(a) PAYMENT OF ESTIMATED TAX FOR TAXABLE YEARS BEGINNING BEFORE DATE OF ENACTMENT.—In determining whether any taxpayer is required to make a declaration or amended declaration of estimated tax, or to pay any amount or additional amount of estimated tax, by reason of the amendments made by sections 102 and 103—

(1) such amendments shall apply (A) in the case of an individual, only if the taxable year ends on or after September 30,

1968, and (B) in the case of a corporation, only if the taxable year ends on or after June 30, 1968,

(2) in applying sections 6015, 6073, and 6654 of the Internal Revenue Code of 1954, such amendments shall first be taken into account as of September 1, 1968, and 68A Stat. 737. 26 USC 6015, 6073, 6654.

(3) in applying sections 6016, 6074, 6154, and 6655 of such Code, such amendments shall first be taken into account as of May 31, 1968. Ante, pp. 260, 262, 264.

In the case of any amount or additional amount of estimated tax payable, by reason of such amendments, by a corporation on or after June 15, 1968, and before the 15th day after the date of the enactment of this Act, the time prescribed for payment of such amount or additional amount shall not expire before such date (not earlier than the 15th day after the date of the enactment of this Act) as the Secretary of the Treasury or his delegate shall prescribe.

(b) PAYMENT OF TAX SURCHARGE FOR TAXABLE YEARS ENDING BEFORE DATE OF ENACTMENT.—In the case of a taxable year ending before the date of the enactment of this Act, the time prescribed for payment of the tax imposed by section 51 of the Internal Revenue Code of 1954 shall not expire before September 15, 1968. Ante, p. 252.

SEC. 105. CONTINUATION OF EXCISE TAXES ON COMMUNICATION SERVICES AND ON AUTOMOBILES.

(a) PASSENGER AUTOMOBILES.—

(1) IN GENERAL.—Subparagraph (A) of section 4061(a)(2) (relating to tax on passenger automobiles, etc.) is amended to read as follows: 80 Stat. 65.

"(A) Articles enumerated in subparagraph (B) are taxable at whichever of the following rates is applicable: 79 Stat. 137.

"If the article is sold—	The tax rate is—
Before January 1, 1970	7 percent
During 1970	5 percent
During 1971	3 percent
During 1972	1 percent.

The tax imposed by this subsection shall not apply with respect to articles enumerated in subparagraph (B) which are sold by the manufacturer, producer, or importer after December 31, 1972."

(2) CONFORMING AMENDMENT.—Section 6412(a)(1) (relating to floor stocks refunds on passenger automobiles, etc.) is amended by striking out "May 1, 1968, or January 1, 1969," and inserting in lieu thereof "January 1, 1970, January 1, 1971, January 1, 1972, or January 1, 1973,". 80 Stat. 66; Ante, p. 92.

(b) COMMUNICATIONS SERVICES.—

(1) CONTINUATION OF TAX.—Paragraph (2) of section 4251(a) (relating to tax on certain communications services) is amended to read as follows:

"(2) The rate of tax referred to in paragraph (1) is as follows: 79 Stat. 145.

"Amounts paid pursuant to bills first rendered—	Percent—
Before January 1, 1970	10
During 1970	5
During 1971	3
During 1972	1."

(2) CONFORMING AMENDMENTS.—Subsection (b) of section 4251 (relating to termination of tax) is amended by striking out "January 1, 1969" and inserting in lieu thereof "January 1, 1973", and subsection (c) of section 4251 is amended to read as follows: 80 Stat. 66.

"(c) SPECIAL RULE.—For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a

calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year."

(3) REPEAL OF SUBCHAPTER B OF CHAPTER 33.—Effective with respect to amounts paid pursuant to bills first rendered on or after January 1, 1973, subchapter B of chapter 33 (relating to the tax on communications) is repealed. For purposes of the preceding sentence, in the case of communications services rendered before November 1, 1972, for which a bill has not been rendered before January 1, 1973, a bill shall be treated as having been first rendered on December 31, 1972. Effective January 1, 1973, the table of subchapters for chapter 33 is amended by striking out the item relating to such subchapter B.

79 Stat. 145.
26 USC 4251-4254.

(c) EFFECTIVE DATE.—The amendments made by this section shall take effect as of April 30, 1968.

SEC. 106. TIMELY MAILING OF DEPOSITS.

(a) TIMELY MAILING TREATED AS TIMELY DEPOSIT.—Section 7502 (relating to timely mailing treated as timely filing and paying) is amended by adding at the end thereof the following new subsection:

80 Stat. 1110.

"(e) MAILING OF DEPOSITS.—

"(1) DATE OF DEPOSIT.—If any deposit required to be made (pursuant to regulations prescribed by the Secretary or his delegate under section 6302(c)) on or before a prescribed date is, after such date, delivered by the United States mail to the bank or trust company authorized to receive such deposit, such deposit shall be deemed received by such bank or trust company on the date the deposit was mailed.

68A Stat. 775.

"(2) MAILING REQUIREMENTS.—Paragraph (1) shall apply only if the person required to make the deposit establishes that—

"(A) the date of mailing falls on or before the second day before the prescribed date for making the deposit (including any extension of time granted for making such deposit), and

"(B) the deposit was, on or before such second day, mailed in the United States in an envelope or other appropriate wrapper, postage prepaid, properly addressed to the bank or trust company authorized to receive such deposit.

In applying subsection (c) for purposes of this subsection, the term 'payment' includes 'deposit', and the reference to the postmark date refers to the date of mailing."

"Payment."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only as to mailing occurring after the date of the enactment of this Act.

SEC. 107. INDUSTRIAL DEVELOPMENT BONDS.

(a) AMENDMENT OF SECTION 103.—Section 103 (relating to interest on certain governmental obligations) is amended by relettering subsection (c) as subsection (d) and by inserting after subsection (b) the following new subsection:

68A Stat. 29.

"(c) INDUSTRIAL DEVELOPMENT BONDS.—

"(1) SUBSECTION (a)(1) NOT TO APPLY.—Except as otherwise provided in this subsection, any industrial development bond shall be treated as an obligation not described in subsection (a)(1).

"(2) INDUSTRIAL DEVELOPMENT BOND.—For purposes of this subsection, the term 'industrial development bond' means any obligation—

"(A) which is issued as part of an issue all or a major portion of the proceeds of which are to be used directly or indirectly in any trade or business carried on by any person who

is not an exempt person (within the meaning of paragraph (3)), and

"(B) the payment of the principal or interest on which (under the terms of such obligation or any underlying arrangement) is, in whole or in major part—

"(i) secured by any interest in property used or to be used in a trade or business or in payments in respect of such property, or

"(ii) to be derived from payments in respect of property, or borrowed money, used or to be used in a trade or business.

"(3) EXEMPT PERSON.—For purposes of paragraph (2)(A), the term 'exempt person' means—

"(A) a governmental unit, or

"(B) an organization described in section 501(c)(3) and exempt from tax under section 501(a) (but only with respect to a trade or business carried on by such organization which is not an unrelated trade or business, determined by applying section 513(a) to such organization). 68A Stat. 163. 26 USC 501.

"(4) CERTAIN EXEMPT ACTIVITIES.—Paragraph (1) shall not apply to any obligation which is issued as part of an issue substantially all of the proceeds of which are to be used to provide—

"(A) residential real property for family units,

"(B) sports facilities,

"(C) convention or trade show facilities,

"(D) airports, docks, wharves, mass commuting facilities, parking facilities, or storage or training facilities directly related to any of the foregoing,

"(E) sewage or solid waste disposal facilities or facilities for the local furnishing of electric energy, gas, or water, or

"(F) air or water pollution control facilities.

"(5) INDUSTRIAL PARKS.—Paragraph (1) shall not apply to any obligation issued as part of an issue substantially all of the proceeds of which are to be used for the acquisition or development of land as the site for an industrial park. For purposes of the preceding sentence, the term 'development of land' includes the provision of water, sewage, drainage, or similar facilities, or of transportation, power, or communication facilities, which are incidental to use of the site as an industrial park, but, except with respect to such facilities, does not include the provision of structures or buildings. "Development of land."

"(6) EXEMPTION FOR CERTAIN SMALL ISSUES.—

"(A) IN GENERAL.—Paragraph (1) shall not apply to any obligation issued as part of an issue the aggregate authorized face amount of which is $1,000,000 or less and substantially all of the proceeds of which are to be used (i) for the acquisition, construction, reconstruction, or improvement of land or property of a character subject to the allowance for depreciation, or (ii) to redeem part or all of a prior issue which was issued for purposes described in clause (i) or this clause.

"(B) CERTAIN PRIOR ISSUES TAKEN INTO ACCOUNT.—If—

"(i) the proceeds of two or more issues of obligations (whether or not the issuer of each such issue is the same) are or will be used primarily with respect to facilities located in the same incorporated municipality or located in the same county (but not in any incorporated municipality),

"(ii) the principal user of such facilities is or will be the same person or two or more related persons, and

"(iii) but for this subparagraph, subparagraph (A) would apply to each such issue,

then, for purposes of subparagraph (A), in determining the aggregate face amount of any later issue there shall be taken into account the face amount of obligations issued under all prior such issues and outstanding at the time of such later issue (not including as outstanding any obligation which is to be redeemed from the proceeds of the later issue).

"(C) RELATED PERSONS.—For purposes of this paragraph and paragraph (7), a person is a related person to another person if—

"(i) the relationship between such persons would result in a disallowance of losses under section 267 or 707(b), or

68A Stat. 78.
26 USC 267.

"(ii) such persons are members of the same controlled group of corporations (as defined in section 1563(a), except that 'more than 50 percent' shall be substituted for 'at least 80 percent' each place it appears therein).

78 Stat. 120.

"(7) EXCEPTION.—Paragraphs (4), (5), and (6) shall not apply with respect to any obligation for any period during which it is held by a person who is a substantial user of the facilities or a related person."

(b) EFFECTIVE DATE.—

(1) IN GENERAL.—Except as provided by paragraph (2), the amendment made by subsection (a) shall apply to taxable years ending after April 30, 1968, but only with respect to obligations issued after such date.

(2) TRANSITIONAL PROVISIONS.—Section 103(c)(1) of the Internal Revenue Code of 1954, as amended by subsection (a), shall not apply with respect to any obligation issued before January 1, 1969, if before May 1, 1968—

(A) the issuance of the obligation (or the project in connection with which the proceeds of the obligations are to be used) was authorized or approved by the governing body of the governmental unit issuing the obligation or by the voters of such governmental unit;

(B) in connection with the issuance of such obligation or with the use of the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds, a governmental unit has made a significant financial commitment;

(C) any person (other than a governmental unit) who will use the proceeds to be derived from the sale of such obligation or the property to be acquired or improved with such proceeds has expended (or has entered into a binding contract to expend) for purposes which are related to the use of such proceeds or property, an amount equal to or in excess of 20 percent of such proceeds; or

(D) in the case of an obligation issued in conjunction with a project where financial assistance will be provided by a governmental agency concerned with economic development, such agency has approved the project or an application for financial assistance is pending.

SEC. 108. ADVERTISING IN A POLITICAL CONVENTION PROGRAM.

80 Stat. 66.

(a) ALLOWANCE OF DEDUCTION.—Section 276 (relating to certain indirect contributions to political parties) is amended by redesignating subsection (c) as (d), and by inserting after subsection (b) the following new subsection:

"(c) ADVERTISING IN A CONVENTION PROGRAM OF A NATIONAL POLITICAL CONVENTION.—Subsection (a) shall not apply to any amount paid or incurred for advertising in a convention program of a political party distributed in connection with a convention held for the purpose of nominating candidates for the offices of President and Vice President of the United States, if the proceeds from such program are used solely to defray the costs of conducting such convention (or a subsequent convention of such party held for such purpose) and the amount paid or incurred for such advertising is reasonable in light of the business the taxpayer may expect to receive—

"(1) directly as a result of such advertising, or

"(2) as a result of the convention being held in an area in which the taxpayer has a principal place of business."

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply with respect to amounts paid or incurred on or after January 1, 1968.

SEC. 109. TAX-EXEMPT STATUS OF CERTAIN HOSPITAL SERVICE ORGANIZATIONS.

(a) EXEMPTION FROM TAX.—Section 501 (relating to exemption from tax on corporations, etc.) is amended by redesignating subsection (e) as subsection (f) and by inserting after subsection (d) the following new subsection: 68A Stat. 163. 26 USC 501.

"(e) COOPERATIVE HOSPITAL SERVICE ORGANIZATIONS.—For purposes of this title, an organization shall be treated as an organization organized and operated exclusively for charitable purposes, if—

"(1) such organization is organized and operated solely—

"(A) to perform, on a centralized basis, one or more of the following services which, if performed on its own behalf by a hospital which is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), would constitute activities in exercising or performing the purpose or function constituting the basis for its exemption: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel (including selection, testing, training, and education of personnel) services; and

"(B) to perform such services solely for two or more hospitals each of which is—

"(i) an organization described in subsection (c)(3) which is exempt from taxation under subsection (a),

"(ii) a constituent part of an organization described in subsection (c)(3) which is exempt from taxation under subsection (a) and which, if organized and operated as a separate entity, would constitute an organization described in subsection (c)(3), or

"(iii) owned and operated by the United States, a State, the District of Columbia, or a possession of the United States, or a political subdivision or an agency or instrumentality of any of the foregoing;

"(2) such organization is organized and operated on a cooperative basis and allocates or pays, within 8½ months after the close of its taxable year, all net earnings to patrons on the basis of services performed for them; and

"(3) if such organization has capital stock, all of such stock outstanding is owned by its patrons.

For purposes of this title, any organization which, by reason of the preceding sentence, is an organization described in subsection (c)(3) and exempt from taxation under subsection (a), shall be treated as a hospital and as an organization referred to in section 503(b)(5)."

68A Stat. 166. 26 USC 503.

(b) EFFECTIVE DATE.—The amendments made by subsection (a) shall apply to taxable years ending after the date of the enactment of this Act.

SEC. 110. SUBMISSION OF PROPOSALS FOR TAX REFORM.

Not later than December 31, 1968, the President shall submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954.

TITLE II—EXPENDITURE AND RELATED CONTROLS

SEC. 201. LIMITATION ON THE NUMBER OF CIVILIAN OFFICERS AND EMPLOYEES IN THE EXECUTIVE BRANCH.

(a) Except as otherwise provided in this section—

(1) No person shall be appointed as a full-time civilian employee to a permanent position in the executive branch during any month when the number of such employees is greater than the number of such employees on June 30, 1966.

(2) The number of temporary and part-time employees in any department or agency in the executive branch during any month shall not be greater than the number of such employees during the corresponding month of 1967.

Vacancies.

(b)(1) During any period when appointments are otherwise prohibited under subsection (a)(1), the head of any department or agency may, except as otherwise provided in this subsection, appoint a number of persons as full-time civilian employees in permanent positions in such department or agency equal to 75 percent of the number of vacancies in such positions which have occurred during such period by reason of resignation, retirement, removal, or death.

(2) For purposes of paragraph (1), all agencies which, on the first day of any period when appointments are otherwise prohibited under subsection (a)(1), have 50 or fewer full-time civilian employees in permanent positions shall be treated as one agency, and the Director of the Bureau of the Budget (hereinafter in this section referred to as the "Director") shall determine the vacancies in each such agency which may be filled by reason of paragraph (1).

(3) For purposes of paragraph (1), the Director may reassign vacancies from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

Transfers.

(4) If a full-time civilian employee in a permanent position is transferred from one department or agency to another department or agency—

(A) such transfer shall be taken into account under paragraph (1) as an appointment by the head of the department or agency to which he transfers, and

(B) subsection (a)(1) shall not apply to an appointment to the vacancy in the department or agency from which he transferred and such vacancy shall not be taken into account under paragraph (1).

(c) For purposes of subsection (a)(2), the Director may reassign authorized temporary and part-time employment from one department or agency to another department or agency when such reassignment is, in the opinion of the Director, necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or for the more efficient operation of the Government.

(d) For purposes of this section, there shall not be taken into account— Exceptions.

(1) any position filled by appointment by the President by and with the advice and consent of the Senate, other than for purposes of determining under subsection (a)(1) the number of full-time civilian employees in permanent positions in the executive branch at any time,

(2) casual employees or employees serving without compensation, and

(3) those employees (not exceeding 70,000 during any month) appointed under the President's program to provide summer employment for economically or educationally disadvantaged persons between the ages of 16 and 22.

(e) The Director shall maintain a continuous study of all appropriations and contract authorizations in relation to personnel employed and shall reserve from expenditure the savings in salaries and wages resulting from the operation of this section, and any savings in other categories of expense which he determines will result from such operation.

(f) The departments and agencies in the executive branch shall submit to the Director such information as may be necessary to enable him to carry out his functions under this section.

(g) The Director shall submit to the Senate and the House of Representatives at the end of each calendar quarter, beginning with the quarter ending September 30, 1968, a report on the operation of this section. Report to Congress.

(h) Nothing in this section shall supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces. Armed Forces. Reemployment rights. 62 Stat. 614. 50 USC app. 459.

(i) The Director shall prescribe such regulations as he deems necessary or appropriate to carry out the provisions of this section.

(j) This section (other than subsection (i)) shall take effect on the first day of the first month which begins after the date of the enactment of this Act. Effective date.

SEC. 202. REDUCTION OF $6 BILLION IN EXPENDITURES DURING FISCAL YEAR 1969.

(a) Expenditures and net lending during the fiscal year ending June 30, 1969, under the Budget of the United States Government (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as totaling $186,062,000,000), shall not exceed $180,062,000,000, except by expenditures and net lending— Exceptions.

(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget, Vietnam operations.

(2) for interest in excess of the amounts estimated therefor in the Budget, Interest.

Veterans' benefits.
Social Security Act trust funds.

(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

(b) The President shall reserve from expenditure and net lending, from appropriations or other obligational authority heretofore or hereafter made available, such amounts as may be necessary to effectuate the provisions of subsection (a).

SEC. 203. REDUCTION OF $10 BILLION IN NEW OBLIGATIONAL AUTHORITY.

(a) The total new obligational authority and loan authority for the fiscal year ending June 30, 1969, provided by law heretofore or hereafter enacted (estimated on page 55 of House Document No. 225, Part 1, 90th Congress, as $201,723,000,000) shall not exceed $191,723,000,000, except for new obligational authority and loan authority—

Exceptions.
Vietnam operations.

(1) which the President may determine are necessary for special support of Vietnam operations in excess of the amounts estimated therefor in the Budget,

Interest.

(2) for interest in excess of the amounts estimated therefor in the Budget,

Veterans' benefits.
Social Security Act trust funds.

(3) for veterans' benefits and services in excess of the amounts estimated therefor in the Budget, and

(4) for payments from trust funds established by the Social Security Act, as amended, in excess of the amounts estimated therefor in the Budget.

Reserves.

(b) In the event that the total amount of new obligational authority and loan authority for the fiscal year ending June 30, 1969, exceeds the limitation prescribed by subsection (a), the President shall reserve from such obligational and loan authority such amounts as may be necessary to effectuate the provisions of subsection (a). The amounts so reserved (other than any amounts reserved from trust funds) are hereby rescinded as of the close of June 30, 1969. The President, at the time of the submission of the Budget for the fiscal year ending June 30, 1970, shall make a report to the Congress identifying the amounts reserved pursuant to this paragraph.

Report to Congress.

SEC. 204. SPECIFIC RECOMMENDATIONS FOR $8 BILLION RESCISSION IN OLD OBLIGATIONAL AUTHORITY.

The President shall cause a special study and analysis to be made of unobligated balances of appropriations and other obligational and loan authority available for obligation or commitment during the fiscal year ending June 30, 1969, which will remain available for obligation or commitment after June 30, 1969, and make a report thereon to the Congress. Such report shall be made at the time of the submission of the Budget for the fiscal year ending June 30, 1970, and shall include specific recommendations for legislation to rescind not less than $8,000,000,000 of such unobligated balances.

Report to Congress.

SEC. 205. APPLICATION OF CERTAIN FORMULAS.

In the administration of any program as to which—

(1) the amount of expenditures or obligations is limited pursuant to section 202 or 203, and

(2) the allocation, grant, apportionment, or other distribution of funds among recipients is required to be determined by application of a formula involving the amount appropriated or otherwise made available for distribution,

the amount available for expenditure or obligation (as determined by the President) shall be substituted for the amount appropriated or otherwise made available in the application of the formula.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

SEC. 301. LIMITATION ON NUMBER OF CHILDREN WITH RESPECT TO WHOM FEDERAL PAYMENTS MAY BE MADE UNDER PROGRAM OF AID TO FAMILIES WITH DEPENDENT CHILDREN.

Subsection (d) of section 403 of the Social Security Act is amended (1) by inserting "(1)" immediately after "(d)", (2) by inserting "(except the succeeding paragraphs of this subsection)" immediately after "Act", (3) by striking out "June 30, 1968" and inserting in lieu thereof "June 30, 1969", and (4) by adding at the end of such subsection the following new paragraphs: 81 Stat. 894. 42 USC 603.

"(2) In the case of any State which is determined by the Secretary to have effectuated, in compliance with or in reliance upon or in consideration of a judicial decision (as defined in paragraph (3)), a policy of providing aid to families with dependent children under its State plan approved under this part to or on behalf of individuals who, except for such policy, would not be eligible for such aid, the average monthly number of dependent children under the age of 18 who have been deprived of parental support or care by reason of the continued absence from the home of a parent with respect to whom payments under this section were made to the State for the calendar quarter beginning January 1, 1968, shall, for purposes of applying the provisions of paragraph (1), be increased by the average monthly number, in the calendar quarter beginning April 1, 1969, of children under the age of 18 who are deprived of parental support or care by reason of the continued absence from the home of a parent and who by reason of such policy began to receive such aid after March 1968 and received such aid during the calendar quarter beginning April 1, 1969.

"(3) As used in paragraph (2), the term 'judicial decision' means any decision by a court of the United States of competent jurisdiction in any case or controversy in which there is decided the issue of the validity, under the United States Constitution, of any law, rule, regulation, or policy of a State under which aid to families with dependent children is denied to individuals otherwise eligible therefor because of failure to meet duration of residence requirements or because of the relationship between a male individual and the mother of the child or children with respect to whom such aid is sought." "Judicial decision."

SEC. 302. AID TO FAMILIES WITH DEPENDENT CHILDREN IN CASE OF UNEMPLOYED FATHERS RECEIVING UNEMPLOYMENT COMPENSATION.

Section 407(b)(2)(C) of the Social Security Act is amended to read as follows: 81 Stat. 883. 42 USC 607.

"(C) for the denial of aid to families with dependent children to any child or relative specified in subsection (a)—

"(i) if, and for so long as, such child's father is not currently registered with the public employment offices in the State, and

"(ii) with respect to any week for which such child's father receives unemployment compensation under an unemployment compensation law of a State or of the United States."

SEC. 303. FEDERAL PAYMENTS UNDER MEDICAL ASSISTANCE PROGRAM FOR CERTAIN SERVICES INCLUDIBLE UNDER SUPPLEMENTARY MEDICAL INSURANCE PROGRAM.

81 Stat. 901.
42 USC 1396b.

(a)(1) Section 1903(b)(2) of the Social Security Act is amended by striking out "1967" and inserting in lieu thereof "1969".

(2) Section 222(d) of the Social Security Amendments of 1967 is amended by striking out "1967" and inserting in lieu thereof "1969".

42 USC 1396b note.
Effective date.

(b) The amendments made by subsection (a) shall be effective with respect to calendar quarters beginning after December 31, 1967.

Approved June 28, 1968, 4:02 p.m.

LEGISLATIVE HISTORY:

HOUSE REPORTS: No. 1104 (Comm. on Ways & Means) and No. 1533 (Comm. of Conference).
SENATE REPORT No. 1014 (Comm. on Finance).
CONGRESSIONAL RECORD, Vol. 114 (1968):
Feb. 28, 29: Considered and passed House.
Mar. 22, 25-28, Apr. 1,2: Considered and passed Senate, amended.
June 20: House agreed to conference report.
June 21: Senate agreed to conference report.

90th Congress
2d Session } CONFERENCE COMMITTEE PRINT

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REVENUE AND EXPENDITURE CONTROL ACT OF 1968

Explanation of the Bill
H.R. 15414
As Agreed to in Conference

JUNE 10, 1968

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*Mr. Mills was designated as chairman of the committee of conference on the motion of Senator Long of Louisiana.

Explanation of the Bill, H.R. 15414, as Agreed To in Conference

INTRODUCTORY STATEMENT

This explanation of the conference substitute to the text of the bill, H.R. 15414, supplements the explanation in the statement of managers on the part of the House and corresponds to the general explanation customarily included in reports from the Committee on Ways and Means and the Committee on Finance on major bills amending the Internal Revenue Code.

The short title of this bill is the "Revenue and Expenditure Control Act of 1968." The long title of the bill is "An act to increase revenues, to limit expenditures and new obligational authority, and for other purposes."

SUMMARY

A. The principal revenue amendments made by this bill are as follows:

1. An income tax surcharge at an annual rate of 10 percent is provided. Generally, this is effective for corporations beginning January 1, 1968, and for individuals April 1, 1968. In both cases the surcharge applies until July 1, 1969.

2. Provision is made for a speedup of corporate tax payments by increasing from 70 to 80 percent the percentage of estimated tax which a corporation must pay currently and by gradually eliminating (over a 10-year period) the present $100,000 corporate exemption from estimated tax. In addition, provision is made for "quickie" refunds of overpayments of estimated tax; and the requirement for corporations to file a declaration, at the time of making the first estimated tax payment, is eliminated.

3. The excise tax rates on new passenger automobiles and telephone services are to continue at the May 1968 levels of 7 percent and 10 percent, respectively, until January 1, 1970. Thereafter, these excise taxes are to be gradually reduced until they are eliminated on January 1, 1973.

4. Taxpayers who mail a deposit of tax (such as withheld income tax, estimated tax, or excise tax) 2 or more days before the prescribed due date are to be considered as having made a timely deposit even though the deposit is received after the due date.

5. Interest on so-called industrial development bonds generally is to be taxable with respect to issues on or after May 1, 1968 (unless specified commitments were made prior to that time). An exception to this rule, however, is made for bond issues of less than $1 million and also for certain specified categories which are to continue to be exempt.

6. Deductions are to be available for advertising expenses in a presidential convention program under certain limited circumstances.

7. Cooperative-type entities providing joint services solely for tax-exempt hospitals are to be treated as tax-exempt organizations where only limited, specified types of services are provided.

B. The principal expenditure control amendments made by this bill are as follows:

1. In the case of full-time permanent employees in the executive branch only three out of four vacancies in agencies or departments may be filled during any month when the employment level for the executive branch exceeds the June 30, 1966 level. Temporary and part-time employees in any department or agency generally are limited to the number of similar employees on the rolls in the corresponding month of 1967. In keeping with the June 30, 1966 date, the provision is carefully designed to that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966 level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966 level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

2. Federal expenditures and net lending in the fiscal year 1969 are to be reduced by $6 billion, from the level of $186.1 to $180.1 billion except for increases which may occur for expenditures related to Vietnam operations, interest on the debt, veterans services and benefit payments, and payments from social security trust funds.

3. Total new obligational and loan authority provided for the fiscal year 1969 is to be reduced by $10 billion, or from $201.7 to $191.7 billion, with the same exceptions as referred to above.

4. The President is to make a report including specific recommendations for legislation rescinding not less than $8 billion of unobligated balances at the time he sends up the 1970 budget.

C. The public assistance amendments made by this bill are as follows:

1. The limitation on Federal financial participation in the AFDC program applicable under present law is postponed for 1 year from July 1, 1968, to July 1, 1969. The allowable level for any State under the AFDC program is to take into account any addition in the average monthly number of dependent children in a State who come within this category as a result of a court decision with respect to the State's residency or "man-in-the-house" requirements.

2. The prohibition under present law on payments of assistance with Federal participation to a family when the father receives unemployment compensation during any part of the same month is modified so that the family may receive assistance during any weeks that the father does not receive unemployment compensation.

3. The period in which the Federal Government is to continue making payments under title XIX coverage for medical services to aged medically needy persons in a State which has not purchased supplementary medical insurance on their behalf is extended from January 1, 1968, to January 1, 1970.

TITLE I—REVENUE AMENDMENTS

The revenue amendments deal with numerous subject matters which are described under the headings set forth below. The major feature of this title, however, is the 10-percent surcharge which gen-

erally is effective January 1, 1968, in the case of corporations and April 1, 1968, in the case of individuals.

The conference committee agreed with the Senate that it is necessary to reduce the prospective budget deficit to more manageable proportions by increasing taxes (subject to the expenditure and obligational authority reduction set forth in title II) in order to halt inflation, relieve pressures on the domestic financial markets, and strengthen international confidence in the value of the dollar.

Recent events make it clear that inflationary pressures are growing. Nearly half of the record increase in gross national product in the first 3 months of 1968 was attributable to price increases rather than real gains in production. Furthermore, prices increased at an annual rate of 4 percent during this period. This is not only unacceptably high but also indicates that the rate of price increase is accelerating. Moreover, these price increases occurred throughout the economy.

The overheated rate of expansion which has generated price increases has also been accompanied by a serious deterioration in the U.S. balance of payments. Within recent months, imports of lower priced foreign goods have risen, jeopardizing the entire program to close the balance-of-payments gap. In March, imports actually exceeded exports on a seasonally adjusted basis. Foreign confidence in the value of the dollar, already weakened in the aftermath of the devaluation of the British pound and the winter gold crisis, may lessen still more if the United States fails to demonstrate progress toward a reduction in the balance-of-payments deficit.

Recent trends in domestic financial markets bear a disturbing resemblance to the developments which caused such distress in 1966. Demands for credit, in an important measure attributable to Federal borrowing to cover a $25 billion 1968 deficit, have pushed interest rates above the high levels reached in 1966 to the highest levels in a century. Furthermore, recently the rate at which funds are withdrawn from savings and loan associations has increased sharply, casting doubt on the ability of these institutions to supply needed funds for home mortgages.

An essential ingredient in any policy to restore price stability, strengthen international confidence in the dollar, and relieve domestic financial pressures is a sharp reduction in the size of the Federal deficit for 1969, which in the absence of this bill, will approach $24 billion and could well be substantially more. Reducing expenditures and increasing taxes should restore a better balance between Federal expenditures and tax receipts and relieve inflationary pressures without jeopardizing the maintenance of full employment. It will also demonstrate conclusively to foreigners our willingness to reduce the balance-of-payments deficit to an acceptable level. Finally, a sharp reduction in the Federal demand for borrowed funds will help to restore normal domestic financial relationships.

The provisions of this bill will reduce the 1969 budget deficit to a figure far less than the $25 billion estimated for the fiscal year 1968. Reductions in expenditures, provided in title II, account for a substantial part of this reduction. But the expenditure reductions that are feasible in view of the Nation's international and domestic commitments are not enough to accomplish the task. A tax increase is also necessary.

The table below indicates that in the fiscal years 1968 and 1969 it is expected that the bill as agreed to by the conferees will increase

receipts by $15.5 billion; $3 billion of this is attributable to the excise tax extensions and $1 billion to the speedup of corporate tax-payments in the fiscal years 1968 and 1969. The remainder—$11.6 billion—is attributable to the impact of the surcharge on collections. The surcharge on the individual income tax will account for $7.8 billion of the increase and the corporate surcharge, $3.8. billion.

TABLE 1.—ESTIMATED REVENUE INCREASES DUE TO TAX PROVISIONS OF H.R. 15414—CONFERENCE ACTION

[In billions of dollars]

	Fiscal year	
	1968	1969
Excise taxes, extension of present rates:		
Automobiles	0.2	1.5
Telephone service	.1	1.2
Total, excise extension	.3	2.7
Corporations estimated taxpayments [1]	.0	1.0
Surcharge: [1]		
Individuals	0	7.8
Corporations		3.8
Total surcharge	.0	11.6
Total revenue increase	.3	15.2

[1] Assumes enactment of this bill too late for Treasury receipts to reflect much, if any, increase in the case of the individual or corporate income tax payments in the fiscal year 1968.

Note: Detail may not add to total due to rounding.

Addendum: The surcharge; a full year liability at 1968 income levels:	Billions
Individuals	$6.8
Corporations	3.4
Total	10.2

Section 101. Amendment of existing law (sec. 101(b) of the House bill and sec. 5 of the Senate bill)

This section is essentially the same as provisions in both the House and Senate versions of the bill. It provides that whenever an amendment or repeal is expressed in this title of the bill, the expression refers to provisions of the Internal Revenue Code of 1954.

Section 102. Imposition of tax surcharge (sec. 17 of the Senate bill and sec. 51 of the code)

This section imposes an income tax surcharge at an annual rate of 10 percent. For corporations this is generally effective January 1, 1968, and for individuals it is generally effective April 1, 1968. In both cases the surcharge applies until July 1, 1969. In substance, the section is the same as in the Senate amendment.

The surcharge which the section imposes is in addition to the income taxes which a taxpayer must pay under existing law. The surcharge, as it was under the Senate amendment, is a percent of these existing taxes (with certain adjustments).

In the case of an individual reporting on the calendar year, the rate of the surcharge is 7.5 percent for 1968 and 5 percent for 1969.[1] This is the approximate equivalent of a 10-percent tax from April 1 in 1968 and for the first half of the year in 1969. The result is that the calendar year individual taxpayer pays the surcharge at an annual rate of

[1] In the case of an individual reporting on a fiscal year basis, the surcharge is at an annual rate of 10 percent for the 15-month period beginning April 1, 1968, and ending June 30, 1969. The rate for any fiscal year only a part of which is within the surcharge period is prorated on a daily basis.

10 percent for the 15-month period of the surcharge. The rate of 7.5 percent for the calendar year 1968, and the rate of 5 percent for the calendar year 1969, applies to the entire tax of the applicable taxable year, whether attributable to income received before or after the aforementioned effective dates.

The tax surcharge does not apply to individual taxpayers whose income taxes (without regard to the surcharge) are below specified limits. The tax does not apply unless the taxpayer has taxable income above the first two tax brackets; that is, in the case of a single person, the tax applies only if the individual's tax exceeds $145, or in the case of married persons filing joint returns, only if their tax exceeds $290.[2]

An individual taxpayer whose tax (without regard to the surcharge) is just above the amount of the exemption is not to pay the surcharge at the full annual rate of 10 percent. To have required him to do so in effect would have imposed a special tax of $15 (or $29 for a married couple) [3] on his income immediately above the exemption level. This would leave a taxpayer whose before tax income is immediately above the exemption level with a smaller after tax income than a taxpayer whose income is immediately below the exemption level.

To avoid the result described above, the section provides that the amount of the surcharge cannot exceed the surcharge which would result if the surcharge applied at twice the annual rate (i.e., 15 percent in 1968), but only to a taxpayer's income tax liability above the exemption level. This means, for example, that a single person whose 1968 tax (before the surcharge) is $200 must only pay a surcharge of $8 (or 15 percent of $55) and not a surcharge of $15 (or 7.5 percent of $200). The result of phasing in the surcharge in this manner is to apply the surcharge at the lower rate provided by the phase-in provision only to those taxpayers whose taxes (without regard to the surcharge) are above the surcharge level but are not over about twice the level of the surcharge exemption. The section provides surcharge tables to reflect the surcharge up to the levels where the optional tax tables apply. As a result no taxpayer now determining his tax from the optional tax tables is to be required to compute the surcharge.

The exemption for the individual taxpayer does not apply to an estate or trust. Nor does it apply to a corporation. These latter taxpayers must pay the full amount of the surcharge at the annual rate of 10 percent. In the case of an estate or trust, the surcharge in effect applies (as it does in the case of an individual taxpayer) only for the 15-month period April 1, 1968, through June 30, 1969. In the case of a corporation, the surcharge applies for the 18-month period from January 1, 1968, through June 30, 1969. For a corporation reporting on a calendar year basis, the rate of the surcharge is a full 10 percent in 1968 and 5 percent in 1969.

The surcharge, as previously explained, is a percent of the amount of the income taxes (without regard to additions to tax or penalties) imposed by chapter 1 of the code with certain adjustments. With the exception of certain items, noted below, the surcharge applies with respect to all taxes imposed by chapter 1. For example, the surcharge applies with respect to the tax on capital gains (but not

[2] The tax surcharge does not apply in the case of a head of household if the tax does not exceed $220. For married couples filing separately, the exemption level is the same as for single persons, and for a surviving spouse, the same as for married couples filing joint returns.

[3] Based on a 10-percent surcharge. With a 7.5-percent surcharge (applicable in 1968) the amounts are $10.87 and $21.75, respectively.

in the partial tax computation necessary to determine if the alternate capital gains tax is applicable); it also applies with respect to the tax on accumulated earnings of corporations, to the personal holding company income tax, etc. The surcharge does not apply to the flat 30-percent (or lower treaty rate) tax on the income of a nonresident alien individual which income is not effectively connected with the conduct of a trade or business in the United States, since this tax generally does not change with rate changes. Nor does the surcharge apply to the flat 30-percent (or lower treaty rate) tax on the income of a foreign corporation which income is not effectively connected with the conduct of a trade or business within the United States. The surcharge also does not apply to an increase in tax resulting from a recapture of a previously allowed investment credit, since the surcharge is applied before the allowance of the investment credit. Nor does it apply to an increase in tax resulting in certain instances when a taxpayer elects to aggregate mineral interests since the recapture in this case works only to the extent of the prior tax benefit.

The surcharge applies, as it did under the Senate amendment, before any allowance for credits against tax, such as the foreign tax credit or the investment tax credit, with one exception. The surcharge generally is applied before credits because this is the result which would occur in the case of a rate change. It also is necessary not to inflate the value of the credits. This treatment is consistent with the treatment provided in the past when there was a percentage change in tax.

The surcharge applies after allowance for the retirement income credit. The reason for the exception is to treat taxpayers who receive retirement income substantially in the same manner as individual taxpayers who receive social security benefits. Since social security benefits are exempt from tax, the surcharge does not increase the tax liability with respect to these benefits. Applying the surcharge after allowance for the retirement income credit maintains the present relationship.

Since the surcharge generally applies before the allowance of credits, the limitations on the amounts of the various credits which may be claimed increase as the result of the imposition of the surcharge. For example, the investment credit in any year cannot exceed $25,000 plus 50 percent of a taxpayer's tax liability in excess of $25,000. Since the surcharge increases the taxpayer's tax liability for the year, it also increases the maximum amount of the investment credit he can claim. The effect thus is to allow taxpayers to claim credits against the tax resulting from the surcharge.

In order to keep individuals as near current as possible with respect to the payment of their tax liabilities, the amendment provides a new set of wage withholding tables to reflect the surcharge. In addition, those taxpayers who pay their income taxes currently by quarterly payments of estimated tax are required to increase their estimated tax-payments to take the amount of the surcharge into account. The provision of existing law which permits a taxpayer (individual as well as corporate) in determining whether or not he is subject to a penalty for underpayment of estimated tax, to rely on his tax shown on his return for the preceding taxable year, is suspended for any taxable year for which the surcharge is imposed. This is necessary to be sure that the

surcharge is more closely reflected in current taxpayments. Taxpayers, however, will not be subject to a penalty if they base their estimate on last year's income but apply the current year's rates (including surcharge). As provided in section 104 of the bill, an individual taxpayer is to increase his estimated taxpayments beginning with his first payment due on or after September 15, 1968. A corporate taxpayer is to take the effect of the surcharge into account beginning with its first taxpayment due on or after June 15, 1968. A special rule requires the Secretary of the Treasury to prescribe a date, not earlier than 15 days after the date of enactment for the payment by a corporation of the increase in its estimated taxpayment due on June 15 (or due later dates) as a result of the enactment of this bill.

The surcharge provision also provides a series of special rules in order to conform existing law to the amendments made by the surcharge. For example, there are specific rules relating to the special deduction for Western Hemisphere trade corporations and the special deduction with respect to dividends on the preferred stock of public utilities. Another rule provides that to the extent the tax imposed by the surcharge is attributable to a tax imposed by another section of the code, the tax is deemed to be imposed by the other section. This rule applies, for example, in the case of the treatment of certain distributions to shareholders of life insurance companies, and the required adjustments for taxes in computing accumulated taxable income, undistributed personal holding company income, and undistributed foreign personal holding company income. The rule also affects how the surcharge applies to an unincorporated business enterprise which has elected to be taxed as a domestic corporation.

The surcharge amendment also contains a special rule increasing required minimum distributions which a domestic corporation must receive from its foreign subsidiaries in order to avoid including the undistributed earnings of the foreign subsidiaries in its own income. In the absence of the minimum distribution, the domestic corporation would have to include a portion of its subsidiaries' income in its own income, even though the subsidiaries did not distribute the income to the parent. This change is necessary to assure that the tax on these corporations' income, domestic and foreign, is at least equal to the tax that would be paid if the income were earned entirely in this country.

Section 103. Speedup of corporate tax payments (sec. 3 of the House bill, sec. 7 of the Senate bill, and secs. 6154 and 6425 of the code)

Present law.—Present law requires a corporation with an estimated income tax (after credits) in excess of $100,000 to file a declaration and make payments of estimated tax with respect to this excess in the current year; i.e., the year the income is earned. In general, the estimated taxpayments made during the current year must equal at least 70 percent of the tax liability in excess of $100,000 in order to avoid an addition to tax. These taxpayments for calendar year corporations are payable in equal quarterly installments on April 15, June 15, September 15, and December 15. A corporation with estimated income tax (after credits) not exceeding $100,000 is not required to make estimated taxpayments.

In general, if a corporation's equal quarterly payments of estimated tax during a year in total are less than 70 percent of its tax over $100,000 for the year, as subsequently shown on its income tax

return, an addition to tax is imposed amounting to 6 percent per annum on the amount of each quarter's underpayment. However, a corporation is not subject to this addition to tax if one of three exceptions applies. Two of these are related to the corporation's last year's experience; i.e., there is no addition to tax if the total of its estimated tax payments is equal to the income tax reported on its prior year's return less the $100,000 exemption or if this total is equal to the amount in excess of the $100,000 exemption derived by applying the current year's income tax rates to the corporation's taxable income in the previous year. A third alternative provides that there is no addition to tax if during the current year, as each quarterly payment comes due, the corporation pays an amount equal to 70 percent of the estimated income tax over $100,000 which would be due if the corporation's income received throughout the entire year were received at the same rate as in the period prior to the due date of the installment in question. That is, no addition to tax is payable even though quarterly payments are unequal as long as the pattern of payments conforms closely to the pattern of the receipt of income and payments in total equal 70 percent of the amount of tax in excess of $100,000.

Explanation of conference provision.—The House bill made four changes in the estimated tax procedure.

First, it repealed the requirement that a corporation, in paying its estimated tax, file a declaration of estimated tax. This action was taken on the grounds that there is no justification for requiring a corporation to continue filing a form which, under present practices, serves no useful purpose. The Senate bill made no change in this provision of the House bill and it is included in the conference agreement. With the shift in 1967 to the collection of estimated tax of corporations through the use of banks as depositaries, the filing of declarations of estimated tax by corporate taxpayers became unnecessary. The declarations formerly were used as a means of identifying and billing the taxpayer; but, since shifting to the depositary system, the Service supplies the taxpayer with deposit forms for each quarterly payment which contain the taxpayer's identifying number. The deposit forms provide both the Service and the corporation (through the retention of a stub) with a record of payments and also serve as a reminder to the corporation as to when payments are due.

The second change in estimated tax procedure made by the House bill eliminated, over a 5-year transitional period, the $100,000 exemption for payment of estimated tax liability. The Senate bill used the same 5-year transitional period, but reduced the $100,000 exemption generally [1] to $5,500 (the tax on the first $25,000 of income). Both the House bill and the Senate bill provided for estimated taxpayments only if the corporation's estimated income tax, after credits and its exemption, exceeded $40. (Present law has a similar rule in the case of an individual taxpayer.) As the House and Senate reports indicate, this reduction in the corporate estimated taxpayment exemption, in addition to meeting the need for additional revenue, removes a competitive tax advantage to those operating in corporate form. The phaseout is provided to give the corporation time to arrange its financing.

The conferees agreed to eliminate the $100,000 corporate exemption as provided in the House bill, but over two, instead of one, 5-year

[1] Throughout this part of the report the figure $5,500 is used. This is applicable to corporations other than those who can reasonably expect their surtax exemption under sec. 11(d) to be less than $25,000. In that case, the figure equal to 22 percent of their surtax exemption should be substituted for $5,500.

transitional periods. In the first 5-year period (1968 to 1972, inclusive), a progressively smaller "transitional exemption" is to be employed which places all tax liabilities above $5,500 on a current basis. The transitional exemption is a given percentage of the difference between the first $100,000 of a corporation's estimated income tax liability (after credits) and $5,500. Thus, if the corporation's estimated income tax liability (after credits) is less than $100,000, the percentage applies to the difference between its estimated tax liability and $5,500. This percentage, called the exclusion percentage, is to be 80 percent in 1968, 60 percent in 1969, 40 percent in 1970, 20 percent in 1971, and is to be eliminated in 1972, at which time the exemption is to be $5,500.

In the second 5-year period (1973 to 1977, inclusive), the $5,500 exemption is to be phased out entirely. In this case another transitional exemption (technically the "temporary estimated tax exemption") is to be available. It is to be the product of $5,500 or, if less, the corporation's estimated income tax liability (after credits), times an applicable percentage equal to 80 percent in 1973, 60 percent in 1974, 40 percent in 1975, and 20 percent in 1976, and falls to zero in 1977.

These dual periods for the phaseout of tax liabilities over and under $5,500 mean that eventually all taxable corporations (with $40 or more of estimated tax) are to be required to pay their tax currently. However, a longer period is made available for the first $5,500 of tax liability since this primarily affects small business.

The third estimated tax change made by both the Senate and the House versions of the bill, and included in the conference agreement, is to increase from 70 percent to 80 percent the percentage of estimated tax which must be paid currently (including the percentage payable currently if the quarterly annualization method is used) to avoid an addition to tax. This provision restores the balance between the corporate taxpayer and the individual which existed before the Tax Adjustment Act of 1966 advanced these percentage requirements from 70 percent to 80 percent for individuals. In addition, in raising the percentage tests (as in phasing out the existing exemption), corporations are brought closer to a full pay-as-you-go basis.

The following table shows the allowable exemptions for corporations with estimated income tax liabilities of $100,000 or more in the first transitional period and with estimated income tax liabilities of $5,500 or more in the second:

1ST 5-YEAR PERIOD

	Exclusion percentage	Exclusion base [1]	Transitional exemption [2]
1968	80	$94,500	$75,600
1969	60	94,500	56,700
1970	40	94,500	37,800
1971	20	94,500	18,900
1972			5,500

2D 5-YEAR PERIOD

	Applicable percentage	Exclusion base	Temporary estimated tax exemption [2]
1973	80	$5,500	$4,400
1974	60	5,500	3,300
1975	40	5,500	2,200
1976	20	5,500	1,100
1977 and later years			0

[1] $100,000 less $5,500 in 1st 5-year period.
[2] Payment of estimated tax required only if estimated tax exceeds exemptions by $40 or more.

For a corporation with income tax liability of less than $100,000 in the first 5-year period, the transitional exemption is the exclusion percentage multiplied by the estimated income tax less $5,500. For example, assume that a corporation's estimated income tax liability for 1968 is $96,000. The transitional exemption is to be $72,400 (80 percent of $90,500) making the required tax payment $18,100 ($96,000 minus the sum of $5,500 and $72,400). In the second 5-year period, the transitional exemption for those corporations with an estimated tax liability of less than $5,500 is the applicable percentage multiplied by the estimated income tax.

The fourth change in estimated tax procedure made by the House and Senate bills relates to quick refunds of overpayments of estimated tax by corporations. As previously indicated, existing law requires a corporation with an estimated income tax in excess of $100,000 to make payments of estimated tax in the current year. If the total of these payments exceeds the tax shown on the return, the corporation may claim the overpayment as a refund. It may not claim this refund, however, until it files its income tax return for the year. Unlike the individual, who makes his last installment payment after the close of the year, the corporation must complete its payments during the year, and therefore cannot reduce these payments to reflect yearend losses. Moreover, corporations may claim automatic 3- or 6-month extensions of time for filing their tax returns merely by filing requests (but are required to make payments of proper estimates of tax on the due date). The result is that corporations often do not file their income tax returns until more than 8 months after the close of their taxable years. Even then, the Internal Revenue Service may wait another 45 days before refunding any overpayment of taxes without paying interest on the overpayments. As a result, a total of 10 months may elapse between the close of the year and the time corporations receive refunds of overpayments of tax.

The House bill allowed a corporation to apply for a quick refund or, more technically, an adjustment of overpayment of estimated tax, immediately after the close of its taxable year. A corporation can do so when its current revised estimate of income tax liability shows that its estimated tax payments exceed its revised estimate by at least 5 percent of the revised estimate and that the excess amounts to at least $200.

The Senate accepted the House provision, except that, to ease the administrative burden of the Internal Revenue Service, it provided that the overpayment of estimated tax must exceed the expected tax liability by 10 percent (instead of 5 percent) and must exceed $500 (instead of $200) to be eligible for the quick refund. The conferees accepted the Senate provision.

The amendments made by the provisions described above apply to taxable years beginning after December 31, 1967.

Section 104. Special rules for application of tax surcharge and speedup of estimated corporate taxpayments (sec. 7(f)(2) of the Senate bill)

This section of the conference substitute provides special rules with respect to the application of the tax surcharge to payments of the surcharge for taxable years which end before the date of enactment. It also contains special rules with respect to the application of the tax surcharge, and the amendment relating to the speedup in corporate

estimated taxpayments, for payments of estimated tax for taxable years beginning before the date of enactment of the bill.

With respect to the payment of the tax surcharge for a taxable year to which the surcharge applies which ends before the date of enactment of the bill, the conference substitute provides that the time prescribed for payment of the surcharge is not to expire before September 15, 1968. The Internal Revenue Service presumably will require a taxpayer to file a statement with his payment of the surcharge. The statement is not to constitute a return. This means, for example, that it is not to affect the period of limitations, the collection or assessment of tax, etc. No interest, penalty, or addition to tax, which is determined by reference to a period of underpayment, is to begin with respect to the surcharge before September 15, 1968. In the case of a corporate taxpayer, if it elects to pay its tax liability in two installment payments, that portion of the surcharge which otherwise should be paid (as a result of enactment of this bill) with an installment paid before September 15, 1968, must be paid on or before that date.

This section also has application where the tax surcharge and the speedup of estimated taxpayments required of corporations increase the estimated taxpayments required in the current year.

This provision provides, in the case of individuals, that the increase in estimated taxpayments required as a result of the surcharge is not required to be paid until September 15, 1968. The individual is to take the surcharge into account in determining the amount of estimated taxpayments he must make in his installments due on September 15 and thereafter. This means, for example, that if an individual has two remaining installment payments due in the current taxable year, he is to pay one-half of his additional tax resulting from imposition of the surcharge on or before September 15 and the balance on or before January 15, 1969.

In the case of a corporate taxpayer, it must take any increase in estimated taxpayments required as a result of the imposition of the surcharge and enactment of the speedup requirements into account beginning with its first estimated tax payments due on or after June 15, 1968. However, the Secretary of the Treasury is to require the increase in estimated tax due with the June 15 payment (or payments due later) to be paid at a date not earlier than 15 days after the date of enactment.

Section 105. Excise tax on communication services and on automobiles (sec. 2 of the House bill, sec. 6 of the Senate bill, and secs. 4061 and 4251 of the code)

Present law; automobile tax.—The excise tax on passenger automobiles (imposed on the manufacturer's price) was 7 percent before May 1. On that date the rate, in the absence of the enactment of this bill, would fall from 7 to 2 percent and is scheduled to fall to a permanent rate of 1 percent on January 1, 1969.

Explanation of conference provision; automobile tax.—Both the House and Senate versions of this provision provided for the continuance of the 7-percent excise tax on passenger automobiles. They also substituted a new timetable for the scheduled reductions in the excise tax. Finally, they provided for the repeal of the tax effective January 1, 1973. The conferees, therefore, made no changes in this provision

(except changes to reflect the joint resolution continuing the 7-percent rate from March 31, 1968, to April 30, 1968).

The new timetable restores the 7-percent rate and postpones the scheduled reductions in the excise tax on passenger automobiles for a temporary period. At the same time it tempers the effect that the scheduled reductions would have on consumer purchases by providing for a gradual reduction in rate. Finally, the new timetable provides for the repeal of the tax at the end of the postponement period.

The 7-percent excise tax on passenger automobiles is restored effective May 1, 1968, to continue until January 1, 1970. On that date the rate is to fall to 5 percent. Further annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, as the rate falls from 5 to 3 percent and from 3 to 1 percent, respectively. On January 1, 1973, the tax rate is to fall to zero. As in the past, refunds are to be paid to dealers with respect to automobiles held in inventory on the date of any rate reduction. The following schedule of excise tax rates is to be applicable in the case of passenger automobiles:

Before Jan. 1, 1970	7
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

Present law; communication tax.—The excise tax on amounts paid for local and toll telephone and teletypewriter exchange service was 10 percent before May 1, 1968. On that date, the rate, in the absence of the enactment of this bill, would fall to 1 percent and is scheduled to be repealed on January 1, 1969.

Explanation of conference provision; communication tax.—Both the House and Senate versions of the bill provided for the continuance of the 10-percent tax rate on telephone services and teletypewriter exchange service. They also provided for a graduated reduction in the rate before the rate falls to zero on January 1, 1973. The conferees made no changes in this provision (except for a change made to reflect the joint resolution continuing the 10-percent rate from March 31, 1968, to April 30, 1968).

The scheduled reduction and repeal of the excise tax on telephone services and teletypewriter service generally parallels the scheduled reduction and repeal of the excise tax on passenger automobiles. Thus, the 10-percent rate (restored effective May 1, 1968) is to apply until January 1, 1970, when it is to fall to 5 percent—the same rate then scheduled for the automobile excise tax. Annual reductions of 2 percentage points each then are to occur on January 1, 1971, and January 1, 1972, so that the tax rate is to be 3 percent in 1971 and 1 percent in 1972. On January 1, 1973, the tax is to cease. In applying these new rates, bills for services before November 1 of a calendar year are to bear the tax of that year even if the bill for the services is not rendered before the close of the year. As a result, the schedule of rates in the case of these telephone services is as follows:

	Percent
Before Jan. 1, 1970	10
During 1970	5
During 1971	3
During 1972	1
Thereafter	0

Section 106. Timely mailing of tax deposits (sec. 4 of the House bill, sec. 8 of the Senate bill, and sec. 7502(e) of the code)

Present law.—The Internal Revenue Service is placing increasing reliance on the deposit method for the collection of taxes and now is collecting about $100 billion a year in this manner. Presently most withheld income taxes, estimated corporate income taxes, and excise taxes are collected in this manner. About 90 percent of the banks in the country are designated as depositaries for this purpose. This allows most taxpayers to hand deliver deposits on or before the last day prescribed for deposit and avoid any addition to tax that would otherwise result.

Some taxpayers, however, find it more convenient to mail tax deposits than to hand deliver them. This may occur, for example, because a corporation with centralized financial management desires to make deposits with banks in the various communities in which its plants are located. Under the regulations, these deposits which are mailed are not considered as made until received by depositaries. The responsibility for timely mail delivery thus falls on the taxpayers. This differs from the general rule which treats payments as made when mailed.

Explanation of conference provision.—This provision, which is the same in both the House and Senate versions of the bill, provides that where a taxpayer mails his tax deposit 2 or more days before the prescribed due date, the mailing is to be considered a timely deposit even though the deposit is received after the due date (but only if it is actually received). Thus, the Government, and not the taxpayer, bears the responsibility for timely mail delivery.

The mailing of a deposit 2 or more days before the due date for payment is to be considered as payment only where the taxpayer can establish that he timely mailed the deposit. In the case of a deposit sent by registered mail, the date of registration is to be deemed the date of mailing. The taxpayer, of course, could also establish the date of mailing by other competent evidence.

The conferees made no change in this provision.

This provision applies to mailings occurring after the date of enactment of this bill.

Section 107. Industrial development bonds (secs. 9 and 10 of the Senate bill and sec. 103 of the code)

Present law.—Present law provides an exemption from income tax for interest on obligations of a State or local government. The Internal Revenue Service in the past has ruled that so-called industrial development bonds were State or local bonds for this purpose. The Treasury Department, on March 6, 1968, announced (in TIR 972) that it was reconsidering its position as to whether interest paid on so-called industrial development bonds comes within the exemption. It also announced that, on or about March 15, it would publish proposed regulations holding that these bonds are not obligations of a State or local governmental unit.

On March 23, 1968, the Treasury Department published proposed regulations holding that industrial development bonds (as defined in the regulations) are not to be considered obligations of a State or local government within the meaning of the exemption provision of the code. Therefore, under the proposed regulations, interest on these industrial

development bonds is subject to tax. The proposed regulations, with certain exceptions for bonds in process of issue on March 15, apply to industrial development bonds initially sold after March 15, 1968. The exceptions for bonds in process of issue extend the March 15 effective date to bonds sold before September 15, 1968. (On May 14, the Internal Revenue Service announced (in IR–926) that it was postponing scheduled hearings on the proposed Treasury regulations until Congress acted on this bill.)

Explanation of conference provision.—The Senate adopted two amendments dealing with interest on industrial development bonds. The first (sec. 9 of the Senate bill) provided that, until a change in law hereafter enacted, interest on these bonds was to continue to be tax exempt in accordance with the regulations in effect on March 13, 1968 (2 days before the effective date of the proposed Treasury regulations) and in accordance with the principles set forth in certain prior revenue rulings. This amendment also authorized and directed the Internal Revenue Service to issue ruling letters with regard to the exempt status of industrial development bonds in accordance with the position stated in the regulations in effect on March 13, 1968, and the prior rulings. (See, Rev. Ruls. 54–106, 57–187, and 63–20.)

The second Senate amendment (sec. 10) dealing with industrial development bonds provided that interest on those bonds (as defined in the amendment) issued after January 1, 1969, was not to be considered tax-exempt interest. The amendment excepted bonds issued with respect to certain listed facilities. These excepted facilities included (among others) sport facilities, convention and tradeshow facilities, airports, docks, wharves, and grain storage facilities, parking and certain other transportation facilities, facilities for furnishing power, air or water pollution abatement facilities, and facilities used by a State or local government in an active trade or business.

The provision in the conference substitute dealing with interest on industrial development bonds is a modification of the two Senate amendments. The conference substitute in effect provides that industrial development bonds, as defined here, which are part of an issue of $1 million or less, or which fall within certain specified categories, are to continue to be exempt obligations. Thus, interest on these bonds is to be tax exempt (as was true under sec. 9 of the Senate bill of bonds coming within the purview of the Treasury regulations in effect on March 13, 1968, and the prior revenue rulings). On the other hand, industrial development bonds, as defined here, which are part of an issue in excess of $1 million, and which do not fall in one of the specified exempt categories, are to be considered obligations which are not those of States or local governments. Therefore the interest on these bonds is to be subject to tax (as was true of those coming within the purview of sec. 10 of the Senate bill and those coming within the purview of the proposed Treasury regulations).

The provision in the conference substitute deals exclusively with industrial development bonds as defined here; it is not intended to, and does not, reflect on the status of other types of obligations. Thus, for example, the provision does not deal with the status of so-called arbitrage bonds. The Internal Revenue Service has announced that it will not issue rulings on the tax status of these bonds. (See TIR 840, Aug. 11, 1966.)

The substitute provision provides that, for a bond to be an industrial development bond, two elements must be present, one relating to the use of the bond proceeds and the other relating to the security for payment of the bonds. A bond is an industrial development bond only if the use of its proceeds, and the security for its payment, both are within the terms of the definition.

The first element which must be present for a bond to be an industrial development bond is that it must be a part of a bond issue all or a major part of the proceeds of which are to be used, directly or indirectly, in any trade or business by a person other than an exempt person. The fact that the proceeds of a bond issue are used by an exempt person in what may be classified as a trade or business does not mean that the bond issue may not be an industrial development bond issue if the proceeds also are used in the trade or business of another person. For example, even though an exempt person may be using the proceeds of a bond issue in what might be considered a lending or leasing business, when it lends the proceeds or leases the property to other persons in a series of transactions, the bond issue nevertheless meets the first element of the definition of an industrial development bond if the person borrowing the proceeds or leasing the property from the exempt person uses the proceeds or property in his own business. Similarly, a bond issue meets this element of the industrial development bond definition when the exempt person sells property acquired with the proceeds of the bond issue in a series of transactions to other persons who in turn use the property in their trade or business.

In some cases the proceeds of a bond issue may be used in part in trades or businesses carried on by taxable persons, but not in major part. For example, bonds issued by a turnpike authority to cover both the cost of highway construction and the cost of erecting incidental facilities, such as gasoline service stations and restaurants which are leased or sold to private trades or businesses, are not industrial development bonds since a major portion of the proceeds are not used directly or indirectly in trades or businesses carried on by taxable persons.

An "exempt person" for purposes of the provision described above is a governmental unit or a tax-exempt religious, charitable, educational, etc., organization (exempt by reason of secs. 501(a) and 501(c)(3) of the code). In this latter case, however, the exempt organization is included only when it uses the proceeds of the bond issue in an activity which is not an unrelated trade or business as determined elsewhere under the tax laws (this determination is to be made whether or not the particular organization may be subject to the unrelated business income tax).

The result of these exemptions for governmental units and certain exempt organizations is to exempt bond issues such as those issued by a State or local governmental unit to finance dormitory facilities for tax-exempt educational institutions, or to finance hospital facilities for tax-exempt hospitals (charitable), since bond issues for the use of specified types of exempt organizations are not included in the first element of the definition of industrial development bonds. This results because no other person is directly or indirectly using the dormitory or hospital facilities in a trade or business. Therefore the interest on these bonds is not taxable whether or not the bond issue

comes within the terms of the second element in the definition described below.

The second element which must be present for a bond to be an industrial development bond is that it must be in whole or in major part either secured by an interest in property used in a trade or business, or in payments made with respect to this property, or it must be derived from payments in respect of property or borrowed money used (or to be used) in a trade or business. It is not necessary, in order for this second element to apply, for the property meeting this element of the industrial development bond definition to be the same property referred to in the first element of the definition; i.e., the property securing payment need not be the same property for which the bonds are issued. The fact that the bond issue may also be secured by the full faith and credit of the governmental unit does not prevent a bond from meeting the second element of the industrial development bond test as long as payment of the obligation also in major part is secured by or to be derived from the property or payments referred to above.

As does the Senate amendment providing for a tax on interest on industrial development bonds, the conference substitute also excepts bonds issued by a governmental unit to provide facilities for certain exempt activities even though the activities are carried on by a private person in a trade or business. These exceptions are in addition to the exemption for interest on bonds which are part of an issue of $1 million or less.

The conference substitute, by providing an exception for a bond issued as part of an issue substantially all the proceeds of which are to be used for facilities for the following listed purposes, in effect provides that interest on bonds for these purposes is to be tax exempt. The exemption applies to bonds issued by a governmental unit to provide: (1) residential real property; (2) sports facilities; (3) facilities for a convention or trade show; (4) airports, docks, wharves, mass commuting facilities, parking facilities, or facilities for storage or training directly related to any of the foregoing; (5) sewage or solid waste disposal facilities, facilities for the local furnishing of electric energy, gas or water; and (6) air or water pollution control facilities.

The exemption for residential real property for family units relates to buildings containing one or more complete living facilities which are not intended to be used on a transient basis. The facilities to qualify must contain complete facilities for living, sleeping, eating, cooking, and sanitation. Hotels, motels, dormitories, fraternity and sorority houses, roominghouses, hospitals, sanitariums, rest homes, and parks and courts for mobile homes do not qualify. On the other hand, residential real property is intended to include facilities which are functionally related and subordinate to the space used for family units. In addition, the fact that a minor portion of a facility is used for other nonfamily unit proposes (such as a laundromat, drugstore, or other retail establishment) is not intended to foreclose qualification for the facility.

The exemption for bonds issued to provide sports facilities applies, as did the corresponding Senate amendment, both to spectator sport facilities and to participation sport facilities. Thus, the exemption applies to bonds issued by a governmental unit to provide such facilities as baseball and football stadiums and indoor sports arenas as well as to provide ski slopes, golf courses, tennis courts, swimming

pools, and gymnasiums. Facilities directly related to exempt sports facilities are intended to be considered sports facilities for purposes of this exemption. Facilities constructed in connection with, but not directly related to, a sports facility, such as a ski lodge to be built in connection with the development of a ski slope, are not to be considered sports facilities. Thus, interest on bonds issued in part to furnish the lodge is to be tax exempt only if this represents a very minor part of the total project and if in the case of the total project substantially all the proceeds are to be used to develop the ski slope and directly related facilities, such as a warming house and restaurant, etc.

The exemption for bonds issued to provide convention or trade show facilities applies only with regard to special-purpose buildings and structures constructed for convention or trade shows. This means, for example, that the exemption does not apply to bonds issued to finance a hotel even though the hotel expects and does a major part of its business in catering to delegates or participants at conventions or trade shows.

The exemption for storage or training facilities directly related to airports, docks, wharves, mass commuting and parking facilities is intended in the case of training to include facilities for flight training. In addition, facilities for storage with any of the foregoing is intended to include conveyors to move products from a ship to a silo or other storage facility on a wharf.

In addition to the exemption for the activities listed above, the conference substitute also exempts interest on a bond issued as part of an issue substantially all the proceeds of which are to be used for the acquisition or development of land as a site for an industrial park. An industrial park in general is a series of sites for industrial (including wholesaling and distributing) plants for which a plan has been developed and for which there usually are special zoning restrictions. The term "development of land" for this purpose includes providing water, sewage, etc., facilities, road, railroad, docking or similar transportation facilities, and power or communication facilities. Except for the facilities referred to above, the term does not include the provision of any buildings or structures.

The conference substitute, as previously noted, provides an exemption for an industrial development bond which is part of an issue of $1 million or less. In determining whether a bond issue is within the $1 million exemption, the proceeds of outstanding prior issues, as well as of issues of another governmental unit, in respect of the principal user of facilities constructed with the proceeds of the first issue are taken into account if the later facilities are located in the same county or municipality. Related persons (such as corporations whose stock is owned by the same individual) are considered as one for purposes of the $1 million exemption.

The exemptions listed above with respect to certain exempt activities, the financing of an industrial park, and bond issues of $1 million or less, do not apply to industrial development bonds during any period in which they are held by a person who is a substantial user of the facilities constructed with the proceeds of the bond. Thus, the interest on these bonds which come within the listed exceptions is to be taxable when received by a substantial user of the facilities.

The conference substitute applies with respect to industrial development bonds issued on or after May 1, 1968. As do the proposed regu-

lation in this regard, the substitute provides certain exceptions for bonds in process of issue on the effective date of the amendment. The exceptions for bonds in process of issue extend the May 1 effective date to bonds issued before January 1, 1969. The first two exceptions extend the effective date if, before May 1, the governmental unit issuing the bonds, or its voters, had authorized or approved the bond issuance, or the project in connection with which the proceeds are to be used, or the governmental unit had made a significant financial commitment in connection with the issuance.

A governmental unit is to be considered as having approved a bond issuance within the meaning of the first exception if it has committed the Government to issue the bonds in question. An authorization of a bond issue, however, does not require a binding commitment on the part of the governmental unit for this purpose. An agreement with the principal user of the facilities to be constructed with the bond issuance, a general resolution approving an industrial development project and a bond issuance, or a resolution of the governing body providing for submission of the bond issue to the voters is to qualify the bond issue for this purpose. Similarly, a resolution of a local governmental unit authorizing a bond issue but subject to approval of the State (or an agency or department of the State) is also to qualify the bond issue.

The third exception extends the May 1 effective date to bonds issued before January 1, 1969, if, before the earlier date, the private party who is to use the bond proceeds, or the property to be acquired or improved with the proceeds, had spent, or had committed himself to spend, for purposes related to the use of the property, an amount equal to 20 percent of the bond proceeds. A commitment to purchase power to be used in the operation of the property acquired with the proceeds of a bond issue is one example of a commitment for purposes of this provision. It is the total amount to be spent under a contract of this type (even if the contract is for a period of years) which is the amount of the commitment. Another example of a commitment or expenditure for this purpose is an expenditure or a commitment to spend amounts for raw materials to be used in connection with the property to be constructed with the bond proceeds. The expenditure of funds or the commitment to spend funds to buy timberland for use in a paper plant is still another example of what would constitute a commitment or expenditure for this purpose.

The fourth exception extends the May 1 effective date to bonds issued before January 1, 1969, if, before the earlier date, a Federal or State economic development (or similar) agency had before it, or had approved, an application for financial assistance in conjunction with a project involving the bond issue and for which the agency extends financial assistance. For purposes of this exception, a loan or a grant in aid, or a guarantee of bonds issued by a local governmental unit, is to be considered financial assistance. Moreover, for this exception to apply, the financial assistance is not required to be extended directly to either the governmental unit issuing the bonds or to the person who is to use the property acquired or constructed with the bond proceeds. It is sufficient in this regard if the agency renders financial assistance in conjunction with a project which includes the property in respect of which the governmental unit issues the bonds.

Section 108. Advertising in a political convention program (sec. 13 of the Senate bill and sec. 276(c) of the code)

Present law.—Present law denies a deduction for an amount paid or incurred for advertising in a convention program of a political party. This limitation presently applies whether or not the amount paid or incurred might otherwise be deductible as an ordinary and necessary business expense.

Explanation of conference provision.—The conference substitute (which is substantially the same as the Senate amendment) modifies the present restriction denying a deduction for an amount paid or incurred for advertising in a political convention program to allow a deduction for the cost of this advertising under certain limited circumstances. An amount paid or incurred for advertising in a political convention program which is not deductible under this amendment is not deductible under any circumstance. The basic limitation of existing law which denies a deduction for indirect contributions to political parties produces this result.

This amendment allows a deduction for an amount paid or incurred for advertising in a political convention program only if the convention is one held to nominate candidates for the offices of President and Vice President of the United States. In addition, for the deduction to be available, the proceeds from the convention program must be used *solely* to defray the cost of conducting the convention (or a subsequent convention of the party held for the same purpose). Finally, under the amendment, an amount paid or incurred for advertising in a political convention program is deductible only if the amount is reasonable in light of the business the taxpayer may expect to receive (1) directly as a result of the advertising, or (2) as a result of the convention being held in an area where the taxpayer has a principal place of business.

This amendment does not permit a deduction for any amount paid or incurred which is not otherwise allowable as an ordinary and necessary business expense for advertising. On the other hand, the fact that the cost of advertising might otherwise be deductible as an ordinary and necessary business expense does not mean that the cost of advertising in a political convention program is necessarily deductible under this provision. In order for an ordinary and necessary business advertising expense to be deductible under the provision, the expense must satisfy the more restrictive tests for deductibility which the provision imposes.

For example, the cost of institutional or goodwill advertising, if reasonable in amount, generally is allowable as a business expense deduction under the code. Thus, the cost of an advertisement welcoming delegates to a nonpolitical convention generally is deductible even though the advertisement merely names the business concern and does not refer to its product or try to stimulate sales directly to the persons attending the convention. Under the limitations of the new amendment, however, an amount paid or incurred for institutional advertising of this type at a political convention is not deductible as a direct advertising expense. Such an advertisement could be deductible only if the taxpayer has a principal place of business in the area where the convention is held.

Under the amendment, a taxpayer may deduct an amount paid or incurred for advertising in a political convention program only if the

amount is reasonable in light of the business the taxpayer may expect to receive either directly as a result of the advertising or as a result of the convention being held in an area in which he has a principal place of business. This test of reasonableness applies throughout the amendment. It means that no deduction is allowable under the amendment unless the amount paid or incurred for advertising in a political convention program is no more than the amount which is (or would be) paid or incurred for comparable advertising in a comparable convention program of a nonpolitical organization involving comparable attendance.

These restrictions relating to direct advertising or principal place of business are intended to be such that in all events no amount is to be deductible which is essentially a political contribution.

The amendment applies with respect to amounts paid or incurred after January 1, 1968.

Section 109. Tax-exempt status of certain hospital service organizations (sec. 12 of the Senate bill and sec. 501(e) of the code.)

Present law.—The Internal Revenue Code does not now contain any provisions dealing specifically with the taxable status of organizations which render ordinary commercial services only to tax-exempt organizations. Accordingly, the Internal Revenue Service takes the position that if two or more tax-exempt hospitals join together to create an entity to perform ordinary commercial services for them this entity is not a tax-exempt organization.

Explanation of conference provision.—The Senate bill provided that certain entities which provide joint services solely to tax-exempt hospitals would be tax-exempt organizations (and treated like tax-exempt hospitals). As a result, they would pay no income tax and contributions to them would be deductible. The purpose of this type of joint service organization is to aid hospitals in lowering costs by performing administrative and other similar services on a joint basis.

To come within the Senate provision, an organization must—

(1) Provide services which if performed on its own behalf by a hospital would constitute part of its exempt activities.

(2) Be organized and operated to provide services solely for tax-exempt hospitals, including those owned and operated by any government agency.

(3) Be organized and operated on a cooperative basis (whether or not under a specific state statute on cooperatives) and make patronage refunds within 8½ months after the close of the taxable year.

(4) Have its capital stock (if there is stock) held solely by its patrons.

The conferees agreed to the Senate provision, but limited it to a joint enterprise which is organized and operated solely to perform one or more of the following services for hospitals: data processing, purchasing, warehousing, billing and collection, food, industrial engineering, laboratory, printing, communications, record center, and personnel. Thus, an organization is not to qualify for exemption under this section if it performs any other services such as, for example, general laundry services or performs any services for other than a tax-exempt hospital.

The amendment is effective for taxable years ending after the date of enactment.

Section 110. Submission of proposal for tax reform (sec. 20 of the Senate bill)

This provision, added by the Senate, provides that not later than December 31, 1968, the President is to submit to the Congress proposals for a comprehensive reform of the Internal Revenue Code of 1954. The conferees accepted this provision without change.

TITLE II—EXPENDITURE CONTROLS (Secs. 2, 3, and 4 of the Senate bill)

The conference committee agrees with the Senate that positive action to impose controls on the level of Federal expenditures must accompany the provision which increases individual and corporate income taxes. The difficult decision to recommend an increase in taxes is taken because it is apparent that such action is required to halt inflation, relieve pressures on the domestic financial markets, and strengthen the international standing of the dollar. Unless expenditures also are controlled, however, the revenue gained from the surcharge might be dissipated by increased spending. Inflation will continue if a rapid increase in Federal expenditures is allowed to offset the impact of a tax increase. Continued inflation will increase speculation against the dollar and weaken the balance of payments. Continued large deficits will also increase the pressures in domestic financial markets which have already resulted in the highest interest rates in over a century.

Exercise of the necessary degree of control over expenditures cannot be assured without the approval of explicit provisions imposing ceilings on spending and grants of obligational authority.

To impose meaningful limits on Federal expenditures, action must be taken on several fronts. It is not enough to set a ceiling on the actual expenditures of a given fiscal year. Such a ceiling, although necessary, can in effect be avoided by postponing rather than reducing expenditures. Action must also be taken therefore to limit the grants of obligational authority under which future expenditures are made. Rescissions in existing amounts of unspent obligations are also important. The bill approved by the conferees, therefore, not only imposes a ceiling on the level of expenditures for the fiscal year 1969, but also imposes a similar ceiling on grants of new obligational authority and requires that proposals be submitted for rescissions in the amount of outstanding unobligated obligational authority. Consistent with the objective of expenditure control, the conferees also approved the imposition of a ceiling on the number of Federal civilian employees in the executive branch of the Government. These provisions are discussed below.

Section 201. Limitation on number of Government employees

The Senate bill provided that only two out of four vacancies were to be filled in the executive branch until such time as the number of full-time civilian employees (including the full-time equivalent of the number of part-time employees) in the executive branch was no higher than the number employed on September 20, 1966. The vacancies to be filled were to be determined on a Government-wide basis by the Director of the Bureau of the Budget. Excepted from this provision were employees of the Defense Department, CIA, postal field service, FBI, employees of the TVA engaged in its power program and paid

from other than appropriated funds, casual employees, employees employed without compensation and officers appointed by the President with the advice and consent of the Senate.

The bill approved by the conferees requires the number of these Federal civilian employees to be gradually reduced to, and subsequently maintained at the June 1966 level. Federal full-time permanent employment has already increased by about 244,000 since the end of the fiscal year 1966.

Under the conference provision, separate limitations are provided for full-time permanent employees and for part-time and temporary employees. With regard to the former, Federal executive agencies and departments are permitted to employ only as many new full-time employees as are required to fill three out of every four vacancies that occur by reason of the resignation, retirement, removal, or death of existing employees, until such time as the overall number of such employees is reduced to 2,366,317,[1] the number of full-time permanent employees on the rolls on June 30, 1966, as shown in table 2. Once this level is reached, new employees may be employed without restriction as long as the overall number of full-time civilian employees does not exceed this level. It is estimated that there were as of March 31, 1968, 2,610,304 [1] full-time permanent civilian employees in the executive departments and agencies.

TABLE 2.—FEDERAL CIVILIAN EMPLOYMENT—EXECUTIVE BRANCH

Month	June 1966–March 1968		
	Full-time permanent	Temporary and part-time employment	Total employment
1966—June	2,366,317	359,827	2,726,144
July	2,382,253	394,032	2,776,285
August	2,402,870	380,179	2,783,049
September	2,418,146	343,729	2,761,875
October	2,428,169	358,087	2,786,256
November	2,478,274	344,750	2,823,024
December	2,490,166	464,403	2,954,569
1967—January	2,508,631	327,800	2,836,431
February	2,524,958	327,838	2,852,796
March	2,538,575	332,374	2,870,949
April	2,545,545	342,311	2,887,856
May	2,554,374	339,353	2,893,727
June	2,572,286	395,678	2,967,964
July	2,581,884	418,043	2,999,927
August	2,593,267	396,107	2,989,374
September	2,592,715	318,592	2,911,307
October	2,603,805	311,416	2,915,221
November	2,610,007	307,092	2,917,099
December	2,606,897	421,524	3,028,421
1968—January	2,606,176	300,412	2,906,588
February	2,607,459	298,226	2,905,685
March	2,610,304	297,234	2,907,538

The number of temporary and part-time Federal Government employees in any one month is not to exceed the number of similar employees on the rolls in the corresponding month of the calendar year 1967. The monthly total of part-time employees in 1967 also is shown in table 2.

Exemptions are provided from the terms of this provision for persons appointed by the President with the advice and consent of the Senate, for casual employees, for employees serving without com-

[1] Does not take into account adjustments for exemptions described subsequently which make up only a very small percentage of the total.

pensation, and for up to 70,000 persons between the ages of 16 to 22 who may be provided summer employment under programs for the economically or educationally disadvantaged.

The limitations are to be applied by each executive agency and department. However, the Director of the Budget is authorized to reassign vacancies from one department or agency to another when in his opinion such reassignment is necessary or appropriate because of the creation of a new department or agency, because of a change in functions, or in order to obtain the more efficient operation of the Government.

It is important to note that this enables the Director of the Bureau of the Budget to prevent reductions in employment levels in any agency where this would seriously interfere with the operation of the Government by making larger reductions in employment in other agencies. In keeping with the June 30, 1966 date, the provision is carefully designed so that it can be operated in such a fashion that whenever any agency has reached its June 30, 1966 level, then it can be in a position to resume full appointment. To this end, the conferees believe that the more efficient operation of the Government means that the Director of the Budget generally should reassign vacancies to any agency which has reached its June 30, 1966 level. For example, in applying this provision in the case of the Veterans' Administration (including all such employees working in veterans hospitals), no reduction should be required in employee levels below that of June 30, 1966, in the case of permanent or full-time employees.

In addition, the Director is authorized, in effect, to pool all agencies with 50 or fewer full-time permanent civilian employees to permit the three out of four vacancy rule to be applied on an overall basis for these agencies without separate regard to the number of vacancies in any one of them. The determination of the vacancies to be filled in these pooled agencies is to be made by the Director of the Bureau of the Budget.

When a full-time permanent civilian employee is transferred from one department or agency to another, the agency from which the employee is transferred is to be permitted to fill the vacancy without regard to this provision. The agency to which the employee is transferred, however, must regard the employee as an appointment under the terms of this provision. This rule takes account of the fact that a transfer within the Government does not represent a reduction in the number of existing employees, but at the same time removes any incentive for agencies to recruit new employees from other agencies in an effort to avoid the impact of this provision.

As indicated previously, under the terms of the Senate amendment, Federal agencies (with the exceptions previously described) would have been permitted to fill only two out of every four vacancies until the total number of employees, including both the number of full-time permanent employees and the number of part-time and temporary employees (enumerated on a full-time-equivalent basis), was reduced to the number employed on September 20, 1966. The conferees concluded that the transition to the permanent limitation would be so rapid under the Senate bill as to cause severe dislocations in some agencies and departments. For this reason the conferees shifted over to a rule allowing three out of four vacancies to be filled instead of two out of four. With this modified rule the conferees concluded that

it was better to apply such a rule to all governmental agencies and not to exclude major departments or agencies which, although they perform essential functions, should be able to share in the reduction in employment.

The conferees agreed that it was appropriate to include part-time and temporary employees under a separate limitation to preclude the substitution of part-time employees for full-time employees. Including both categories under a single limitation would not take account of the normal seasonal fluctuations in the number of part-time and temporary Federal employees. By establishing a separate limitation for each group, the conferees provided for seasonal variations in part-time and temporary employment while maintaining the effect of the Senate provision.

The conferees agreed to establish a limitation based upon the number of employees on the Federal payroll at the end of the fiscal year 1966 because of the difficulty of determining accurately the number employed on September 20, 1966.

The conferees do not contemplate that the ceilings on employment provided by this provision are to be avoided by contracting work outside the Government. The expenditure limitations should aid in preventing this. However, in addition, it is expected that the Bureau of the Budget and the agency heads will see to it that contract work is not substituted for personal services performed by governmental employees.

The determinations of what constitutes a full-time employee, a permanent position, a temporary position and a part-time employee are to be based on the definitions used by the Bureau of the Budget. (See, for example, Circular No. A–64, revised, dated June 28, 1965.) A casual employee is to be considered one classified as an "intermittent" employee in the circular referred to.

Nothing in this section is to supersede or modify the reemployment rights of any person under section 9 of the Military Selective Service Act of 1967 or any other provision of law conferring reemployment rights upon persons who have performed active duty in the Armed Forces.

This section is to take effect on the first day of the first month which begins after the date of enactment of this bill.

Section 202. Reduction of $6 billion in expenditures in fiscal year 1969

A reduction in Federal expenditures below the amounts estimated in the budget for the fiscal year 1969 as proposed in January is a vital part of the comprehensive effort to reduce the budget deficit to manageable proportions. A tax increase unaccompanied by controls over spending could merely result in an increase in Federal expenditures. Such an increase in expenditures would offset whatever effect a tax increase would have in dampening inflationary pressures.

Under the provisions of the bill approved by the conferees, expenditures and net lending during the fiscal year 1969 are not to exceed $180,062 million except by the amount by which expenditures and net lending for any of the following exceed the budget estimates presented for it in January:

(1) Amounts which the President may determine are necessary for special support of Vietnam operations (the amount included in the budget is $26,264 million; see p. 83 of the budget document);

(2) Amounts for interest on Federal Government debt (the amount included in the budget is $14,400 million; see p. 53 of the budget document);

(3) Amounts for veterans benefits and services (the amount included in the budget is $7,342 million; see p. 161 of the budget document); and

(4) Amounts for payments from trust funds established by the Social Security Act (the amount included in the budget is $36,042 million; see outlays of first four funds in table C–4, p. 488, of the budget document).

The budget submitted by the President in January proposed expenditures totaling $186,062 million (budget document, p. 55). Thus, this provision requires that proposed spending be reduced by $6 billion. Actual spending may exceed $180,062 million if expenditures in the four excepted categories in total exceed the amounts proposed in the January budget, but in the absence of this limitation, any such increases would presumably also have been added to the total of $186,062 million.

It is the hope of the conferees that the reduction in expenditures will be achieved by Congress through its action on the appropriations bills. It was realized, however, that congressional action might fail to reduce expenditures by the full required amount. For this reason, the conferees have approved a provision which requires that the President reserve from expenditure and net lending such amounts as may be necessary to carry out this provision. Therefore, to the extent that congressional action on appropriations bills does not reduce expenditures to the required amount, the President is to make reductions, in the manner which he considers most appropriate, until the $6 billion reduction is reached.

Section 203. Reduction of $10 billion in new obligational authority

Attempts to reduce expenditures will achieve little success in the long run unless they are accompanied by reductions in new obligational authority. Unless reductions are made in authorizations to spend, expenditure reductions may be merely temporary because they postpone rather than actually eliminate expenditures. The conferees, therefore, concluded that a reduction in expenditures should be accompanied by reductions in obligational authority.

Under the terms of this provision, total new obligational authority and loan authority provided in the fiscal year 1969 are not to exceed $191,723 million, except for authority in excess of the amounts proposed in the 1969 budget for the following:

(1) Amounts necessary in the judgment of the President for special support of Vietnam operations ($25,405 million as reported by the Bureau of the Budget);

(2) Amounts for interest on Government debt ($14.4 billion; see p. 168 of the budget);

(3) Amounts for veterans benefits and services ($7,817 million; see p. 161 of the budget); and

(4) Amounts for payments from trust funds established by the Social Security Act ($41,765 million; see receipts of first four funds shown in table 4–C, p. 488 of the budget).

This is a reduction of $10 billion below the level of $201,723 million of proposed new obligational authority shown in the budget. (See p. 53 of the budget.)

As in the case of expenditures, the conferees urge Congress to reduce requests for new obligational authority to the extent necessary to meet the limitation imposed by this provision. In this connection, it should be noted that congressional action on appropriation bills directly determines the amounts of new obligational authority whereas it has only an indirect effect on expenditures in a given fiscal year. In the event that congressional appropriations of new obligational authority exceed the limitation, however, the President is to be required to reserve amounts of obligation and loan authority, in the manner he deems appropriate, to the extent necessary to reduce total grants of authority to the limitation imposed. The amounts which the President reserves in this manner (other than any amounts received from trust funds) are rescinded as of the close of the fiscal year 1969. The President, at the time of the submission of his budget for the fiscal year 1970, is to make a report to Congress identifying the amounts he has reserved under this provision.

Section 204. Specific recommendations for $8 billion rescission in old obligational authority

As indicated in connection with the prior provision, attempts to make expenditure reductions effective will achieve little success in the long run unless they are accompanied by reductions in obligational authority, since otherwise expenditures may be merely postponed to subsequent years. The reduction of $10 billion in new obligational authority specified in the prior provision gives assurance that grants of new authority will not give rise to sharply increased expenditures in future years. However, to be sure that obligational authority created in prior years is not available after the fiscal year 1969 to maintain higher expenditure levels, it is also necessary that carryovers of obligational authority be reduced. It is difficult, however, to determine in advance the specific areas in which these reductions can be made.

Therefore, this provision provides that the President is to make a specific study and analysis of unobligated balances of appropriations and other obligational and loan authority which remain available for obligation or commitment after the fiscal year 1969. He is to make a report on these unobligated balances to Congress and include specific recommendations for legislation rescinding not less than $8 billion of these unobligated balances. This report is to be submitted at the time of the submission of the 1970 budget to Congress.

The budget document estimates that there will be unspent authorizations enacted in prior years totaling $222,301 million available for expenditure or net lending at the start of the fiscal year 1969. Of this amount $140,063 million is expected to be unobligated at the beginning of the fiscal year 1969. By the end of 1969 unspent obligational authority is expected to have increased to $236,380 million and of this $145,672 million is expected to be unobligated. It is out of this latter unobligated balance that the recommended $8 billion of rescissions is to be made.

Section 205. Applications of certain formulas

Under present law, in the case of certain appropriations, the grant or other distribution of the funds among the recipients of the funds is determined automatically under the law by the application of a formula involving the amount appropriated or made available for distribution.

With regard to the expenditure reduction set forth in section 202, and the reduction in new obligational authority set forth in section 203, it is hoped that Congress will make most of these reductions itself, but failing that, it is believed imperative that the President make the remaining reductions. To the extent that the distribution of funds among recipients occurs automatically under a formula relating to the amount appropriated, the President presumably could not under present law reserve any such funds. This section enables him to do so by specifying that after the President has reserved any appropriations where these formulas apply in order to bring about the $6 billion expenditure reduction or the $10 billion obligational reduction, the amount after the reduction by the President is to be substituted for the amount appropriated or otherwise made available under the formula in determining the amount which is to be distributed to the recipients.

TITLE III—SOCIAL SECURITY ACT AMENDMENTS

Section 301. Limitation on Federal financial participation with respect to aid to families with dependent children (sec. 14(a) of the Senate bill)

Present law.—The Social Security Amendments of 1967 set a limitation on Federal financial participation in the AFDC program which is related to the proportion of the child population under age 18 in a State who may receive aid because of the absence of a parent from the home. Under the limitation, this proportion is based upon the ratio of the average monthly number of children in a State dependent because of the absence of a parent during the first calendar quarter of 1968 to the child population in such State on January 1, 1968. This limitation would become effective July 1, 1968.

Explanation of conference provision.—The Senate bill would have deleted the limitation of present law. The conferees postponed the effective date of the provision in present law from July 1, 1968, to July 1, 1969.

In addition, the ratio which determines the percentage limitation of Federal Government financial participation is to include a higher average monthly number of cases when the caseload is increased because of a State's complying with a judicial decision by a U.S. court of competent jurisdiction with respect to State laws establishing duration of residence requirements or the so-called man-in-the-house rules. In this event, the average monthly number of cases is to include the additional children who receive assistance under the AFDC program during the calendar quarter beginning on April 1, 1969 as a result of a State's complying with such court decisions.

For example, a particular State with a child population of 1 million in January 1968 might have 30,000 children on its welfare rolls during January, February, and March 1968 because of the absence of their father from the home. Under present law, Federal participation in AFDC payments to this type of child would be limited to 3 percent of the child population of this State (30,000 is 3 percent of 1 million). Under the amendment agreed to by the conferees, if a subsequent court decision results in an addition of 10,000 such children to the rolls during April, May, and June 1969, these 10,000 children will be added to the original 30,000, and the percentage limitation will be increased from 3 to 4 percent (40,000 is 4 percent of 1 million).

Section 302. Unemployed fathers—unemployment compensation (sec. 14 (c) and (d) of the Senate bill)

Present law.—Under present provisions of the AFDC program, assistance payments under the unemployed fathers provision are prohibited for any month for which the father receives any unemployment compensation for any part of the month.

Explanation of conference provision.—The Senate bill would have eliminated this prohibition, permitting AFDC to be received in the same month as unemployment compensation. The conferees provided that assistance payments under the AFDC program with respect to an unemployed father are to be denied only with respect to any week or part of a week for which the father receives unemployment compensation. Thus, if the unemployment compensation is received for the first week in a month, this is not to prevent AFDC payments with respect to later weeks in the month.

Section 303. Medical assistance (medicaid) program (sec. 16 of the Senate bill)

Present law.—Present law prohibits, effective January 1, 1968, the payment of Federal matching funds under title XIX toward the cost of services which would have been covered under the supplementary medical insurance program if a State had purchased such coverage for its medicaid eligibles.

Explanation of conference provision.—The conferees accepted the Senate provision under which the effective date of the provision described above has been postponed until January 1, 1970. This action coordinates the effective date with the date on which States are required under existing law to have title XIX programs in operation and the date until which they may exercise their option to purchase supplementary medical insurance on behalf of aged medically needy persons under title XIX.

IV. SENATE AMENDMENTS NOT INCLUDED IN CONFERENCE SUBSTITUTE

Income from advertising in periodicals of exempt organizations (sec. 11 of the Senate bill)

This section, which the conferees deleted, would have provided that the advertising income which an exempt organization receives in publishing a periodical is to be exempt from the tax on unrelated trade or business income if the publication of the periodical is substantially related to the exempt activities of the organization. Under Treasury regulations adopted on December 11, 1967, advertising income from publishing an exempt periodical is subject to tax effective for taxable years beginning after December 12, 1967. Under the regulations, advertising income is taxable to the extent it exceeds any deductions properly attributable to it, plus any losses on the feature or editorial portions of the magazine in excess of subscription income.

The section would have applied to all taxable years to which the Internal Revenue Code of 1954 applied.

Import quotas on textile articles (sec. 18 of the Senate bill)

The Senate amendment contained a section, which the conferees deleted, imposing import quotas on textiles. The quotas were to

apply to natural and manmade fibers (but not to unprocessed natural fibers such as raw cotton and raw wool). The quotas were to be based on the average imports in each category during the 6-year period 1961 through 1966. Adjustments in the quotas established by this procedure were to be permitted if domestic consumption of the textiles in a given category increased (or decreased). In such cases, the quota would be increased (or decreased) in proportion to the increase (or decrease) in domestic consumption provided the annual change was more than 5 percent.

A provision of the Senate amendment specified that the quotas were not to apply if the President was able to obtain agreements with the foreign countries supplying textiles under which shipments of foreign textiles into the United States would be limited. To give the President time to negotiate these agreements, the quotas were to become effective 180 days after the date of enactment.

Concurrently with the announcement of the conference decision, Chairman Wilbur D. Mills, of the House Ways and Means Committee, announced that on June 4 the Committee on Ways and Means would begin extensive public hearings on the subject of the foreign trade of the United States. These hearings include not only the administration trade bill, but also a broad variety of proposals relative to both imports and to exports. Such subjects, for example, as quotas, either on an across-the-board or an item-by-item basis, American selling price, and antidumping are included.

Foreign nations indebted to the United States (sec. 19 of the Senate bill)

The Senate amendment contained a section which would have required the Secretary of the Treasury to demand payment, from all countries that are more than 90 days in arrears, of principal or interest on debts owed to the United States, including debts which arose from either World War I or World War II. The amendment would also have prohibited redemption in gold of dollars presented to the Treasury by a country that is in arrears by requiring that the dollars be credited against the debts owed to this country.

The conferees deleted this provision subject to an understanding that the Secretary of State and the Secretary of the Treasury would make a study of appropriate and practical terms and conditions for payment of the amounts of indebtedness of foreign countries to the United States which are past due and unpaid and report the results of this study to the Congress.

Prior work for unemployed fathers under AFDC program (sec. 14(b) of the Senate bill)

Present law provides that a father must have a specified history of prior employment in order for the family to be eligible for aid to families with dependent children by reason of the father's unemployment. The Senate bill would have eliminated this prior work requirement. The conference agreement by omitting this provision retains the work requirement of present law.

Effective date of family planning services requirement under AFDC (sec. 15 of the Senate bill)

The Social Security Amendments of 1967 provided that family planning services be offered to all appropriate AFDC participants. The Senate provision provided that in the case of a State which

does not now provide the required family planning services, the amendment in the Social Security Amendments of 1967 would not apply to that State until after the close of the State's first regular legislative session beginning after April 1, 1968.

The conferees omitted this provision. The conference committee did this because it does not believe that the provisions of existing law in this regard require any State to provide family planning services contrary to State statute and expects the Department of Health, Education, and Welfare to so interpret and administer this provision.

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